



#### ***Cost and FTE***

- The Department estimates that it will require \$35,367,854 total funds, including \$20,067,127 General fund in FY 2015-16 and \$74,436,815 total funds, including \$42,479,001 General fund in FY 2016-17 to account for the potential increase to the Medicare Part B premiums as well as an increase to Medicare deductibles by 52 percent. This funding is for FY 2015-16 and FY 2016-17 and does not require additional FTE.

#### ***Current Program***

- The Department currently pays premiums for Medicare Part B and in some cases Part A for clients who are dually eligible for both Medicaid and Medicare.
- The Department also pays coinsurance for these clients, so any changes to the required deductibles for these clients are the responsibility of the Department.

#### ***Problem or Opportunity***

- As proposed in the 2015 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance, Medicare Part B premiums may increase by about 52 percent, from \$104.90 in calendar year 2015 to \$159.30 in calendar year 2016.
- Long-term medical costs related to Medicare beneficiaries are expected to increase significantly; in order to ensure there is sufficient revenue to meet projected expenses in future years, the trustees are recommending an increase to premiums beginning January 1, 2016.
- The Department pays coinsurance and premiums for the dually eligible population and if the premiums rise, the Department will be responsible for covering the cost increases.

#### ***Consequences of Problem***

- A premium increase of this magnitude will require the Department to use General Fund to fund a significant portion of the increase.
- If the problem is not addressed, the Department risks a significant General Fund over expenditure.

#### ***Proposed Solution***

- The Department proposes to increase the appropriation for Medical Services Premiums by \$35,367,854 total funds, \$20,067,127 General Fund in FY 2015-16 and \$74,436,815 total funds, \$42,479,001 General Fund in FY 2016-17 in order to pay the State's portion of Medicare premiums and deductibles should the current levels increase by what the trustees propose.



# COLORADO

Department of Health Care  
Policy & Financing

FY 2016-17 Funding Request | November 2, 2015

John W. Hickenlooper  
Governor

Susan E. Birch  
Executive Director

**Department Priority: R-II**

**Request Detail: Supplemental Medicare Insurance Benefit Increase**

Summary of Incremental Funding Change for FY 2015-16	Total Funds	General Fund
Supplemental Medicare Insurance Benefit Increase	\$35,367,854	\$20,067,127

Summary of Incremental Funding Change for FY 2016-17	Total Funds	General Fund
Supplemental Medicare Insurance Benefit Increase	\$74,436,815	\$42,479,001

### **Problem or Opportunity:**

On July 22, 2015, the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance recommended an increase of about 52% to Medicare Part B premiums as well as increasing Medicare deductibles by 52%. The Department currently pays the Medicare premiums for a subset of the Medicaid population that is dually eligible for both Medicare and Medicaid through the Qualified Medicare Beneficiary (QMB) program as well as deductibles and coinsurance for some clients.

The Department makes these payments as required by federal law under 42 CFR 431.625(d)(3) and failure to do so results in the loss of federal financial participation<sup>1</sup>. In the Department's FY 2016-17 R-1 "Request for Medical Service Premiums", the methodology used for forecasting expenditure for Medicare premiums (referred to as the "Supplemental Medicare Insurance Benefit, or SMIB) takes the prior year expenditure and inflates it by projected caseload growth as well as projected growth in Medicare Part B Premiums. According to the Kaiser Family Foundation forecast<sup>2</sup> from January 2014, which was the basis for the R-1 request, premiums were projected to rise about 5.5% to \$110.70 in calendar year 2016. There had been no formal guidance on where premiums should be set for 2016 until the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance annual report was released in July. The report

<sup>1</sup> No FFP is available in State Medicaid expenditures that could have been paid for under Medicare Part B but were not because the person was not enrolled in Part B. This limit applies to all beneficiaries eligible for enrollment under Part B, whether individually or through an agreement under section 1843(a) of the Act. However, FFP is available in expenditures required by §§ 435.914 and 436.901 of this subchapter for retroactive coverage of beneficiaries.

<sup>2</sup> See table 3 from <http://kff.org/report-section/raising-medicare-premiums-for-higher-income-beneficiaries-assessing-the-implications-tables/>

recommended that Medicare Part B premiums and Medicare deductibles increase by about 52% over 2015 levels. This increase is to ensure that the fund stays solvent with the projected increase to medical costs expected to be paid out. This recommendation results in Medicare Part B premiums increasing from \$104.90 in 2015 to \$159.30 in 2016 and Medicare deductibles increasing from \$147.00 in 2015 to \$223.00 in 2016. Not only would the increase in premiums affect the Department, but the increase to the Part B deductibles would also result in significant cost increases. As a result of the increase, the Department would incur costs based on the difference in the deductible.

