Schedule 13
Funding Request for the 2013-14 Budget Cycle

Department: Health Care Policy and Financing

Request Title: Medicare Modernization Act of 2003 State Contribution Payment

Priority Number: R-4

Dept. Approval by: John Bartholomew 10/26/12 Date

OSPB Approval by: 10/30/12 Date

- [x] Decision Item FY 2013-14
- [ ] Base Reduction Item FY 2013-14
- [ ] Supplemental FY 2012-13
- [ ] Budget Amendment FY 2013-14

Line Item Information		FY 2012-13		FY 2013-14		FY 2014-15
		1	2	3	4	5
	Fund	Appropriation FY 2012-13	Supplemental Request FY 2012-13	Base Request FY 2013-14	Funding Change Request FY 2013-14	Continuation Amount FY 2014-15
Total of All Line Items	**Total**	$90,656,176	$0	$96,674,862	$14,603,355	$14,603,355
	FTE	0.0	0.0	0.0	0.0	0.0
	GF	$50,609,286	$0	$47,626,167	$14,603,355	$14,603,355
	GFE	$0	$0	$0	$0	$0
	CF	$0	$0	$0	$0	$0
	RF	$0	$0	$0	$0	$0
	FF	$40,046,890	$0	$49,048,695	$0	$0
(5) Other Medical Services; Medicaid Modernization Act of 2003 State Contribution Payment	**Total**	$90,656,176	$0	$96,674,862	$14,603,355	$14,603,355
	FTE	0.0	0.0	0.0	0.0	0.0
	GF	$50,609,286	$0	$47,626,167	$14,603,355	$14,603,355
	GFE	$0	$0	$0	$0	$0
	CF	$0	$0	$0	$0	$0
	RF	$0	$0	$0	$0	$0
	FF	$40,046,890	$0	$49,048,695	$0	$0

Letternote Text Revision Required? Yes: No: If yes, describe the Letternote Text Revision:

Cash or Federal Fund Name and COFRS Fund Number:

Reappropriated Funds Source, by Department and Line Item Name:

Approval by OIT? Yes: No: Not Required:

Schedule 13s from Affected Departments:

Other Information:

DEPARTMENT OF HEALTH CARE POLICY AND FINANCING

FY 2013-14 Funding Request
November 1, 2012

John W. Hickenlooper
Governor

Susan E. Birch
Executive Director

Signature Date 10/23/12

Department Priority: R-4
Medicare Modernization Act of 2003 State Contribution Payment

Summary of Incremental Funding Change for FY 2013-14	Total Funds	General Fund	FTE
MMA State Contribution Payment	$14,603,355	$14,603,355	0.0

Request Summary:
This request is to fund the Medicare Modernization Act (MMA) of 2003 State Contribution Payment line item to $111,278,217 for FY 2013-14, which is a General Fund increase of $14,603,355 above the base request. This request is the combined result of a projected increase in the caseload of dual-eligible individuals in conjunction with an increase in the per-member per-month (PMPM) rate paid by the State as required by federal regulations. The Department also estimates the additional General Fund need in FY 2012-13 will be $6,677,986. This estimate is for informational purposes only.

Problem or Opportunity:
On January 1, 2006, the federal Centers for Medicare and Medicaid Services (CMS) assumed responsibility for the Medicare Part D prescription-drug benefit that replaced the Medicaid prescription-drug coverage for dual-eligible clients (individuals eligible for both Medicare and Medicaid). In lieu of the states' obligation to cover prescription drugs for this population, CMS began requiring states to pay a portion of what their anticipated dual-eligible drug cost would have been had this cost shift not occurred. These "clawback" payments, if left unpaid, are subject to automatic deduction – plus interest – from the federal funds the State receives for the Medicaid program.

Brief Background:
In January 2006, states began to pay CMS these clawback payments. The payments were calculated by taking 90% of the federal portion of each state's average PMPM dual-eligible drug benefit from calendar year 2003, inflated to 2006 using the average growth rate from the National Health Expenditure (NHE) per-capita drug expenditures. This inflated PMPM amount is then multiplied by the number of dual-eligible clients, including retroactive clients, back to January 2006. As each calendar year passes, the 90% factor is lowered by 1.67% each year – which is known as the phasedown percentage – until it reaches 75%, where it will remain beginning in 2015. In addition, CMS inflates each state's PMPM rates based on either NHE growth or actual growth in Part D expenditures.

