Testimony
Engrossed Senate Bill 2012 – Department of Human Services
House Appropriations – Human Resources Division
Representative Pollert, Chairman
March 5, 2015

Chairman Pollert, members of the House Appropriations Committee – Human Resources Division, I am Maggie Anderson for the Department of Human Services and I am here to provide an overview of the Traditional Medicaid, Medicaid Expansion, and the Children's Health Insurance Programs, as well as the administrative costs of the Medical Services Division. The Long-Term Care Continuum overview will be provided separately.

Programs

The Medical Services Division currently administers three programs in this budget area: Medicaid, Medicaid Expansion, and the Children's Health Insurance Program (Healthy Steps). This area of the budget provides health care coverage for qualifying families and children, adults that are under the age of 65 with incomes up to 138% of the federal poverty level and pregnant women, the elderly and disabled.

Caseload

Attachment A shows the Medicaid Enrollment (eligibles) and the unduplicated count of recipients for the last 24 months. **Attachment B** provides perspective on "where the money goes". The map provides the number of providers by county and total dollars paid to those providers for dates of service in State Fiscal Year 2014.

Program Trends/Program Changes

The following items were authorized by the 2013 Legislative Assembly and were implemented during the 2013-2014 Interim:

2013 House Bill 1274 required North Dakota Medicaid to accept electronic prior authorizations (e-PA) submitted by prescribers through their e-prescribing software. A pharmacist has been hired to manage the electronic prior authorization program. The Department continues to work with the vendor on implementation of e-PA.

2013 Senate Bill 2081 required that the costs of pregnancy-related services including labor and delivery services incurred by a surrogate or gestational carrier are the responsibility of the intended parents and not the Medicaid program. The Department issued guidance to the counties detailing this requirement.

2013 Senate Bill 2114 allowed the Department to sanction and pursue penalties against a provider who provides services under a provider agreement with medical assistance. North Dakota Administrative Code 75-02-05 has been updated accordingly, and the Department is developing policies to standardize sanctions and penalties.

Health Care Reform

Medicaid Expansion

2013 House Bill 1362 authorized the Department to expand the Medicaid Program to adults under age 65 with incomes up to 138% of the federal poverty level. Please refer to **Attachment C** which lists the income eligibility levels to determine Medicaid and CHIP eligibility for individuals whose eligibility is determined using Modified Adjusted Gross Income

guidelines. **Attachment D** lists the income levels to determine Medicaid eligibility for individuals who are aged and disabled.

On December 31, 2013, the Department contracted with the Sanford Health Plan for coverage of individuals enrolled with Medicaid Expansion. The Medicaid Expansion was implemented January 1, 2014 and enrollment data shows that most enrollees are childless adults (there are some adults with dependent children). Slightly over half of the expansion enrollees are female 55%; approximately 46% were ages 19-35, 17% were ages 36-44, and 36% were ages 45-64. The majority, 65%, are rural. These trends have remained consistent since enrollment began in January 2014. The expansion was estimated to provide coverage to 20,500 low-income North Dakotans. Enrollment has continued to grow each month. As of December 1, 2014, there are approximately 15,400 enrolled in Medicaid Expansion. **Attachment E** details the steady enrollment growth from January 1, 2014, to January 1, 2015.

The Affordable Care Act (ACA) affords 100% federal funding for the expansion population in Calendar Years 2014, 2015, and 2016; then the federal support tapers to 90% by 2020 according to the following schedule:

Calendar Year	Federal Match Percentage
2014	100%
2015	100%
2016	100%
2017	95%
2018	94%
2019	93%
2020 and future years	90%

Modified Adjusted Gross Income (MAGI) Methodology

One of the most significant changes in Medicaid from the implementation of the ACA, is the required use of MAGI based methodologies for evaluating income to determine eligibility. As of January 1, 2014, all North Dakota Medicaid eligibility categories, except the traditional aged, blind, and disabled (ABD), are required to use MAGI methodologies for eligibility determinations.

The goal of MAGI was to replace the previous income methodology used with a simplified methodology to be uniform across the states and across insurance affordability programs. In contrast to prior Medicaid eligibility determinations, and aside from a 5% of Federal Poverty Level (FPL) across-the-board income disregard, none of the previous deductions and disregards allowed under North Dakota Medicaid eligibility determinations are allowed under MAGI methodology.

Children's Health Insurance Program (CHIP or Healthy Steps)

On July 1, 2013, the Department entered into contracts with Blue Cross and Blue Shield of North Dakota for the Health and Vision Services and with Delta Dental of Minnesota for Dental services for the children enrolled in Healthy Steps.

The ACA extended CHIP funding through September 30, 2015, and authorized the program through September 2019. The ACA also included a 23% increase in the federal match for CHIP starting October 1, 2015. However, under current authority, CHIP is only funded through September 2015. Congress must appropriate funding for CHIP to continue after September 30, 2015, and in preparing the budget, DHS

assumed Congress would continue funding for CHIP, but we did not assume the 23% increase would occur.

