HEALTH CARE REFORM
GOVERNORS-ONLY DISCUSSION ON

SPECIAL SESSION
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Guests
Agenda

- Current Context for Medicaid Reform
- Key Findings
- Impact on States
- Key Takeaways
Current Context for Medicaid Reform
<table>
<thead>
<tr>
<th>Coverage</th>
<th>Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>21% of Total State Spending</td>
<td>$213B</td>
</tr>
<tr>
<td>1 in 2 of Total Health Spending</td>
<td>$363B</td>
</tr>
<tr>
<td>30% of People Covered</td>
<td>$576B</td>
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<tr>
<td>16.4M New Employees since January 2014</td>
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Medicaid is a growing portion of state & federal budgets; covers low-income, high-need populations.
Federal policymakers are considering changes to Medicaid. Programs to states:

- Offer more flexibility
- Grant states additional flexibilities to design and administer Medicaid
- Cap federal spending
- Limit spending through Medicaid block
- Eliminate enhanced federal funding for optional Medicaid expansion
- Repeal Medicaid

Changes to Medicaid
Today, Federal funding of Medicaid is open-ended—the Federal Government contributes a fixed share of each state's actual spending. Medicaid reform proposals would set Federal spending to a target.

Medicaid reform proposals would set Federal spending to a target.

Block Grants or per capita caps could include per capita caps on Federal Medicaid funding could include.

Core Components
Fund formula of the Federal Government
Baseline funding level
Growth factor
Populations and services included

Per beneficiary
Fixed Federal funding
Per Capita Cap

By state
Fixed Federal funding
Block Grant
expansion and implementation per capita allocation
Most recent House proposal would Repeal Medicaid
Key Findings on Medicaid Capped Funding
Impact on States May Be Uneven Depending on Program Characteristics

Repeal of Medicaid Expansion Funds Would Increase Federal Savings

Cuts to Federal Spending Grow Most in Later Years

Growth Rates Are Critical for Long-Term Budget Impact

Amount of Federal Savings Depends on Specifics of the Proposal

Key Findings About Capped Funding Proposals
Federal Medicaid Spending Under a Block Grant vs. Per Capita

Cuts to Federal Spending Grow Most in Later Years
Expansion and Capped Funding Arrangement
Projected Federal Medicaid Spending Assuming Repeal of Medicaid
Further Increase Federal Savings
Healthcare Characteristics
State Impact Depends on Program, Population, and
### Illustrative Example: State Impact of Per Capita Caps

<table>
<thead>
<tr>
<th>Per Capita Cap &amp; No Expansion</th>
<th>Current Law</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Spending</td>
<td>$23.8 B</td>
</tr>
<tr>
<td>Federal Spending</td>
<td>$4.3 B</td>
</tr>
<tr>
<td>Total Annual Spending</td>
<td>$28.2 B</td>
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<thead>
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<th>Per Capita Cap &amp; Expansion</th>
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<tr>
<td>State Spending</td>
<td>$25.6 B</td>
</tr>
<tr>
<td>Federal Spending</td>
<td>$4.5 B</td>
</tr>
<tr>
<td>Total Annual Spending</td>
<td>$30.1 B</td>
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### Assumptions:
- FMAP is 50% per capita allocation set equal to 2017 national average spending for each group and growing each year at CPI.
- Distribution of enrollees by eligibility group (aged, disabled, children, adults) based on national average.
- State reduced HED population for expansion.
- Rates match federal standard match.

### Gap Repeal of Medicaid Expansion

<table>
<thead>
<tr>
<th>Year</th>
<th>5-Year Total</th>
<th>(1M Enrollees, 17% New Eligible)</th>
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<td>2018</td>
<td>Total State</td>
<td>Non-Expansion State</td>
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Prescription drugs
Increase rebates
Sharing

Health plans
Reduce capitation rates
Reduce provider payment

Appointments
Missed payments or
Enact lookback period for
Reimbursement

Job search or work
Require beneficiaries to meet
Limit covered benefits
Tighten eligibility criteria

Service Use

Enrollment

To allow them to pursue changes to enrollment, services, or payments.
To help manage Medicaid spending, states are expected to be granted flexibilities that would

(capped funding arrangement)
States have options for controlling program spending
Economic Impact

Increased uncompensated care for providers.