For FY 2013-14, the Department estimates the clawback payment will total $111,278,217, which is $14,603,355 General Fund higher than the base request. This difference is a result of projected increases in caseload and the PMPM rate.

The Department would like to make note of the significant General Fund increase that this line

item will likely need beginning in FY 2014-15. As originally discussed in the Department's November 1, 2010 DI-6 "Cash Fund Insolvency Financing," since FY 2010-11, the Department has been utilizing federal funds received from the Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA) performance as General Fund offset in this line item. The performance bonuses are available to states through federal fiscal year 2013, with receipt of the final adjustment payment anticipated in August 2014. As shown in Table 3 of Appendix A in the Department's November 1, 2011 R-11 "CHIPRA Bonus Payment True-Up," the Department anticipates that the federal funds available to this line item will decrease from $49,048,695 in FY 2013-14 to $2,916,140 in FY 2014-15. This means that the difference of $46,132,555 will need to be appropriated as General Fund in FY 2014-15 solely due to the expiration of the performance bonus.

Proposed Solution:
The Department proposes this line item be funded as requested so the State can meet its obligation to the federal government and ensure that the amount of payment plus interest is not deducted from federal funds received for Medicaid.

Alternatives:
The MMA State Contribution Payment is a federal mandate. As such, the only alternative to paying the amount invoiced by CMS is to not pay and have the amount plus interest be deducted from federal funds received for Medicaid.

Anticipated Outcomes:
Approval of this request would allow the Department to meet its obligation to the federal government and ensure the Department would not have the amount of payment plus interest deducted from the federal funds received for the Medicaid program. Such a deduction could cause the Department to be under-funded to provide services and would necessitate a General Fund appropriation or program cuts to make up the difference, as Medicaid is an entitlement program in which the Department cannot cap enrollment.

Assumptions for Calculations:
The Department assumes the changes in the PMPM rate paid by the Department will be based on the formula established by CMS, which considers changes in annual growth of NHE prescription-drug per-capita estimates and are offset by the corresponding phasedown percentage rate. The Department further assumes the changes in dual-eligible caseload will follow a trend of 4.03% annual growth, as has been evidenced historically. Tables detailing these calculations are attached in Appendix A.

Consequences if not Funded:
If the Department does not receive the requested appropriation and subsequently cannot make the required federal payment, the Department is at risk of having the amount due for the clawback payment – plus interest – deducted from the federal funds received for the Medicaid program. Such a deduction could cause the Department to be under-funded to provide services and would necessitate a General Fund appropriation or program cuts to make up the difference, as Medicaid is an entitlement program in which the Department cannot cap enrollment.

Current Statutory Authority or Needed Statutory Change:
42 C.F.R. §423.910 (a) General rule: *Each of the 50 States and the District of Columbia is required to provide for payment to CMS a phased-down contribution to defray a portion of the Medicare drug expenditures for individuals whose projected Medicaid drug coverage is assumed by Medicare Part D.*

25.5-5-503, C.R.S. (2012) (1) *The state department is authorized to ensure the participation of Colorado medical assistance recipients, who are also eligible for medicare, in any federal prescription drug benefit enacted for medicare recipients. (2) Prescribed drugs shall not be a covered benefit under the medical assistance program for a recipient who is eligible for a prescription drug benefit program under medicare; …*

Appendix A: Medicare Modernization Act of 2003 State Contribution Calculations

Using the prescribed methodology described below, the Department estimates the per-member per-month (PMPM) rate to be $139.44 for CY 2013 and $104.71 for CY 2014 as seen in Tables 1 and 2. However, the Department is cautious of the dramatic estimated drop in the CY 2014 rate. In order to be conservative in its forecast, the Department is opting to maintain the CY 2013 rate into CY 2014. Because CMS announces PMPM rates approximately three months prior to the rate taking effect, the Department will have more information regarding the CY 2014 rate at this time next year and will adjust the budget accordingly.

To estimate the CY 2013 PMPM rate (Table 1), the Department followed the procedure outlined by the Office of the Actuary at the Centers for Medicare and Medicaid Services (CMS) using the National Health Expenditure (NHE) estimates of per-capita drug-expenditures growth for the period 2006 to 2009 listed in CMS's NHE Projections from years 2010 and 2011. This estimate also includes the CY 2013 annual percentage increase in the average per-capita aggregate Part D expenditures from CMS. Applying this figure to the previous year's pure PMPM rate, the state share is taken into account, and that figure is then multiplied by the phasedown rate for CY 2013 to produce the final PMPM estimate.

