State of Wisconsin
Department of Health Services

Scott Walker, Governor
Kitty Rhoades, Secretary

December 30, 2013

The Honorable Alberta Darling, Senate Co-Chair
Joint Committee on Finance
Room 317 East
State Capitol
P.O. Box 7882
Madison, WI 53707-7882

The Honorable John Nygren, Assembly Co-Chair
Joint Committee on Finance
Room 309 East
State Capitol
P.O. Box 8953
Madison, WI 53708

Dear Senator Darling and Representative Nygren:

As required under s. 49.45(2m)(f), I am writing to provide an update for the second quarter of FY 14 on the overall condition of the Medicaid benefits budget and any changes made to the program in the past quarter.

Since my last report to you in September, there have been a number of developments, positive and negative, that have had the overall effect of increasing GPR costs to the Medicaid program. As a result, we will need to identify $92.6 million GPR in savings by the end of the biennium.

It is important to note that at the same point in the last biennium, December 2011, the program faced a similar funding gap, $92.3 million GPR, and the budget was successfully balanced at the end of the biennium. With authority and resources provided by the Governor and Legislature in recent budgets, we will continue to improve our efforts to ensure Medicaid is the payer of last resort, eliminate fraud, waste, and abuse, ensure accurate eligibility determinations and provider payments, and properly claim appropriate federal funding. As described below, we are advancing our efforts to implement evidence-based care models that purchase good health care value for members and for taxpayers.

First, as the Fiscal Bureau informed you in an October 7th memo, the most consequential development since September is that the federal medical assistance participation (FMAP) rate for FFY 15 will drop to 58.27%, a decrease of 0.92% compared to what was budgeted in Act 20, the 2013-15 biennial budget. As a result, the Medicaid program will have $52.0 million less revenue this biennium than assumed under Act 20.

The FMAP formula is based on each state's per capita income compared to the national average over the prior three years. The drop in FFY 15 is partly the result of methodology changes by the federal Bureau of Economic Analysis that resulted in upward revisions to prior year income data for Wisconsin. The FFY 15 decrease is in addition to FMAP decreases in FFY 13 and FFY 14 for the state, as well as recent increases in federal charges for individuals dually enrolled in Medicare and Medicaid. These developments provide a cautionary note about placing too much confidence on the long term stability of federal Medicaid funding.

Projected Medicaid Expenditures for the 2013-15 Biennium (in millions)				
	September 2013		**December 2013**	
	GPR	All Funds	GPR	All Funds
Projected Expenditures	$4,786.0	$9,031.4	$4,875.2	$9,254.4
Act 20 Budgeted Level	$4,782.6	$9,022.9	$4,782.6	$9,022.9
Savings Need	*$3.4*	*$8.5*	*$92.6*	*$231.5*

Second, the Legislature has enacted 2013 Act 116, the Governor's proposal to postpone changes to BadgerCare Plus eligibility from January 1, 2014 until April 1, 2014, because of significant technical problems with the federal insurance marketplace. Under the legislation, the state will maintain eligibility for current parents, caretakers, and Core Plan childless adults up to 200% of the federal poverty level through March, and eligibility for childless adults up to 100% FPL will begin April 1 rather than January 1. The changes will decrease overall expenditures to the program.

Third, the Department is in the process of developing BadgerCare Plus and SSI Managed Care HMO rates and Family Care MCO rates for CY 14. These rates reflect projected changes in service utilization among enrollees for the coming year, based on current fee for service rates. As the result of detailed work by the state's actuaries and discussions with participating HMOs, the Department estimates the fiscal effect of BadgerCare Plus and SSI Managed Care HMO rates, offset by delaying eligibility changes until April 1, is a $14 million GPR increase.

CY 14 rates for Family Care, Partnership, and PACE MCOs will be lower than CY 13 levels on average. In addition, these managed care programs have experienced slower enrollment increases. Fee for service nursing home patient days are also trending below budget. These lower rates and smaller enrollment increases reflect the Department's efforts to improve the cost effectiveness of long term care programs, by strengthening care management, helping individuals to remain healthy and independent, and expanding access to affordable community living options.

