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Medicaid & CHIP program
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Testimony of Daniel Tsai, Assistant Secretary for MassHealth and Medicaid Director
Joint Hearing of the House and Senate Committees on Ways and Means
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Good morning, Madame Chairs and other distinguished members of the Joint Committee on Ways and Means. Thank you for the opportunity to come before you to discuss the MassHealth program and Governor Baker's Fiscal Year 2018 budget proposal.

The Baker administration is committed to a sustainable MassHealth program that robustly meets the needs of the nearly 2 million people (or almost 30% of residents) covered by MassHealth while controlling spending growth of the program, which now accounts for ~40% of the state budget.

We have made significant progress over the past two years in making MassHealth sustainable. We have reduced spending growth from historical double-digits (15% in FY15) to single digits (3.8% in FY17) by more efficiently managing the program, by fixing our eligibility systems and by implementing new measures to recoup and prevent fraud, waste and abuse of the system. Through a year-long negotiation, we secured a new 5-year waiver from the federal government that preserves $1 billion in annual funding for safety net care that was set to expire this summer, authorizes over $52.4 billion of expenditures for the Medicaid program over 5 years, generates $29.2 billion of federal revenue, and restructures MassHealth toward Accountable Care models supported by $1.8 billion of new investments from the waiver. The waiver also significantly expands coverage for Substance Use Disorder (SUD) treatment to combat the opioid epidemic.

Even with this progress, MassHealth continues to grow at a rate that outpaces state revenue growth. Eighty five percent of MassHealth growth has been driven by enrollment, which will account for $600 million of growth in FY18 alone. Despite near universal health care coverage, a steady population, low unemployment, and growing median income, MassHealth enrollment continues to grow. This growth is

driven by a variety of factors, including a shift from commercial to public coverage and the implementation of the ACA. Since 2011, more than half a million lives have come on to public coverage. During this same period, there has been a continued decrease in the commercial market by 7%. Changes in the makeup of the economy, increased cost of health care, expansion of high deductible commercial health insurance and the high cost of insurance for small employers are all contributing factors to the shift from the commercial market to public coverage. If we do not address this issue, MassHealth is on course to grow by $1.9 billion in net state spending by FY2020.

As a result of these trends, MassHealth was projected to grow by $1.228 billion in gross terms and $581 million in net terms for FY18. The reforms and MassHealth sustainability initiatives included in the Governor's FY18 proposed budget hold MassHealth programmatic accounts at $16.202 billion gross and $6.350 billion net, an increase of $997 million (6.6%) over FY17 estimated gross spending and $140 million net (2.3%) over FY17 estimated net spending. Supplemental payments to safety net hospitals through the Medical Assistance Trust Fund (MATF) and Delivery System (DSTI) are funded at $642 million, excluding intergovernmental transfers, which represents a level funding of those payments. This excludes expenditures related to the Delivery System Reform Incentive Program (DSRIP), which are made from the DSRIP trust fund under the newly approved federal waiver.

The Governor's proposed budget focuses on four major areas:

- Continuing to strengthen controls to recoup and prevent fraud, waste and abuse of the system (also known as "program integrity"), including implementing a Third Party Administrator to manage long term services and supports and other cost avoidance and recovery initiatives. The FY18 budget includes over $350 million of annual savings from initiatives we have launched over the past two years, including $77 million of new savings for this year.
- Restructuring MassHealth into integrated, accountable care models, with investments supported by the 1115 waiver.
- Expanding access to Substance Use Disorder services to combat the opioid epidemic.
- Introducing insurance market reforms to address affordability and transparency of health care, including an Employer Contribution to offset the shift of individuals on to MassHealth and other public coverage.

EOHHS Secretary Sudders' testimony describes the specific initiatives within the insurance market reforms. The Governor's proposed budget estimates $300 million of revenue in FY18 from these reforms to offset the shift of individuals into MassHealth. Without these reforms, we would have a shortfall of $300 million in net state funding or a gross funding gap of over $650 million in programmatic spending.