Table 1: CY 2013 PMPM Rate		
From NHE Projections 2010-2020 (Table 11)		
	Estimated 2006 Per-Capita Prescription Drug Expenditures	$735
	Estimated 2009 Per-Capita Prescription Drug Expenditures	$813
	Percentage Growth	10.61%
From NHE Projections 2011-2021 (Table 11)		
	Estimated 2006 Per-Capita Prescription Drug Expenditures	$752
	Estimated 2009 Per-Capita Prescription Drug Expenditures	$836
	Percentage Growth	11.17%
Change in Percentage Growth		**5.28%**
From Announcement of CY 2013 Medicare Advantage Capitation Rates and Medicare Advantage and Part D Payment Policies		
	Annual % Increase in Avg. Per Capita Aggregate Part D Expenditures for 2012 (Attachment V, Table III-1)	2.27%
FINAL Percentage Change in Rate Prior to Applying Phasedown for CY 2013		**7.55%**
2012 PMPM Rate Prior to FMAP and Phasedown		$331.03
FINAL Percentage Change in Rate Prior to Applying Phasedown for CY 2013		7.55%
Projected CY 2013 PMPM Rate Prior to FMAP and Phasedown		$356.02
FMAP State Share		50.00%
Projected CY 2013 PMPM Rate Prior to Phasedown		$178.01
CY 2013 Phasedown Percentage		78.33%
Projected CY 2013 PMPM Rate		**$139.44**

Sources: Centers for Medicare & Medicaid Services, NHE Projections 2010-2020, Table 11; Centers for Medicare & Medicaid Services, NHE Projections 2011-2021, Table 11; and Announcement of CY 2013 Medicare Advantage Capitation Rates and Medicare Advantage and Part D Payment Policies, Attachment V, Table III-1.

Using the same methodology to estimate the CY 2014 PMPM rate – only with NHE estimates of per-capita drug-expenditures growth for the period 2007 to 2010 and the CY 2014 annual percentage increase in the average per-capita aggregate Part D expenditures – the estimated CY 2014 rate is $104.71 (see Table 2 on the following page), which is significantly lower than the previous year's rate.

Table 2: CY 2014 PMPM Rate, Original Calculation		
From NHE Projections 2010-2020 (Table 11)		
	Estimated 2007 Per-Capita Prescription Drug Expenditures	$762
	Projected 2010 Per-Capita Prescription Drug Expenditures	$833
	Percentage Growth	9.32%
From NHE Projections 2011-2021 (Table 11)		
	Estimated 2007 Per-Capita Prescription Drug Expenditures	$784
	Estimated 2010 Per-Capita Prescription Drug Expenditures	$839
	Percentage Growth	7.02%
Change in Percentage Growth		**-24.68%**
From Announcement of CY 2013 Medicare Advantage Capitation Rates and Medicare Advantage and Part D Payment Policies		
	Annual % Increase in Avg. Per Capita Aggregate Part D Expenditures for 2013 (Attachment V, Table III-2)	1.40%
FINAL Percentage Change in Rate Prior to Applying Phasedown for CY 2014		**-23.28%**
2013 PMPM Rate Prior to FMAP and Phasedown		$356.02
Final Percentage Change in Rate Prior to Applying Phasedown for CY 2014		-23.28%
Projected CY 2014 PMPM Rate Prior to FMAP and Phasedown		$273.14
FMAP State Share		50.00%
Projected CY 2014 PMPM Rate Prior to Phasedown		$136.57
CY 2014 Phasedown Percentage		76.67%
Projected CY 2014 PMPM Rate		**$104.71**

Sources: Centers for Medicare & Medicaid Services, NHE Projections 2010-2020, Table 11; Centers for Medicare & Medicaid Services, NHE Projections 2011-2021, Table 11; and Announcement of CY 2013 Medicare Advantage Capitation Rates and Medicare Advantage and Part D Payment Policies, Attachment V, Table III-2.