Reduced Enrollment

Fewer people enrolled in Medicaid.

Reduced Federal Medicaid Funding: Potential Impact on States from Reduced Federal Medicaid Funding.
cannot easily adapt to new products or technology (e.g., high-cost drugs)

- Per capita caps offer more flexibility to respond to enrollment growth, but they
  - Funding may lead to cuts in eligibility, benefits, or payment rates
  - Because states must balance their budgets annually, reductions in federal
    and benefits
  - Capped funding is likely to be paired with more flexibility for states on coverage
    - Medicaid caps are likely to result in state funding gaps

Key Takeaways
For additional questions...
Medicaid Presentation: Appendix
Capped Funding Proposals

Key Differences Exist Between the

Federal Fundings

Enrollment Growth

Funding grows as enrollment in enrollees grows.

Federal Fundings

Beneficiary

Per Capita

Cap

Block Grant

Program

Spending

On actual state funds (FMAP) based on actual state expenditures.

Adjusted for increases in enrollees.

Fixed amount for each state.

Open-ended matching funding based on actual state expenditures.

Funding does not adjust for increases in enrollees.

Federal Fundings

in enrollees.

Federal Fundings
During recessions, Medicaid enrollment rises. Block grants would not adjust in response. Medicaid enrollment grows faster during economic downturns when unemployment increases.

Historical Medicaid Enrollment as a Percent of the US Population

- Medicaid enrollment grows faster during economic downturns when unemployment.

Source: MACPAC, "Medicaid: Medicaid and CHIP Data Book, December 2016. All numbers exclude CHIP-financed coverage. Enrollment counts the

- Fiscal year equivalents and FY 2012-2013 are projected based on the FY 1999-2011 Medicaid estimates for PPS A and the Urban Institute.

- Medicaid Expansion Recession
<table>
<thead>
<tr>
<th>Expenditures (HE)</th>
<th>National Per Capita Health Expenditures</th>
<th>GDP Growth, Growth factors between economic sectors and healthcare costs, more quickly than overall inflation and receipts, medical care inflation, historically grown</th>
<th>Variations of overall inflation and the most significant factors, medical care inflation, historical growth, consumer price index (CPI)</th>
<th>Projected Averaging</th>
</tr>
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<tbody>
<tr>
<td>Growth Rate Factor</td>
<td>2017-2025</td>
<td>Projected Averaging</td>
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<tr>
<td>From 2001 to 2013, total annual Medicaid spending growth averaged 6.3%</td>
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<tr>
<td>That are lower than historical program spending growth</td>
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<tr>
<td>Policymakers can limit federal Medicaid spending by selecting growth rate factors</td>
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<tr>
<td>Growth rates are critical for long-term budget impact</td>
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Many questions remain on how per capita caps would ultimately be designed.
February 25, 2017

Considerations for States

Individual Market Impact and Key Federal Proposals to Stabilize the
Agenda

- Key takeaways
- Individual market
- Other potential policy changes to stabilize the
- Key elements of most recent House plan
- Context for Individual market reforms
Context for individual market reforms

- Despite coverage gains, many still uninsured
- Though tax credits partially offset, premiums rising
- Financial performance varies, but carrier losses rising
- Choice remains, though carrier exits rising

- ~10 million consumers have enrolled through exchanges to date, but close to 40% of those eligible are still uninsured
- Average silver plan gross premium increased 24% from 2016 to 2017, though tax credits offset increases for some
- Carrier losses of ~$20 billion in individual market through 2016, but ~25-30% of carriers profitable
- New entrants continue to enter the market, but carrier exits are rising (1 in 5 consumers can access only 1 carrier)
Medicaid changes

Possible to have more low-income lived to

Flexible, but more limited federal funding

States faced with decision of how to allocate

Likely higher cost to access care

Potential for lower premiums via HSA, but

Reduced premiums and cost-sharing

Less federal spending (~$30 billion)

Implications for states

Key elements of House Plan

Lower out-of-pocket costs

Ways to reinsur once high-risk pools?

