The Changing Dynamics of Health Care

How the Changing Political Landscape Affects Patients Across Texas

November 2, 2012

Today’s Agenda

• Overview of Accountable Care Act
• Overview of Texas Legislation
• What to Expect in the Future
• Q&A

Recap of Health Reform Triple Aim

• Reduce the number of uninsured Americans
  • 19 – if uninsured US citizens totaled 36 million (under age 65)
  • 8.2 million of uninsured are children
  • Increasing trend in % of adults ages 18-64 lacking coverage (1997 – 18.9% uninsured; 2009 – 21.1%)
• Reduce the cost of health care
  • ‘08 – US health care spending averaged $7,681/resident
  • 16.2% of nation’s GDP (amongst highest of all industrialized nations)
  • Total health care expenditures grew at annual rate of 4.4% - outpacing inflation and the growth in national income
• Change the health care delivery paradigm
  • ‘99 IOM report, To Err is Human, estimates 99,000 deaths each year due to medical errors and poor safety practices at hospitals
  • Currently, reimbursement based on productivity, not on outcomes – what are taxpayers REALLY getting, especially, in government funded programs like Medicare and Medicaid?
Patient Protection and Affordable Care Act Highlights

In March 2010, the Patient Protection and Affordable Care Act (HR 3590) and the Health Care and Education Reconciliation Act (HR 4872) were signed into federal law, collectively known as the Affordable Care Act (ACA).

Following challenges by 26 state attorneys general and the National Federation of Independent Business, the Supreme Court of the United States considered, among other questions:

– Whether the law’s individual mandate to purchase health insurance was constitutional, and
– Whether the Medicaid expansion was unconstitutionally coercive for states

On June 28, 2012, the U.S. Supreme Court ruled (5 to 4) the individual mandate constitutional but determined that Medicaid expansion was optional for the states.

Key Policy Provisions of ACA

Some key provisions include:

All U.S. citizens and legal residents must obtain health coverage that meets federal standards (individual mandate)
Eliminates lifetime and annual benefit limits/restrictions
Prohibits pre-existing conditions exclusions
Allows dependent coverage up to age 26
Medicaid Expansion
  • The Court upheld the Medicaid expansion up to 133 percent of the Federal Poverty Limit (FPL), with limitations, effectively making it optional for states to implement
Eliminates out-of-pocket expenses for preventive services
Creates Health Benefit Exchanges to serve as marketplaces for individuals and small business employees to compare and purchase health coverage

Current Provisions Implemented in Texas

Allow children enrolled in Medicaid and CHIP to elect hospice care without waiving their rights to treatment for their terminal illness
Made freestanding birthing centers eligible for Medicaid reimbursement
Claim federal matching funds for school and state employees’ children enrolled in CHIP
Added tobacco cessation counseling as a Medicaid benefit for pregnant women
Made drug rebate formulary changes
Several program integrity provisions

Source: Presentation to the Senate Health and Human Services and State Affairs Committee by Tom Suehs, Commissioner HHSC, August 1, 2012
The chart to the left shows the group of uninsured low-income adults that would have no other coverage option in absence of the ACA Medicaid Expansion.

Note: The ACA expands Medicaid coverage for adults under age 65 up to 133% FPL. However, in the past there was no sliding scale premium assistance for adults beginning at 100% FPL.

### Annual Income Levels

<table>
<thead>
<tr>
<th>FPL Level</th>
<th>Individual</th>
<th>Family of 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>12%</td>
<td>$1,340</td>
<td>$2,291</td>
</tr>
<tr>
<td>74%</td>
<td>$8,266</td>
<td>$14,126</td>
</tr>
<tr>
<td>100%</td>
<td>$11,170</td>
<td>$19,090</td>
</tr>
<tr>
<td>133%</td>
<td>$14,856</td>
<td>$25,390</td>
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<tr>
<td>400%</td>
<td>$44,680</td>
<td>$76,360</td>
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Decisions, Decisions...

The ACA makes sliding-scale premium assistance for private coverage in the exchange available only to persons above 100 percent FPL (with an exception for legal immigrants excluded from Medicaid). This means without the adult Medicaid expansion, uninsured Texas adults below 100 percent FPL will have no assistance available in 2014.

Those from 100-133 percent FPL would be eligible for premium assistance, but because the system was designed with assumption that this group would have Medicaid, some of these near-poor will have difficulty affording the coverage, even with a cap on premiums of two percent of family income.

Costs of care for uninsured poor Texas adults will continue to be carried primarily by local property taxpayers, secondarily by other charity care providers, and without benefit of the 90 percent-plus federal matching dollars.
Texas Politics and their impact on policy

Decisions made during the 82nd Texas Session

Texas Legislature Had to “Balance” a $27B Shortfall in 2011 for the 2012-2013 Budget
State’s margins tax underperforms at $5B a biennium
Sales Tax was down double digits in 2010-2011
Legislature was more conservative with many “no new revenue” pledges
Medicaid enrollment exploded during economic downturn
Underfunded Medicaid by $5B
No use of the Rainy Day Fund
State Legislation during the 82nd Session