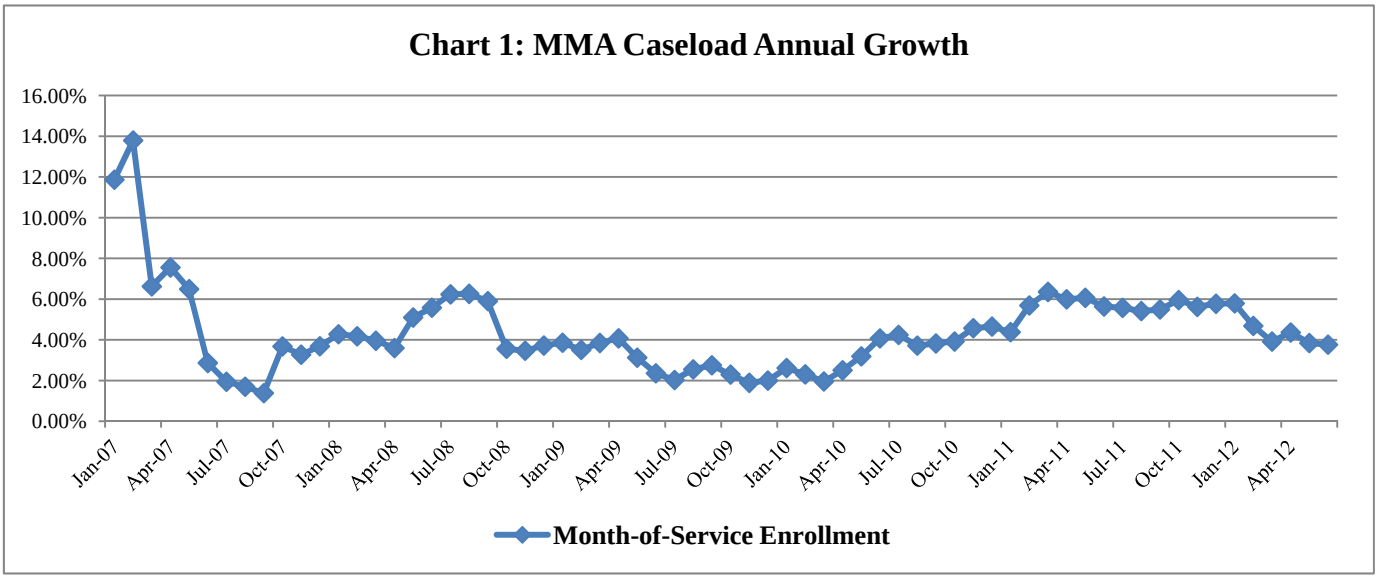
Earlier in 2012, a preliminary estimate of the CY 2014 PMPM rate was calculated using NHE projections from one year prior, and this estimate also indicated a significantly lower rate. As discussed above, the Department is electing to maintain the CY 2013 PMPM rate into CY 2014 for this request.

The Department notes the projection of PMPM rates is based on the growth in the NHE drug expenditures; however, federal law states the growth factor for 2007 and succeeding years will equal the annual percentage increase in average per-capita aggregate expenditures for covered Part D drugs in the United States for Part D-eligible individuals during the 12-month period ending in July of the previous year. Since actual expenditure data is not available for 2012 and beyond at the time of this request, the actual per-capita rate growth may differ from the Department's projection.