At this time, the proposed increases have not been finalized. There is still uncertainty on where the federal government will set the Medicare Part B premiums and deductibles and a final decision is not expected until after the November 1 budget request is final.

***Proposed Solution:***

The Department estimates that it will require \$35,367,854 total funds including \$20,067,127 General Fund in FY 2015-16 and \$74,436,815 total funds including \$42,479,001 General Fund in FY 2016-17 to pay for the cost of the benefit and reduce the likelihood of an over expenditure to the Medical Services Premiums line. Costs for FY 2017-18 and future years would be requested through the regular budget process. If the premiums are set at the level identified by the Board of Trustees' report, the Department would be at risk of significant over expenditure without additional appropriations.

***Anticipated Outcomes:***

The Department anticipates that the requested funds would be sufficient to cover the increase in costs if Medicare premiums and deductibles were increased as proposed in the Board of Trustees' annual report.

***Assumptions and Calculations:***

**Assumptions**

Supplemental Medicare Insurance Benefit (SMIB)

Calculations for SMIB can be found in Tables 2 and 3.1-3.4. The Department assumes that the 2016 Medicare Part B premiums would be set at \$159.30, which is based on the recommendation made in the 2015 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance. Calendar year 2017 premiums would increase by 4.25%, which is the projected growth from 2016 to 2017 in the Kaiser Family Foundation Report. The Department assumed that the 2016 Part B premium would increase to \$110.70 in the FY 2016-17 R-1 "Request for Medical Services Premiums", so the incremental increase would be the difference of \$159.30 and \$110.70. The Department calculations utilize the same methodology as the FY 2016-16 R-1, and includes the same assumptions for caseload growth and fund splits. Calculations for FY 2015-16 and FY 2016-17 expenditure with both old and new premiums can be found in Tables: 3.1-3.4. For detailed information on caseload and fund split assumptions, see pages 63-64 in FY 2016-17 R-1 narrative.

Coinsurance

Calculations for coinsurance can be found in Table 4. The Department assumes that coinsurance related expenditure in FY 2015-16 and FY 2016-17 would remain at the FY 2014-15 level and make up 1.59% of total Acute Care expenditure. The Department also assumed that the estimated clients would grow at the rate

of total coinsurance expenditure, which is 12.75% and 1.01% in FY 2015-16 and FY 2016-17, respectively. The Department assumes that Medicare Part B deductibles would increase to \$223.00 in January 2016, which is the recommended increase from the 2015 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance. Prior to the deductibles being met, the Department assumed it would pay 100% of the medical costs. After deductibles are met, the Department assumes it would pay the 20% coinsurance on additional expenditure. As a result, the Department assumes that the incremental increase would be 80% of the difference in premiums.

For detailed calculations, please see attached exhibits.

**Table 1a: Calculation of Fund Splits by Fiscal Year**

Row	Fiscal Year	Total Funds	General Fund	Cash Funds	Federal Funds	FMAP	Source / Notes
A	FY 2015-16	\$35,367,854	\$20,067,127	\$0	\$15,300,727	43.26%	Table 1b: Row A + Row B
B	FY 2016-17	\$74,436,815	\$42,479,001	\$0	\$31,957,814	42.93%	Table 1c: Row A + Row B

**Table 1b: Calculation of FY 2015-16 Fund Splits**

Row	Item	Total Funds	General Fund	Cash Funds	Federal Funds	FMAP	Source / Notes
A	SMIB	\$33,821,832	\$19,306,330	\$0	\$14,515,502	42.92%	Table 2: Row C
B	Coinsurance	\$1,546,022	\$760,797	\$0	\$785,225	50.79%	Table 4: Row I

**Table 1c: Calculation of FY 2016-17 Fund Splits**

Row	Item	Total Funds	General Fund	Cash Funds	Federal Funds	FMAP	Source / Notes
A	SMIB	\$71,313,580	\$40,930,501	\$0	\$30,383,079	42.60%	Table 2: Row C
B	Coinsurance	\$3,123,235	\$1,548,500	\$0	\$1,574,735	50.42%	Table 4: Row I