Medicaid Pharmacy Services

Average drug costs continue to increase, mostly due to high cost drugs including new Hepatitis C drugs. In January 2013, the average brand-name drug cost was $253.61, and in October 2014, the average cost was $327.60. Other areas contributing to this rising average cost includes insulin's, multiple sclerosis drugs, and oncology medications. **Attachment F** shows that the volume of individual prescriptions costing more than $1,000 continues to rise.

Given the increasing costs of medications, the Department will continue working with providers to ensure maximum appropriate utilization of expensive medications to avoid waste.

The Medicare Part D clawback reaches the end of the "Phasedown" portion of the calculation in 2015. To refresh, the Part D clawback is the payment states make to the Federal government for dual eligibles, which, in theory, represents the state general fund amount that would have been spent for drug coverage if Part D did not exist. The Phasedown portion of the clawback started at 90% in 2006, and it phases down 1 2/3% every year to 75% in 2015, where it will remain unless there is congressional action to change it. In short, this means that previous inflation in Part D costs have been offset by this Phasedown, but starting in 2015, the clawback will simply inflate as Part D costs inflate.

Overview of the 2013-2015 Budget to the 2015-2017 Budget to the House

Description	2013–2015 Budget	Increase / (Decrease)	2015–2017 Executive Budget	Senate Changes	2015-2017 Budget To House
Salary and Wages	9,370,167	1,991,391	11,361,558	(177,330)	11,184,228
Operating	39,340,085	2,611,538	41,951,623	(288,298)	41,663,325
Grants - Medical Assistance	806,717,552	419,190,612	1,225,908,164	(5,226,081)	1,220,682,083
Grants	0	0	0	332,402	332,402
Total	855,427,804	423,793,541	1,279,221,345	(5,359,307)	1,273,862,038
General Fund	289,888,636	33,253,781	323,142,417	(3,305,418)	319,836,999
Federal Funds	514,104,184	398,807,784	912,911,968	(2,024,475)	910,887,493
Other Funds	51,434,984	(8,268,024)	43,166,960	(29,414)	43,137,546
Total	855,427,804	423,793,541	1,279,221,345	(5,359,307)	1,273,862,038
Full Time Equivalent (FTE)	59.5	1.0	60.5	0.0	60.5

Budget Changes from Current Budget to the Executive Budget

The Salary and Wages line item increased by $1,991,391 and can be attributed to the following:

- $803,373 in total funds, of which $411,236 is general fund, needed to fund the Governor's compensation package.
- $162,860 in total funds, of which $90,824 is general fund, needed to continue the employee increases approved by the last Legislative Assembly.
- Increase of $327,815 in temporary salaries primarily due to increased workload and the average hours worked on eligibility determination and provider enrollment.
- Increase of $188,790 in total funds, of which $52,768 is general fund, needed to fund the continuation of three FTEs authorized in the last Legislative session for a full biennium.
- Increase of $133,851, all of which is general fund, needed to fund an employee to oversee licensure and to conduct on-site reviews of assisted living facilities.

- The remaining $374,702 is a combination of increases and decreases needed to sustain the salary of the 60.50 FTE in this area of the budget.

The Operating line item increased by $2,611,538 and is mainly attributed to an increase of $2,674,623 in Operating Fees and Services which is mainly comprised of:

- Increase of $1.3 million in total funds needed to fund the increase in Money Follows the Person contracts.
- Increase of $730,000 needed to fund the Division's increased need for actuarial services for Medicaid Expansion, CHIP, and PACE.
- Increase of $622,635 in total funds for Medicare Part D Clawback payments.
- Increase of $319,801 for the federally required external quality review for Medicaid Expansion and CHIP.
- Increase of $127,167 anticipated in the fiscal note for 2013 HB 1274, to complete the implementation of electronic prior authorization
- Decrease of $200,000 for a one time Long Term Care study that was completed during the 2013-2015 biennium.
- Decrease of $125,655 as the Payment Error Rate Measurement (PERM) review is completed every three years.

The Executive Budget for Medical Grants is $1.2 billion, which is an increase of $419 million.

The general fund request increased by $33,253,781 with $31,468,834 or 95% of the increase related to the grants including increases such as: cost, caseload, Federal Medical Assistance Percentages (FMAP), and

inflation. The remaining $1,784,947 or 5% is related to salary and operating changes for the Medical Services Division as described above.

The net change of the federal funds and other funds is mainly due to Medicaid Expansion and a decrease in one-time funding for the critical access hospitals, respectively.

Senate Changes:

$177,330 in total funds, of which $85,666 is general fund to decrease the Governor's compensation package to reflect a change in the state employee performance increase from 3% - 5% to 2% - 4%, remove market policy point equity increase, and to remove the 1% retirement contribution.

Unreconciled Changes made by Legislative Council consist of the Operating being understated by $288,298, Grants being overstated by $332,402, and Medical Assistance Grants being understated by $44,103, with federal funds being understated by $1.

Attachment G shows the changes in the Traditional Medical Services budget from 2013-2015 Appropriation to the 2015-2017 Budget to the House.

This concludes my testimony on the 2015–2017 budget requests for the Medical Services Division of the Department. I would be happy to answer any questions.