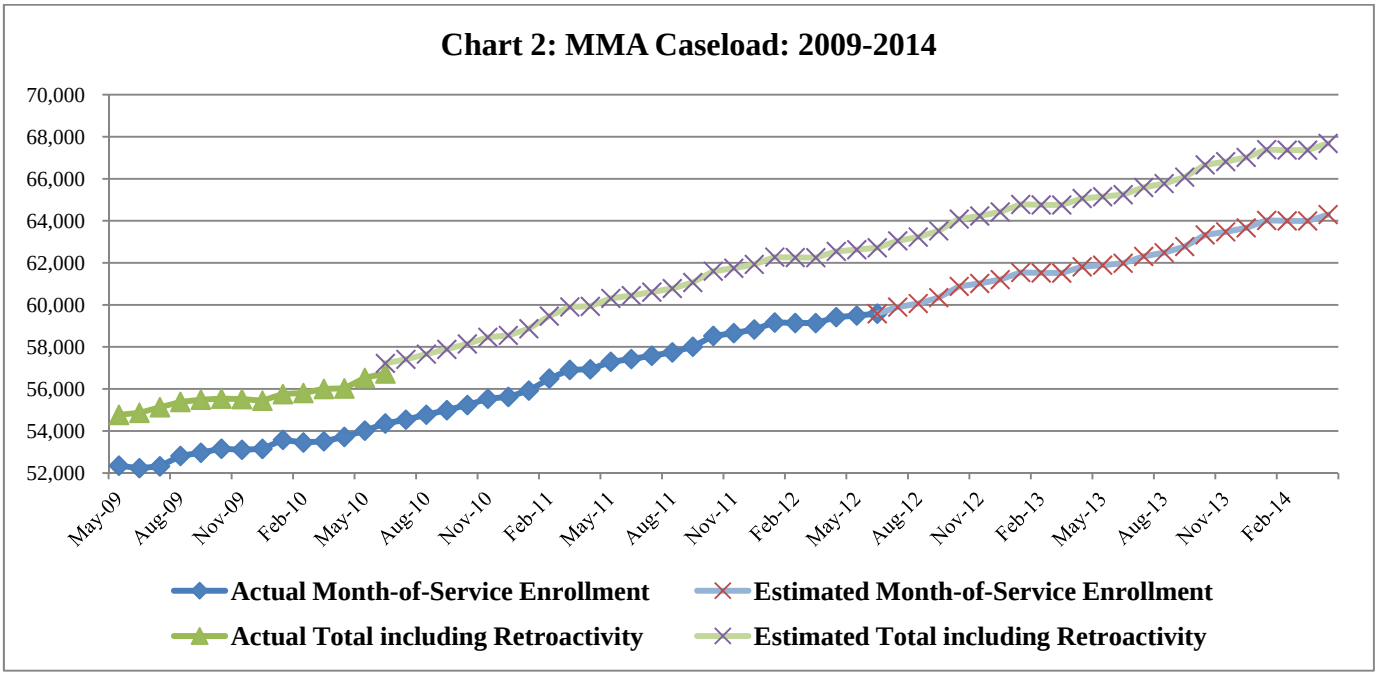
Caseload Calculation

To estimate caseload, the Department analyzed data from January 2006 through June 2012 and concluded a 4.03% historical trend, based upon an annual average over the past five years, is the most reasonable forecast method for the MMA clawback population. This method estimates caseload by increasing the figure from the same month during the previous year by 4.03%. Because clients are able to be retroactively enrolled and disenrolled for up to 24 months, retroactivity is also considered in this forecast. Historical data shows current month enrollment accounts for approximately 95% of the final caseload figure including retroactivity. This data also shows a decay rate that spreads the remaining 5% out over the first 12 retroactive months.

Chart 1, below, illustrates the complete history of annual growth of MMA caseload, comparing the growth in MMA enrollment for that month relative to enrollment for the same month in the previous year. Omitting the initial spike at the beginning of the program, annual caseload growth has been between approximately 2% and 6%, with an average annual growth rate of approximately 4%. Recent data is in line with this long-term trend; thus, the Department concludes the five-year annual average of 4.03% is reasonable to project MMA caseload growth for FY 2013-14.



The following chart (Chart 2) depicts MMA caseload totals, both for month-of-service enrollment and totals including retroactivity, as well as forecast estimates through FY 2013-14 for each. The forecast estimates are determined using the 4.03% historical average discussed above.



Due to a two-month delay between when the Department receives an invoice from CMS and when the invoice is paid, the amount paid in the July-through-June fiscal year are actually the invoices received between May and April. To improve the accuracy of the estimate for this line, the caseload projection table (Table 4, below) reflects this May-through-April period of time.

Table 4: FY 2013-14 Projected MMA Caseload and Expenditures				
	CY 2012	**CY 2013**	**CY 2014**	**FY 2013-14 TOTAL**
May 2013	651	64,497	0	65,148
June 2013	457	64,788	0	65,245
July 2013	328	65,260	0	65,588
August 2013	230	65,543	0	65,773
September 2013	165	65,916	0	66,081
October 2013	100	66,565	0	66,665
November 2013	67	66,751	0	66,818
December 2013	34	66,984	0	67,018
January 2014	0	3,370	64,021	67,391
February 2014	0	2,189	65,177	67,366
March 2014	0	1,516	65,847	67,363
April 2014	0	1,015	66,668	67,683
CY Client Total	2,032	534,394	261,713	
CY Rate	$132.41	$139.44	$139.44	
Expenditures	**$269,057**	**$74,515,899**	**$36,493,261**	**$111,278,217**

Based upon a 4.03% annual growth rate, the Department anticipates FY 2013-14 caseload will increase from 65,148 in May 2013 to 67,683 in April 2014 (see Table 4). As a result, the total projected expenditure for the Medicare Modernization Act of 2003 State Contribution Payment for FY 2013-14 is $111,278,217.