In this testimony, I will provide a brief overview of the MassHealth program, highlight the primary drivers of our spending growth for FY18 and briefly describe the MassHealth sustainability initiatives underway for FY18.

MassHealth Overview

MassHealth offers essential health care coverage to approximately 1.9 million or 28% of the Commonwealth's residents, including some of our most vulnerable citizens. At this rate, MassHealth caseload will reach 2 million, or almost 30% of the state's population, by the end of FY18. Thirty-two percent of MassHealth members are non-disabled children, 43% are low income non-disabled adults, and 25% are people with disabilities and/or seniors. MassHealth also covers a range of long-term services and supports not covered by commercial insurance or Medicare. These include nursing home care, community long term care, transportation to medical appointments, specialized behavioral health and other services for unique populations that private insurers often do not reach. In addition, we are also the "coverage of last resort" for about 440,000 individuals who have other insurance. MassHealth generates over $10 billion of federal revenue per year and accounts for over 80 percent of the total federal revenue that comes into the state. Nearly all MassHealth spending qualifies for a federal match.

Highlighted Budget Increases for FY18

The Governor's proposed FY18 budget includes the following increases:

- Average enrollment forecasted to grow 4% over FY17, reaching 2 million by June 2018 (~$600M of growth)
- $125M gross (10%) increase in required Medicare premiums. MassHealth pays the premiums for Medicare Part A, Part B and Part D for individuals dually eligible for Medicare and Medicaid. These premiums are set by the federal government and have been increasing rapidly.
- $155M gross (6.5%) increase in spending on community long-term services and supports (LTSS), a reduction from historical trend of 14% in growth from trend due to increased program integrity efforts. This includes a $23 million increase in wages for Personal Care Attendants.
- $20M gross (21%) increase in funding for Hutchinson settlement and other home- and community-based services (HCBS) waivers, mainly due to caseload growth. H.1 supports an additional 184 residential slots over FY17 on the Acquired Brain Injury and Money Follows the Person (ABI/MFP) waivers. In FY17, there were an additional 198 ABI/MFP residential slots available over the previous fiscal year.

- Over $27M in rate increases for non-acute hospitals (psychiatric and chronic disease/rehab hospitals). Supported by a federally required expansion of the current acute hospital assessment to non-acute hospitals and reinvesting all federal matching funds in rates (budget neutral to the Commonwealth). Among other things, the enhanced funding will help support care for complex individuals with behavioral health, including those in the Emergency Department in need of placement into a hospital setting.
- 1.6% or $55 million aggregate ($108 million annualized) increase across managed care program rates (MCOs, Senior Care Options, One Care, and PACE). The budget also assumes efficiencies from a competitive reprocurement of our managed care plans and increased scale from fewer vendors selected.

FY18 Budget Proposal

As I mentioned earlier, our FY18 budget proposals are grouped into four categories: (1) continuing to strengthen program integrity controls to limit fraud, waste and abuse; (2) restructuring MassHealth into integrated, accountable care models through the 1115 waiver; (3) expanding access to SUD treatment through the 1115 waiver; and (4) rolling out a set of insurance market reforms.

Program integrity controls to limit fraud, waste and abuse

Over the past two years, MassHealth has implemented significant measures to strengthen management of the program, including fixing gaps in our eligibility systems and processes, completing outdated eligibility redeterminations for 1.2 million individuals, adding new algorithms to identify suspicious behaviors amongst providers, and implementing new controls and prior authorization of services to ensure the right care is delivered to the right members in the right place at the right time. These measures have resulted in over $350 million per year of new savings for MassHealth; $77 million of that is the result of new initiatives we will implement throughout FY18.

