Budget Neutrality for Section 1115(a) Medicaid Demonstrations – New Adjustments in Methodology

All-State SOTA Call

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Goals of Budget Neutrality Methodology Adjustments

A History of Budget Neutrality in Section 1115 Medicaid Demonstrations

- Longstanding CMS policy requires that Medicaid Section 1115(a) demonstrations be budget neutral to the federal government; meaning that federal Medicaid expenditures for a state cannot be allowed to exceed what would have occurred without the demonstration.
- The “without demonstration”, or commonly referred to as the, “without waiver” budget ceiling is calculated using a CMS and State agreed upon methodology with growth trends that estimate what the cost of Medicaid services would be absent the demonstration.

A History of Budget Neutrality in Section 1115 Medicaid Demonstrations

- For a demonstration to be budget neutral, actual Medicaid service expenditures – plus the cost of any expenditure authorities authorized under the demonstration – cannot be greater than the projected “without waiver” expenditures.
- Any amount by which total spending under the demonstration is less than projected Medicaid spending is considered to be net Medicaid savings from the demonstration.
- Budget neutrality has been determined over the life of a demonstration – inclusive of approved extensions – allowing net savings to accumulate over time.

A History of Budget Neutrality in Section 1115 Medicaid Demonstrations

- States mainly have used two mechanisms to accrue significant budget neutrality savings:
  – Implementation of broader managed care systems or mandatory managed care;
  – Implementation of other program changes expected to result in reductions in spending.
- While state Medicaid budget neutrality savings have allowed states to test innovative approaches to improve healthcare delivery as well as expand coverage, accumulated savings under these agreements have increased exponentially and continue to grow rapidly.

The Role of Budget Neutrality in Medicaid Section 1115 Demonstrations

- CMS' budget neutrality policy is intended to ensure overall Medicaid spending levels are not higher than what would have been realized in absence of the demonstration, while enabling state-based flexibilities to address rapidly evolving challenges in health care.
- In order to better achieve these goals, CMS has adjusted its methodology for establishing budget neutrality for section 1115 demonstrations in alignment with federal standards for effective stewardship of Medicaid funds while still allowing state flexibility to support innovative demonstration programs.

Budget Neutrality Methodology Adjustments

- Under the adjusted budget neutrality policy, CMS is reforming the treatment of the primary financial mechanisms driving excess growth in accumulated savings, while allowing for state accrual of savings for time-limited periods.
  – Limiting Savings Rollover
  – Transitional Phase-Down of Newly Accrued Savings
  – Rebasing "Without Waiver" Baselines
  – Limiting Growth of Upper Payment Limit (UPL) Diversion

Budget Neutrality - Limited Rollover of Accumulated Savings

- Under previous policy, states have been allowed to "roll-over" savings from one demonstration period to the next without limitation; resulting in large amounts of accumulated savings that may not be representative of the current health care environment.
- Under the adjusted budget neutrality policy, states will only be permitted to roll-over accumulated budget neutrality savings from the most recent five years of the demonstration.

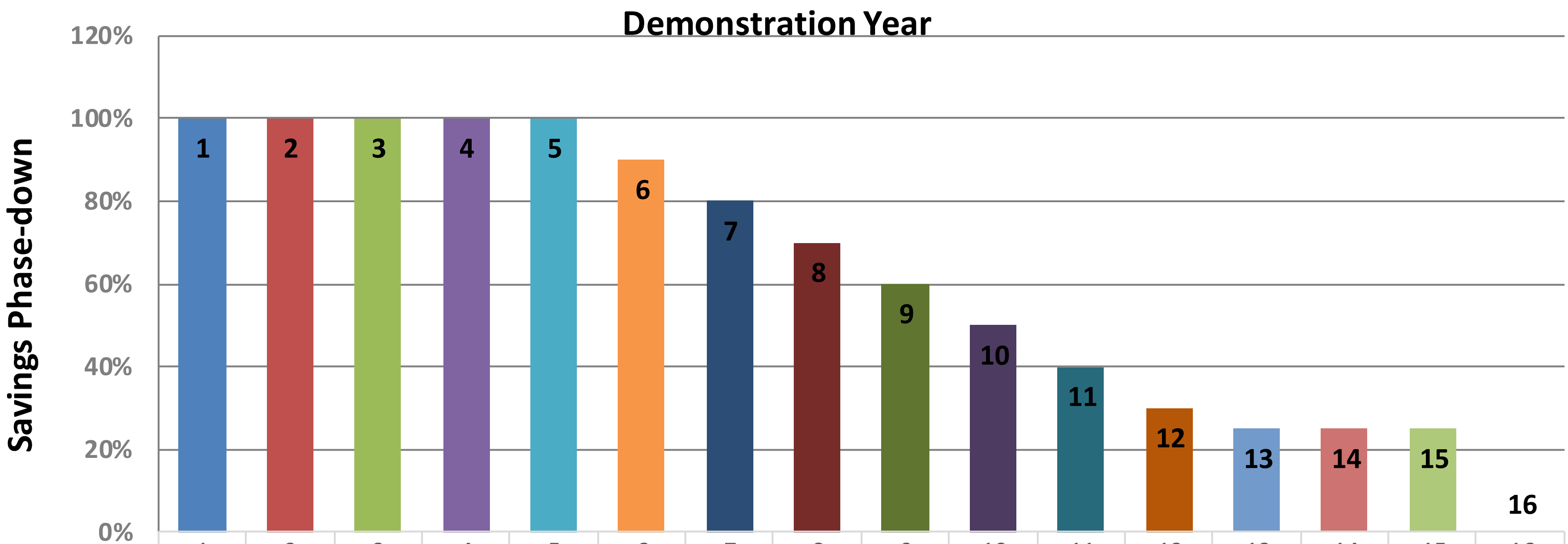
Budget Neutrality – Transitional Phase-down of New Savings

- For existing demonstrations at the next renewal, a transitional phase-down percentage will be applied to annual savings based on when the state implemented the original managed care or other savings producing intervention.