FY 2012-13 Revised Estimate

As noted in the Department's November 1, 2011 R-4, CMS released the National Health Expenditure Projections for 2010-2020 on July 26, 2011, which would have adjusted the estimated PMPM rates for CY 2012 and CY 2013. At the time of the submission of that request, the Department was analyzing the new NHE estimates to determine the impact these projections may have on the MMA State Contribution Payment line item, but noted that initial results indicated that MMA FY 2012-13 total expenditures could increase by as much as 6.5%. The estimated CY 2012 PMPM rate included in the Department's November 1, 2011 R-4 was $125.58. The actual PMPM rate determined by CMS for CY 2012 was $132.44, 5.4% higher than the Department's original estimate. Because the estimate for CY 2013 is based off the CY 2012 rate, the increase in the CY 2012 rate drives an increase in the estimated CY 2013 rate that is included in this request.

The difference between the Department's estimated PMPM rates and actual and updated estimates are shown in the following table on the next page (Table 5).

Table 5: PMPM Rate Estimate Comparisons		
	CY 2012	**CY 2013**
FY 2011-12 PMPM Rate Estimate		
November 1, 2011 Estimate	$125.58	-
Actual Rate	$132.41	-
% Difference	**5.44%**	-
FY 2012-13 PMPM Rate Estimate		
November 1, 2011 Estimate	$125.58	$128.49
November 1, 2012 Estimate	-	$139.44
Actual Rate	$132.41	-
% Difference	**5.44%**	**8.52%**

The caseload forecast for FY 2012-13 has also been revised, including accounting for the two-month delay between when invoices are received from CMS and when the invoices are paid. As a result of these adjustments, the Department estimates the need for an additional $6,677,986 General Fund for this line for FY 2012-13 to bring it in line with the revised expenditure estimate of $103,352,848 as detailed below in Table 6.

Table 6: FY 2012-13 Projected MMA Caseload and Expenditures				
	CY 2011	**CY 2012**	**CY 2013**	**FY 2012-13 TOTAL**
May 2012	627	62,000	0	62,627
June 2012	438	62,280	0	62,718
July 2012	316	62,734	0	63,050
August 2012	221	63,006	0	63,227
September 2012	159	63,364	0	63,523
October 2012	96	63,989	0	64,085
November 2012	64	64,167	0	64,231
December 2012	32	64,391	0	64,423
January 2013	0	3,239	61,543	64,782
February 2013	0	2,105	62,655	64,759
March 2013	0	1,457	63,298	64,755
April 2013	0	976	64,088	65,064
CY Client Total	1,953	513,708	251,584	
CY Rate	Varies*	$132.41	$139.44	
Expenditures	**$251,899**	**$68,020,076**	**$35,080,873**	**$103,352,848**

**CY 2011 Rates: CQ1 - $107.07; CQ2 - $111.98; CQ3 - $129.84; CQ4 - $129.84.*

Table 7 on the following page details the changes in this line item between the FY 2012-13 Long Bill appropriation and the FY 2013-14 request. As can be seen, the $14,603,355 request for FY 2013-14 represents a two year request – $6,677,986 to update the FY 2012-13 appropriation with revised estimates, and an additional $7,925,369 to get from the FY 2012-13 revised estimate to the FY 2013-14 projection.

Table 7: Building to FY 2013-14 Request			
	TF	**GF**	**FF**
FY 2012-13 Long Bill Appropriation	**$90,656,176**	**$50,609,286**	**$40,046,890**
Annualization of FY 2012-13 R-11 "CHIPRA Bonus Payment True-Up"	$0	($2,983,119)	$2,983,119
Correction for FY 2012-13 R-4 "MMA State Contribution Payment"	$6,018,686	$0	$6,018,686
FY 2012-13 Total with Corrections	**$96,674,862**	**$47,626,167**	**$49,048,695**
FY 2012-13 S-4 "MMA State Contribution Payment"	$6,677,986	$6,677,986	$0
FY 2012-13 Total with Corrections and Supplemental Request	**$103,352,848**	**$54,304,153**	**$49,048,695**
Annualization of FY 2012-13 S-4 "MMA State Contribution Payment"	($6,677,986)	($6,677,986)	$0
FY 2013-14 Base Request	**$96,674,862**	**$47,626,167**	**$49,048,695**
FY 2013-14 R-4 "MMA State Contribution Payment"	$14,603,355	$14,603,355	$0
FY 2013-14 November 1 Request	**$111,278,217**	**$62,229,522**	**$49,048,695**
Difference between FY 2013-14 Request and FY 2012-13 Revised Total	*$7,925,369*	*$7,925,369*	*$0*