Overview of Cost Drivers and Update on Cost Containment Initiatives

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Senate Finance Committee
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- Medicaid Client Services (Goal A) - 81.2%
- Other Grants/Client Services - 7.6%
- MSS Program Administration - 4.6%
- State Hospitals/SSLCs - 4.4%
- System IT - 0.6%
- Regulatory/Inspector General - 0.6%
- CHIP - 0.5%
- Indirect Administration - 0.4%
Medicaid Cost Drivers

Medicaid cost is typically categorized into one (or more) of four “buckets”

• **Eligibility**
  - Type (case mix) and number (magnitude)

• **Benefits**
  - Services provided

• **Utilization**
  - How many and what type of service
  - Appropriateness of service

• **Payments, Revenues and Cost Sharing**
  - Rates and payments
Medicaid Cost Drivers

Medicaid cost is determined by the caseload and cost per client

• **Caseload** – Volume or number of individuals served in each category
  - Case Mix – Mix or type of clients in the caseload

• **Cost Per Client** – A function of:
  - Utilization – Number of services a client receives
  - Type of services a client receives
Other Cost Drivers

- **External factors impacting Medicaid costs include:**
  - Changes to federal or state law or policy
  - Population growth and changing demographics
  - Economy
  - Natural disasters and epidemics
  - Consumer expectations and awareness

- **Costs can be impacted by:**
  - Payer type
  - Evolutionary and revolutionary advances in medicine
  - Payment rates and policies
  - Changes in clinical practice standards
Key Medicaid Numbers – Fiscal Year 2017

• $38.4 billion: Texas Medicaid spending, including Supplemental Health Care Payments
• $3.1 billion: Texas Medicaid payments to nursing homes
• $3.9 billion: Texas Medicaid prescription drug expenditures
• 78 percent: Texas Medicaid clients under age 21
• 46 percent: Texas children covered by Medicaid or CHIP

July 1991: Poverty-Related Children ages 6 - 18

FY 2004, Pregnant Women FPL reduced to 158%; Restored to 185% FY2005

S.B. 43, Medicaid Simplification, January 2002


January 2014 ACA (categories merged and changed; ACA-related overall growth)

ALL Poverty-Related Children, Ages 0 - 18 (includes TANF and Newborns)

Texas Medicaid Caseload by Group, September 1979 - August 2018
Forecast June 2018 - August 2018

Medicaid Caseload shifts beginning January 2014, with increased lengths of stay for all income-eligible children and parents (TANF). Caseload categories (Risk Groups) also change, to align more closely with age categories and our Texas Healthcare Transformation and Quality Improvement (1115) Waiver Groups.

Income Assistance: TANF Adults and Children

Poverty-Related Children, Ages 1 - 18

Pregnant Women / Newborns

Texas Medicaid Caseload by Group, September 1979 - August 2018
Forecast June 2018 - August 2018

Original Medicaid Population: Aged and Disability-Related Adults and Children

Aged & Disability-Related, no change

Adults & Pregnant Women
Texas Medicaid Annual Budget Expenditures
Texas Medicaid Beneficiaries and Expenditures

Texas Medicaid Beneficiaries and Expenditures
State Fiscal Year 2017

Non-Disabled Children 69%
Non-Disabled Adults 7%
Aged & Disability Related 24%
Aged & Disability Related 61%
Non-Disabled Children 30%
Non-Disabled Adults 9%

28% Acute Care Services, including Medicare Premium Payments
34% Long Term Services and Supports, including STAR+Plus
## Percent of Medicaid Expenditures in Texas State Budget (in billions)

<table>
<thead>
<tr>
<th>State Year</th>
<th>Medicaid Budget, All Funds**</th>
<th>Total State Budget, All Funds***</th>
<th>Annual Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$10,000</td>
<td>$49,453</td>
<td>20.22%</td>
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<tr>
<td>2001</td>
<td>$10,952</td>
<td>$52,440</td>
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<td>2002</td>
<td>$12,678</td>
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<td>2003</td>
<td>$14,593</td>
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<tr>
<td>2004</td>
<td>$14,585</td>
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<td>2005</td>
<td>$15,561</td>
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<td>2006</td>
<td>$16,534</td>
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<td>2008</td>
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<td>2010</td>
<td>$22,821</td>
<td>$92,056</td>
<td>24.79%</td>
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<td>2011</td>
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<td>2012</td>
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<td>2014</td>
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<td>2015</td>
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<td>2016</td>
<td>$30,296</td>
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<td>28.57%</td>
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<tr>
<td>2017</td>
<td>$31,044</td>
<td>$103,050</td>
<td>30.12%</td>
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</tbody>
</table>

** Excludes Disproportionate Share Hospital (DSH), Upper Payment Limit (UPL), Uncompensated Care (UC) and DSRIP funds

*** Medicaid is FFY, State Budget reflects the state fiscal year, beginning a month prior (September)
HHSC identified and implemented cost savings initiatives that total $386 million in GR ($937 million in All Funds)

- Rider 33 directs HHSC to achieve at least $350 million in General Revenue (GR) savings
- In its cost containment plan, HHSC has identified $312 million in GR savings ($740 million in All Funds)
- The $312 million in GR does not include $74 million in GR ($197 million in All Funds) from adjusting the managed care risk margin (Rider 37)
Some cost containment initiatives that have been undertaken include:

(Gr savings in millions)

- Increase fraud, waste and abuse prevention, detection, and collections ($20.0)
- Implement fee-for-service payment changes and managed care premium adjustments that incentivize the most appropriate and effective use of services ($136.6)
- Increase efficiencies in the vendor drug program: Implementing changes to the preferred drug list and coverage options for specific drug classes ($35.5)
- Increase third party recoupments ($17.0)
- Implement pilot program on motor vehicle subrogation ($1.0)
Rider 33 Medicaid Cost Containment Initiatives

- Achieve efficiencies in the printing and distribution of Medicaid identification cards ($2.1)
- Implement facility cost savings by reducing leased space or decommissioning buildings ($4.0)
- Recoup administrative costs for programs HHSC administers for other entities, such as the School Health and Related Services Program (SHARS) ($0-0.5)
- Review utilization and appropriateness of rates for durable medical equipment ($0.8)
- Implement additional initiatives and programmatic efficiencies identified by HHSC ($92.2)
- Rider 37 Medicaid and CHIP Capitation Risk Margin Adjustment ($74.0)