One example of the progress we have made is in the area of long term services and supports (LTSS). Community-based LTSS programs are vital for supporting many of our members with activities of daily living. The program provides personal care attendant supports, home health aides, adult foster care, and other services to help individuals thrive in the community instead of in an institutional setting. These programs are essential to the independence and resilience of our members. However, through on-site audits and detailed analyses of claims data, our clinical and program teams identified significant areas of waste and potential fraud. Home health, for example, grew at 40% by over $160M in FY15; we referred 12 providers to the Medicaid Fraud Division for suspected fraud. In response, we have implemented a number of measures to limit inappropriate utilization of LTSS services, including instituting requirements for prior authorizations of services, intensifying audits of providers, clarifying regulations, and putting in place a moratorium on new providers of certain services. This spring, we will

be implementing a Third Party Administrator to augment the administrative capacity of EOHHS to administer LTSS provider-facing activities. This will strengthen MassHealth's utilization management programs and program integrity analysis and audits.

These efforts have resulted in meaningful improvements in our program management. We have reduced the growth trend of Community LTSS services from 14% per year in FY14-FY16 to 8% in FY17. In FY17, our audits identified over $23 million in provider overpayments for recoupment. And we have reduced the trend in runaway home health spending, from 40% growth in FY15 to 4% growth in FY17, for over $200 million of estimated savings versus the prior trajectory.

In addition to work being done across the LTSS program, MassHealth has implemented a number of enrollment and eligibility integrity initiatives. Through the 1115 waiver, MassHealth now requires students with access to their institutions' Student Health Insurance Plan to enroll in those plans. For MassHealth eligible students, MassHealth will provide assistance with premiums and cost-sharing. We anticipate this initiative will result in $45M gross savings over FY17. In FY18, we will also strengthen our eligibility processes by requiring adults over 21 years old to submit documentation verifying their eligibility before MassHealth benefits begin. Under the current HIX eligibility system, MassHealth is able to instantly confirm eligibility of some applicants, while other applicants are requested to provide additional information, such as a letter from an employer confirming stated wages. Currently, such applicants are granted provisional membership for 90 days, during which the applicant is expected to submit required documents. Our data indicate 25% of those individuals do not end up being eligible for MassHealth. Under the new policy, if applicants' information cannot be verified upon application, applicants will have 90 days to provide outstanding information but will not be eligible for MassHealth benefits until information is verified. If the information is verified within the 90-day period, eligibility will be retroactive to 10 days prior to the date of the initial application. MassHealth anticipates that this policy will result in savings of $31M gross ($12.4M net).

MassHealth restructuring and the 1115 waiver

In November, MassHealth received approval from the Center for Medicare and Medicaid Services for a new 1115 demonstration waiver. Medicaid 1115 Demonstration Waivers allow states to "waive" certain provisions of the Medicaid law and receive additional flexibility to design and improve their programs. The new waiver, which will go into effect in July of 2017, authorizes more than $52.4 billion to the MassHealth program over the next five years to restructure the current MassHealth delivery system in a manner that promotes integrated, coordinated care. Today, MassHealth's basic structure is a predominantly fee-for-service payment model that leads to care that is too often fragmented and uncoordinated. Without the waiver, Massachusetts would also have lost $1 billion a year in federal funds starting July 1, 2017. Under the new waiver, MassHealth will shift from a fee-based model to a system of accountable care by implementing Accountable Care Organization (ACO) models, which are provider-led organizations that are accountable for the cost and quality of care. Under this innovative

model, MassHealth will be able to invest in community-based organizations, Community Partners, and to better integrate services for behavioral health and long term services and supports (LTSS).

Six pilot ACOs have already launched in December of 2016. The new ACO options will be available in the second half of FY18 for MassHealth members who are required to enroll in either the MassHealth Primary Care Clinician plan or a MCO, or nearly 1.3 million members. ACOs will be financially accountable for cost, quality, and member experience. All MassHealth ACOs will be required to form linkages to state-certified Community Partners of Behavioral Health and LTSS. These community partners will be empowered to support ACOs with care coordination and management for members with complex behavioral health and LTSS needs and will be integral parts of a more integrated, person-centered delivery system. ACOs will also be able to invest in certain approved community services that address health-related social needs and are not otherwise covered under the MassHealth benefit.