Fourth, the budget agreement recently passed by Congress provides a temporary extension through March 2014 to provide eligible individuals 12 months of transitional medical assistance. These are individuals who initially qualified for Medicaid at incomes below 100% FPL, but whose income has subsequently increased above eligibility limits. Permanent federal law allows these individuals an additional four months of eligibility, but in recent years Congress has

temporarily provided 12 months of coverage. Act 20 had assumed Congress would not extend this 12 month eligibility, given the implementation of insurance marketplaces. However, the recent federal budget agreement continues the 12 month eligibility extension through March 2014; this projection assumes Congress will act again to extend it through the 2013-15 biennium.

Finally, this estimate reflects higher projected expenditures for fee for service hospital, personal care, and prescription drugs, as well as smaller savings from audit recoveries, verification of state residency for Medicaid applicants, and federal claiming for certain county services. It also modestly reduces projected Medicaid estate recovery collections as the result of 2013 Act 92.

Medicaid Initiatives
I would like to update you on a number of other Medicaid initiatives underway.

Care4Kids. DHS is partnering with the Department of Children and Families to implement a medical home for foster children in the six county southeast region beginning in January 2014. Currently, the 2,600 children in out of home care in those counties receive health coverage through the Medicaid fee for service system, where services are often fragmented and uncoordinated. The certified medical home provider, Children's Hospital of Wisconsin, will ensure each child has a care team composed of a care coordinator, primary physician, and other health providers, who will collaborate with the child welfare case worker, birth parents, and foster parents to develop an individualized care plan for the child. In addition to routine physical health assessments and checkups, the medical home provider will utilize trauma-informed and evidence-informed practices to address the particular behavioral and mental health needs that many foster children face.

Comprehensive Community Services. Act 20 adopted the Governor's plan to expand the use of Comprehensive Community Services (CCS) statewide. In addition, the budget will provide state funding for current programs, saving counties with CCS programs over $6 million. CCS is a flexible package of community mental health services administered by counties and tribes and reimbursed by Medicaid. CCS programs are effective at reducing psychiatric hospitalization and improving primary health outcomes, familial and social relationships, access to meaningful employment, and reported overall life satisfaction among members.

Under the budget, the Department would begin funding the non-federal share of the benefit in July 2014 in counties that adopt a regional service delivery model. The Legislature placed GPR for the benefit in the Committee's appropriation and required the Department to report by this coming March on criteria developed for the regional model, which counties have decided to participate in regional models, and an evaluation of the estimated long term costs of the regional model.

Since passage of the budget, the Department has been working on the policy, service design, fiscal, and administrative details involved with this important initiative. It formed an advisory committee comprised of counties, advocates, and consumers. On November 15, the Department issued a memo to counties and tribes inviting them to submit a form indicating their intent to participate in a regional model. (The memo is available at: http://www.dhs.wisconsin.gov/dsl_info/NumberedMemos/DMHSAS/CY2013/Docs/CCSMemoIntenttoProvide1113.pdf) The memo requests that they include information about the anticipated

number of participants, costs, and their proposed administrative structure. The Department will use this information in preparing the report to the Committee. Next steps in the planning process would include counties submitting applications to DHS for approval for their regional service design, the Department providing training and technical assistance, and counties submitting applications for CCS certification.

Behavioral Health Integrated Care Health Home. The Department has launched a pilot to improve health care for Medicaid eligible adults with mental illness. The pilot will begin in Lincoln, Langlade, and Marathon counties and will serve up to 450 adults with a mental illness or substance abuse diagnosis and one or more chronic conditions and who are not enrolled in managed care. The Department has met with a coalition of providers from the major health and mental health care systems in these counties for the last six months to plan for implementation. Applications for health home certification are due to the Department on January 31st, and we expect to begin enrollment in March 2014.

Transportation Manager. The Department began a new contract for Medicaid non-emergency transportation services with MTM in August 2013. Transportation providers have three months to submit claims to MTM, and therefore August is the most recent month for which complete data is available. MTM scheduled and completed 196,589 trips of which 99.5% were complaint free.