**Table 2: Calculation of Incremental Request**

Row	Item	FY 2015-16	FY 2016-17	Source / Notes
A	Estimated Expenditure with \$110.30 Premium	\$148,443,165	\$162,436,498	Tables 3.1 & 3.3 Row I
B	Estimated Expenditure with \$159.30 Premium	\$182,264,997	\$233,750,078	Tables 3.2 & 3.4 Row I
C	Incremental Difference	\$33,821,832	\$71,313,580	Row B - Row A

**Table 3.1: Calculation of FY 2015-16 Expenditure With Premium From FY 2016-17 R-1**

Row	Item	Adults 65 and Older (OAP-A)	Disabled Adults 60 to 64 (OAP-B)	Disabled Individuals to 59 (AND/AB)	MAGI Parents/ Caretakers to 68% FPL	Partial Dual Eligibles	TOTAL
A	FY 2014-15 Expenditure	\$73,205,694	\$4,268,933	\$38,373,381	\$240,024	\$21,183,050	\$137,271,082
B	FY 2014-15 First Half Expenditure	\$35,932,530	\$2,095,377	\$18,835,319	\$117,814	\$10,397,559	\$67,378,599
C	FY 2014-15 Second Half Expenditure	\$37,273,164	\$2,173,556	\$19,538,062	\$122,210	\$10,785,491	\$69,892,483
D	Estimated FY 2015-16 First Half Caseload Trend	0.48%	2.72%	1.77%	5.83%	8.54%	-
E	Estimated FY 2015-16 First Half Expenditure	\$37,452,075	\$2,232,677	\$19,883,886	\$129,335	\$11,706,572	\$71,404,545
F	Estimated FY 2015-16 Second Half Caseload Trend	0.48%	2.72%	1.76%	5.82%	8.54%	-
G	Estimated Increase in Medicare Part B Premium for CY 2016	5.53%	5.53%	5.53%	5.53%	5.53%	-
H	Estimated FY 2015-16 Second Half Expenditure	\$39,712,538	\$2,420,210	\$21,352,587	\$144,430	\$13,408,855	\$77,038,620
I	Estimated FY 2015-16 Total Expenditure	\$77,164,613	\$4,652,887	\$41,236,473	\$273,765	\$25,115,427	\$148,443,165

**Table 3.2: Calculation of FY 2015-16 Expenditure With New Premium**

Row	Item	Adults 65 and Older (OAP-A)	Disabled Adults 60 to 64 (OAP-B)	Disabled Individuals to 59 (AND/AB)	MAGI Parents/ Caretakers to 68% FPL	Partial Dual Eligibles	TOTAL
A	FY 2014-15 Expenditure	\$73,205,694	\$4,268,933	\$38,373,381	\$240,024	\$21,183,050	\$137,271,082
B	FY 2014-15 First Half Expenditure	\$35,932,530	\$2,095,377	\$18,835,319	\$117,814	\$10,397,559	\$67,378,599
C	FY 2014-15 Second Half Expenditure	\$37,273,164	\$2,173,556	\$19,538,062	\$122,210	\$10,785,491	\$69,892,483
D	Estimated FY 2015-16 First Half Caseload Trend	0.48%	2.72%	1.77%	5.83%	8.54%	-
E	Estimated FY 2015-16 First Half Expenditure	\$37,452,075	\$2,232,677	\$19,883,886	\$129,335	\$11,706,572	\$71,404,545
F	Estimated FY 2015-16 Second Half Caseload Trend	0.48%	2.72%	1.76%	5.82%	8.54%	-
G	Estimated Increase in Medicare Part B Premium for CY 2016	51.86%	51.86%	51.86%	51.86%	51.86%	-
H	Estimated FY 2015-16 Second Half Expenditure	\$57,147,311	\$3,482,741	\$30,726,893	\$207,838	\$19,295,669	\$110,860,452
I	Estimated FY 2015-16 Total Expenditure	\$94,599,386	\$5,715,418	\$50,610,779	\$337,173	\$31,002,241	\$182,264,997