The waiver incorporates $1.8 billion in new investments through Delivery System Reform Incentive Payment (DSRIP) program to support the development of ACOs and Community Partners. DSRIP funds will help providers transition towards new care delivery models, improve beneficiary care and experience, and strengthen provider capacity. DSRIP funds are partially at risk and based on performance on a number of metrics. An unprecedented $550 million in funding will be used to support Community Partners for community-based behavioral health and LTSS care over the next five years.

Under the waiver, MassHealth will also restructure its safety net care pool (SNCP) funding, which totals $8 billion over five years, including $1.3 billion for subsidies to assist consumers in obtaining affordable coverage on the Massachusetts Health Connector and $4.8 billion for uncompensated care by safety net providers. The latter includes care through the Health Safety Net program and supplemental payments to an expanded number of safety net hospitals, which grew from seven to fifteen.

Expanding access to SUD treatment through the 1115 waiver

Another key component of the newly approved Waiver addresses the state's opioid addiction epidemic with expanded services for MassHealth members with substance use disorders (SUD). In conjunction with the Department of Public Health, MassHealth will implement a more comprehensive array of outpatient, residential inpatient, and community SUD services to promote treatment and recovery. All full-benefit MassHealth members will be eligible to receive expanded SUD services regardless of the delivery system through which they receive care.

Insurance market reforms

As I mentioned above, the Baker-Polito administration has proposed a set of insurance market reforms to address affordability and transparency of health care, including an Employer Contribution to offset the shift of individuals on to MassHealth and other public coverage. These reforms are outlined in EOHHS Secretary Sudders' testimony and generate $300 million of revenue in FY18 to offset the shift of individuals into MassHealth. A component of these reforms is to better align benefits between the

MassHealth CarePlus program – which is our program for single, childless adults in the Medicaid expansion population through the Affordable Care Act – with other health insurance products in the commercial market by eliminating coverage of glasses, contacts, and non-emergency transportation.

Other initiatives, including revenue enhancements

We have multiple other initiatives underway as well. Some of these are policy adjustments to increase revenue across the MassHealth program. Specifically, we have expanded access to high cost therapies for Hepatitis C to all infected MassHealth members. The expansion in access will result in over $230M gross annual increase in spending but will be offset by a higher supplemental rebate negotiated by the Commonwealth with drug manufacturers and will not require additional funding from the state. MassHealth will continue to expand its pharmacy supplemental rebate program and has released a request for supplemental rebates from manufacturers of drugs from 13 different therapy classes. We anticipate applying the supplemental rebates to both fee-for-service and managed care utilization of these drugs, leveraging all the purchasing power across the MassHealth program and generating additional revenue to the Commonwealth.

In an effort to reduce spend growth in the MassHealth program there are limited rate increases for providers in FY18. The FY18 proposal includes $33 million for fee-for-service rate increases, including a $23 million increase to PCA wages. Additionally, the budget assumes increases in the managed care program rates (MCOs, Senior Care Options, One Care, and PACE) of 1.6% in aggregate (or $55 million). The budget also assumes efficiencies from a competitive reprocurement of our managed care plans and increased scale from fewer vendors selected. The proposed budget also maintains the $35.5 million direct care add-on for nursing facilities, which is used by nursing facilities to enhance wages for direct care workers. There are no cuts to nursing facility rates as a class in the budget.

Thank you for holding this hearing, and thank you for your continued support for the MassHealth program. I have appreciated the opportunity to talk with many of you individually about our efforts to strengthen and restructure the MassHealth program, and I look forward to a continuing dialogue with you about this budget proposal as the process moves forward.