On a short term basis, the Department has contracted with the Medicaid fiscal agent, HP, to staff a transportation navigator, who is working with the State and vendor ombuds staff to resolve escalated member concerns. Over the next few months, we will be evaluating the types and volume of issues the navigator is involved with and how best to structure its role. Informed by this experience, we plan a competitive procurement in 2014 to select an independent third party to serve as the navigator on an ongoing basis.

Medicaid Estate Recovery and Divestment Policies. Act 20 included a number of reforms to laws governing estate recovery and divestment rules for Medicaid members, subject to final Committee approval. On September 18, 2013, the Committee approved most of those changes and directed the Department to report on the implementation status of those items. The Department issued two operations memos in November specifying the implementation dates for the new provisions. The estate recovery changes are comprehensive in nature and require extensive procedural changes and training for eligibility workers. Consequently, the operations memo indicated those changes will be implemented July 1, 2014. The Legislature subsequently enacted 2013 Act 92, which eliminated several of the previously approved changes. For the remaining items, the implementation dates remain the same, and the Department will issue a revised operations memo early in 2014.

To summarize, the following estate recovery changes remain in effect under Act 92 and will be implemented July 1, 2014:

- Changes to the definition of recoverable property to equal all property in which the recipient had an interest immediately prior to death.

- Allow DHS to recover for the cost of all services for members participating in long term care programs, rather than only for the cost of long term care services.

- For members in managed care programs, direct DHS to recover the capitation payments made for the member, rather than specific service costs.

Committee-approved divestment policies were implemented November 11, 2013. The only change to Committee-approved items was to eliminate the expansion of the definition of "financial institution" for purposes of the asset verification system. All other Committee-approved items continue in effect. The operations memo is available at: http://www.dhs.wisconsin.gov/em/ops-memos/2013/PDF/13-38.pdf

Long Term Care Initiatives. On December 13th, as required under Act 20, I submitted to you the Department's comprehensive projection of the future need for community long term care services, the comparative cost efficiency of service options allowed under Medicaid, and strategies for controlling the growth in long term care costs. The report concludes that managed long term care is the most effective strategy to meet the needs of Wisconsin residents. The report is available at: http://www.dhs.wisconsin.gov/publications/P0/p00590.pdf

Attached is a list of state plan amendments and waiver amendments submitted to the federal government this quarter.

Please contact me if you have any questions about this report.

Sincerely,



Kitty Rhoades
Secretary

Appendix A

Proposed Medicaid State Plan Amendments and Waivers Submitted to the Federal Government for Approval

Amendment 13-017 — Irrevocable burial trust limits. Implements biennial budget provision that allows only the applicant or member, and not friends or family, to contribute up to $4,500 to an irrevocable burial trust.

*Amendment 13-018 — Behavioral health health home***.** This amendment will create a pilot coordinated care model for people with mental illness who also have chronic physical health conditions.

Amendment 13-019 — Rate increase for preventive services. This amendment would implement a 1% rate increase for preventive services, mandated under the Affordable Care Act and funded with federal funds.

Amendment 13-027 — Prescription drug coverage. This amendment changes prescription drug coverage for individuals who are dually eligible for Medicare and Medicaid, to reflect broadened coverage for certain drugs under Medicare Part D.

Amendment 13-033 — Medically Needy Income Limits. This amendment adjusts Medically Needy income limits for children and pregnant women in the state plan. This amendment continues current eligibility provisions under state law. Adjusting these income limits would allow the state to claim federal match for the small number of pregnant women and children who qualify for BadgerCare Plus by meeting spend down or deductible requirements (300% FPL for pregnant women and 150% for children).

Amendment 13-034 – Resubmission of Foster Care Medical Home Benchmark Plan. The Centers for Medicare and Medicaid Services is requiring the state to resubmit an amendment previously approved in 2012 in a new format required under the Affordable Care Act.

IRIS Waiver Amendment – The amendment updates the projected number of participants in CY 13.

Community Options Program Waiver Amendment – The amendment makes changes to reflect transition of former Brain Injury Waiver participants into the program.

Community Integration Program Waiver Amendment – The amendment updates projected enrollment in the program.

Family Care Waiver Amendment – The amendment makes technical changes to language regarding self-directed services.