Underfunded for states to use in such

Offers flexible funding (amount

Savings and contribution spending and restrictions on

Increases HSA contribution limits

Fixed-dollar tax credit

Sharing reductions to age-based, income-based tax credit and cost-

Changes subsidy approach from

Enhanced Health

State Innovation

HSA (High Deductible Health Savings Accounts)
Subsidy structure in a non-expansion state: Blended example: Potential Impact of Change

- Current: No CSRS and no credits
- Income-based and CSRS
- Age-based

Future:
- New enrollees: 115
- Existing enrollees: 235
- Individual market enrollment: 730K
- Existing enrollees (50% decline)

Premium: $8.85M

Cost-sharing: $1.095

Federal funding to the state: $385

Uninsured likely to buy

a plan with new tax

 with no CSRS

No longer able to

10K

210

310

410

Federal funding (80%)

in federal

Less: ~$8.85M

15% decline
Subsidy Structure in an Expansion State

Blended Example: Potential Impact of Changing

Estimated current Medicaid enrollment between 100-138% FPL that may be shifted to the individual

Alternative
Individual market
Affordable
Medicaid with no
Income levels that
may lose
New Low

Existing

150

300

210

New

Existing

300

30

330

135

96

$5.635

Premium

Cost-Sharing

$5 Million

Federal funding to the state

Corrections
tax credits
Income-based

Current:

Future:

Existing:

New:

Income-based
Age-based

and no CRS

tax credits

15% enrollment

10% enrollment

Decline

Decline

Decline

65%

65%

65%

~$5.635 Million

Funding (65%)
in Federal
Less

Funding (55%)
in Federal
Less

Funding (45%)
in Federal
Less

Decline

Decline

Decline

65%

65%

65%

~$5.635 Million

Funding (65%)
in Federal
Less

Funding (55%)
in Federal
Less

Funding (45%)
in Federal
Less

Decline

Decline

Decline

65%

65%

65%

~$5.635 Million

Funding (65%)
in Federal
Less

Funding (55%)
in Federal
Less

Funding (45%)
in Federal
Less
Beyond the House plan, there are a range of other policy options that could help stabilize the individual market, which the federal government could implement nationally or by states to help stabilize the health insurance system.

### Reduce Cost of Care
- Population-based and episode-based payment models
- Value-based insurance design and wellness incentives
- Unforeseen catastrophic costs covered, savings vehicles added
- Modified Essential Health Benefits (Routine/discretionary care removed)
- Lower actuarial value plans for all
- Wider age rating curve
- Auto-enrollment for lowest-price plan
- Continuous coverage with transitional high-risk pool or late fee

### Maximize Market
- Merged high-risk, Medicaid expansion and individual market
- Reinsurance mechanisms and high-risk pools
- Appropriate payment enforcement
- Improved special enrollment period verification process

### Participate
- Stabilize risk pools

### Enroll
- Promote appropriate state policy goal

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Example actions (not exhaustive)
**Potential Impact of Individual Market**

<table>
<thead>
<tr>
<th>Goal</th>
<th>Description</th>
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<tbody>
<tr>
<td>Reduce cost of care</td>
<td></td>
</tr>
<tr>
<td>Maximize market</td>
<td></td>
</tr>
<tr>
<td>Stabilize risk pools</td>
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<tr>
<td>Promote appropriate enrollment</td>
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**Stabilize the Individual Market**

<table>
<thead>
<tr>
<th>Reductions Remain In Place</th>
<th>Impact</th>
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<tbody>
<tr>
<td>Up to 35%</td>
<td>Up to 10%</td>
</tr>
<tr>
<td>Up to 5%</td>
<td>Up to 20%</td>
</tr>
<tr>
<td>Up to 15%</td>
<td>Up to 5%</td>
</tr>
<tr>
<td>Minimal</td>
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<table>
<thead>
<tr>
<th>Increase in Average Premium (%)</th>
<th>Increase in Potential Enrollment (%)</th>
<th>Increase in Potential Decrease In Enrollment (%)</th>
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</table>
nationwide or five states the flexibility to pursue stabilize the individual market, which would stabilize government could implement beyond the House plan, there are a range of other policy options that could help

individual market who need financial assistance to purchase coverage

changes in federal medicaid funding may lead states to shift more people into the unclear

expected flexibility for states to oversee their markets, though details and timing are

less federal funding to subsidize coverage, exposing some consumers to new costs

The House plan would alter the individual market and create trade-offs for governors.

Key takeaways
Sources

- McKinsey Center for US Health System Reform Exchange Infrastructure Series: Pricing
- The recent House plan (ObamaCare repeal and replace policy brief)
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