<table>
<thead>
<tr>
<th>Highlights of the Impacts on Medicaid Reimbursement Rates</th>
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<tbody>
<tr>
<td>Inpatient Services</td>
<td>“Cost-based” reimbursement until August 31, 2013 APR-DRG reimbursement starting September 1, 2013</td>
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<tr>
<td>Children’s Hospitals</td>
<td></td>
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<tr>
<td>Other Hospitals</td>
<td>8% reduction (+2% in 2011)</td>
</tr>
<tr>
<td>Outpatient Services</td>
<td>8% reduction (+2% in 2011)</td>
</tr>
<tr>
<td>Physician Services</td>
<td>2% reduction in 2011 continues</td>
</tr>
<tr>
<td>Laboratory Services</td>
<td>10.5% reduction (+2% in 2011)</td>
</tr>
<tr>
<td>Health Plan Premiums</td>
<td>Reduced by 11% in FY12</td>
</tr>
<tr>
<td>STAR and STAR+PLUS Expansions</td>
<td>Expands risk-based managed care in 10 counties in South Texas and 28 contiguous counties of existing service delivery areas</td>
</tr>
<tr>
<td>Medicaid ER Use</td>
<td>HHSC will study physician incentives, use of freestanding urgent care centers, and adoption of managed care incentives/incentives to deter inappropriate ER use</td>
</tr>
<tr>
<td>Quality-based Payment and Delivery Reform in Medicaid/CHIP</td>
<td>HHSC is authorized to develop outcome measures and implement payment initiatives to reduce Potentially Preventable Readmissions and Complications and to bundle payments</td>
</tr>
<tr>
<td>Medicaid Funding Reduction</td>
<td>Reduces State General Revenue by $450M and lists savings initiatives to consider, such as payment reform and quality-based payments and improved care coordination for children with disabilities</td>
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Medicaid Transformation Waiver

- The Texas Legislature passed a broad 5 year (2011-2016) waiver to expand Medicaid Managed Care across Texas while maintaining access to the UPL funds.
- Additionally, the waiver strives to improve outcomes while containing cost growth and prepare our infrastructure for the newly insured populations:
  - Replaces existing UPL programs with 3 funding pools
    - Designated State Health Programs- state funded programs (mental health, county indigent health care, primary care)
    - Uncompensated Care/Medicaid Shortfall- including costs for hospital, physician, pharmacy and clinic costs
    - Delivery System Reform Incentive Programs (DSRIP)- focus on quality of care, the right care at the right time at the right location
  - Creates Regional Health Partnerships
- The waiver will bring approximately an $16 billion in federal dollars to Texas
- TCH is currently working with partners to maximize our involvement in the waiver.

Medicaid Transformation Waiver Funding
**Power Players**

Governor Perry returns after failed run for United States President
Lt. Governor Dewhurst returns after failed run for United States Senate
Speaker Straus facing challenger
HHSC leadership turnover - Commissioner, Medicaid Director

*The more things change the more they stay the same…*

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**Impact of New Faces**

Historic Turnover at the Capitol

**Texas Senate**
- 4-6 new senators of 31
- New Chairs of key committees
- Finance, Education, Higher Education

**Texas House**
- At least 35 new members of the 150 House
- 7 Chairs lost or are retiring
- Tea Party Effect on Revenue Options
Deficit expected, Medicaid $10-15m alone

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**Budget for 83rd Texas Session**

Shortfall will not be as bad as 2011

**Normal Budget Pressures**
- Structural shortfall: $3-6 billion
- Medicaid growth: $3-5 billion (State Portion)
- Public Education: $0-2 billion
- Other: $1 billion

**Non Normal Budget Pressures**
- ACA: $1-1.5 billion
- School Finance lawsuits: $4 billion
- End of diversion of dedicated GR: $3.5-4 billion
- Restoration of 11 cuts: $$???
Budget for 2014-2015

Budget will be tight but manageable through some tough decisions if current trends continue
The state will have to respond to Non-Normal budget pressures
• There is enough money in the Rainy Day Fund to address the needs
• Takes a vote of 2/3 of each Chamber to spend Rainy Day Fund
Members prefer a budget shortfall- Saying No to everyone is a lot easier than having to decide which needed under funded program deserves additional funding

Medicaid

Is Medicaid “broken” and how to fix it?
Value of Medicaid:
• Non-disabled children are 66% of Medicaid caseload but only 32% of the cost.
• Aged and disabled are only 25% of Medicaid caseload but 58% of cost.
How to expand coverage to adults under 100% of FPL ($30k) and address the doughnut hole
Growth of HHS portion of the budget

Impact of not Expanding Medicaid

Texas cost estimate to fully expand Medicaid = $15.5B over 10 years
Loss of matching federal funds = $100.1B over 10 years, as financed in final bill
Doughnut hole created for 1 million Texans
• Over 100% FPL can go into exchange w/ subsidy
• Under 100% not eligible for exchange so remain uninsured because priced out of market
Private insurance now $1,800/year to cover the 1 in 4 Texans who are uninsured
Hospitals already providing $5B/year in uncompensated care
Limited Government reimbursement will continue to be a challenge for health care providers

The government is looking for ways to reduce the cost of entitlement programs like Medicaid through a focus on the three main principles

• Payment for Quality
• Increased Access to Care
• Cost Containment

Organizations that focus on The Triple Aim will succeed

Questions and Discussion