Budget Neutrality – Transitional Phase-down of New Savings

- For the first five years of the savings-producing intervention, 100% of budget neutrality savings will be permitted to accumulate and carry-forward.
- Starting in the 6th year of the demonstration, a continual 10% phasedown will be applied to savings in each demonstration year, until savings are reduced to no less than 25% of the amount of savings realized based on the original baseline.
- Transitional phasedown will be applied at extension to all demonstrations and CMS will determine the "age" of the intervention which may include pre-1115 history.

Illustration of Transitional Phase-down of New Savings



	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Percentage	100%	100%	100%	100%	100%	90%	80%	70%	60%	50%	40%	30%	25%	25%	25%	0%

Full rebase will occur at first extension on or after 2021.

Budget Neutrality - Rebasing

- CMS will rebase “without waiver” baselines to recent cost trends at the next extension period starting on or after January 2021.
- Then at each extension going forward, “without waiver” “per member-per month” (PMPM) costs estimates will be adjusted to match recent actual PMPM costs from the prior demonstration period.
- Current policy of trending PMPM costs using the lower of the state historical trend or the Presidents’ Budget trend will apply to the rebased budget neutrality “without waiver” baseline.

Budget Neutrality Methodology Adjustments - State Example #1

FACTS:

- State comes in at demonstration year 8, with a request to extend for another 5 years.
- The state has realized $5 million in unexpended demonstration savings per year, for an accumulated total savings of $40 million.
- At this extension, starting in DY9, the state's budget neutrality model will be as follows:

State Example #1-
Transitional Phase-down of Savings

- *Carry-over of accumulated savings* will be limited to those from the most recent 5 years, or demonstration years 4 through 8.
- Therefore the state will carry over $25 million of the $40 million of its savings.

State Example #1 - Transitional Phase-down of Savings

- *Phase-down of Annual Savings* for each year of the extension will be as follows (assuming the state continues to experience $5 million per year in savings):
  - DY09 = $5m x 60% = $3.0M
  - DY10 = $5m x 50% = $2.5M
  - DY11 = $5m x 40% = $2.0M
  - DY12 = $5m x 30% = $1.5M
  - DY13 = $5m x 25% = $1.25M

  Total = $10.25M
- Total accumulated savings by the end of the extension period is $25M carry-over plus $10.25M in newly accrued savings, equaling $35.25M in savings.

State Example #1 - Treatment of Savings at Second Extension (2021)

- State has a total accumulated savings of $35.25M from the period of transitional phase-down. The carry-over of accumulated savings will now be for the most recent 5 years, or demonstration years 9 through 13 (i.e., $10.25M shown on previous slide).

- The "without waiver" PMPM costs will now be rebased to reflect actual PMPM costs experienced during the demonstration extension period for DY9 – DY13.

Budget Neutrality Methodology Adjustments - State Example #2

FACTS:

- State comes in at demonstration year 14, with a request to extend for another 5 years.
- The state has a total of $80 million in unexpended accumulated savings; of which only $15 million was accumulated in the most recent 5 years of the demonstration.
- At this extension, starting in DY15, the state's budget neutrality model will be as follows:

Budget Neutrality Methodology Adjustments - State Example #2

- *Carry-over of accumulated savings* will be $15 million.
- *Phase-down of Annual Savings* for each year of the extension will be as follows (assuming the state continues its recent trend of $3 million per year in savings):
  - DY15 = $3m x 25% = $0.75M
  - DY16 = $3m x 25% = $0.75M
  - DY17 = $3m x 25% = $0.75M
  - DY18 = $3m x 25% = $0.75M
  - DY19 = $3m x 25% = $0.75M

  Total = $3.75M

State Example #2 - Treatment of Savings at Second Extension (2021)

- State has a total accumulated savings of $18.75M from the period of transitional phase-down. The carry-over of accumulated savings will now be for the most recent 5 years, or demonstration years 15 through 19 (i.e., $3.75M shown on previous slide).

- The "without waiver" PMPM costs will now be rebased to reflect actual PMPM costs experienced during the demonstration extension period for DY15 – DY19.

Budget Neutrality – Limiting Growth of Upper Payment Limit (UPL) Diversion

- CMS' current budget neutrality policy is to allow savings generated from diverting UPL payment supplements into demonstration funding pools to carry-forward through unlimited demonstration extensions.
- CMS' adjusted budget neutrality policy will limit this carry-forward and provide states with the choice to either rebase UPL diversion estimates based on their current levels of fee-for-service utilization, or carry-forward UPL without growth at each extension.

Adjusted Budget Neutrality Methodology – What is Next for States

- CMS has completed individual briefings with states due to submit 2016 extension applications. CMS is not applying the methodology adjustments to amendments at this time.
- States have the choice to work with CMS to revise budget neutrality prior to submission of the state's request for extension, or submit budget data as required by 42 CFR 431.412(c)(2)(v) and CMS will develop a revised budget neutrality model for discussion as part of the federal review process.
- States may contact their CMS Central Office Project Officer to schedule technical assistance calls as needed.

QUESTIONS???