**Table 3.3: Calculation of FY 2016-17 Expenditure With Premium From FY 2016-17 R-1**

Row	Item	Adults 65 and Older (OAP-A)	Disabled Adults 60 to 64 (OAP-B)	Disabled Individuals to 59 (AND/AB)	MAGI Parents/ Caretakers to 68% FPL	Partial Dual Eligibles	TOTAL
A	FY 2015-16 Estimated Expenditure	\$77,164,613	\$4,652,887	\$41,236,473	\$273,765	\$25,115,427	\$148,443,165
B	FY 2015-16 First Half Estimated Expenditure	\$37,452,075	\$2,232,677	\$19,883,886	\$129,335	\$11,706,572	\$71,404,545
C	FY 2015-16 Second Half Estimated Expenditure	\$39,712,538	\$2,420,210	\$21,352,587	\$144,430	\$13,408,855	\$77,038,620
D	Estimated FY 2016-17 First Half Caseload Trend	0.73%	2.49%	1.94%	3.49%	6.40%	-
E	Estimated FY 2016-17 First Half Expenditure	\$40,002,440	\$2,480,473	\$21,766,827	\$149,471	\$14,267,022	\$78,666,233
F	Estimated FY 2016-17 Second Half Caseload Trend	0.72%	2.49%	1.94%	3.49%	6.39%	-
G	Estimated Increase in Medicare Part B Premium for CY 2017	4.25%	4.25%	4.25%	4.25%	4.25%	-
H	Estimated FY 2016-17 Second Half Expenditure	\$42,002,802	\$2,650,282	\$23,132,140	\$161,262	\$15,823,779	\$83,770,265
I	Estimated FY 2016-17 Total Expenditure	\$82,005,242	\$5,130,755	\$44,898,967	\$310,733	\$30,090,801	\$162,436,498

**Table 3.4: Calculation of FY 2016-17 Expenditure With New Premium**

Row	Item	Adults 65 and Older (OAP-A)	Disabled Adults 60 to 64 (OAP-B)	Disabled Individuals to 59 (AND/AB)	MAGI Parents/ Caretakers to 68% FPL	Partial Dual Eligibles	TOTAL
A	FY 2015-16 Estimated Expenditure	\$94,599,386	\$5,715,418	\$50,610,779	\$337,173	\$31,002,241	\$182,264,997
B	FY 2015-16 First Half Estimated Expenditure	\$37,452,075	\$2,232,677	\$19,883,886	\$129,335	\$11,706,572	\$71,404,545
C	FY 2015-16 Second Half Estimated Expenditure	\$57,147,311	\$3,482,741	\$30,726,893	\$207,838	\$19,295,669	\$110,860,452
D	Estimated FY 2016-17 First Half Caseload Trend	0.73%	2.49%	1.94%	3.49%	6.40%	-
E	Estimated FY 2016-17 First Half Expenditure	\$57,564,486	\$3,569,461	\$31,322,995	\$215,092	\$20,530,592	\$113,202,626
F	Estimated FY 2016-17 Second Half Caseload Trend	0.72%	2.49%	1.94%	3.49%	6.39%	-
G	Estimated Increase in Medicare Part B Premium for CY 2017	4.25%	4.25%	4.25%	4.25%	4.25%	-
H	Estimated FY 2016-17 Second Half Expenditure	\$60,443,056	\$3,813,820	\$33,287,714	\$232,059	\$22,770,803	\$120,547,452
I	Estimated FY 2016-17 Total Expenditure	\$118,007,542	\$7,383,281	\$64,610,709	\$447,151	\$43,301,395	\$233,750,078

**Table 4: Calculation of Incremental Request by Fiscal Year**

<b>Row</b>	<b>Item</b>	<b>FY 2014-15</b>	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>Source / Notes</b>
<b>A</b>	Estimated Acute Care Expenditure	\$3,330,337,193	\$3,754,885,211	\$3,792,725,695	From FY 2016-17 R-1 "Request for Medical Services Premiums".
<b>B</b>	Coinsurance as a percentage of Acute Care	1.59%	1.59%	1.59%	FY 2014-15 actual held constant.
<b>C</b>	Estimated Coinsurance Expenditure	\$52,863,038	\$59,601,965	\$60,202,613	Row A * Row B
<b>D</b>	Growth in Coinsurance Expenditure	-	12.75%	1.01%	Row C: (Current Year / Prior Year - 1)
<b>E</b>	Estimated Clients	45,106	50,856	51,369	(1 + Row D: Current Year) * Row E : Prior Year
<b>F</b>	Average Cost per client	\$1,171.97	\$1,171.98	\$1,171.96	Row C / Row E
<b>G</b>	Deductible	\$147.00	\$185.00	\$223.00	Projected deductible from 2015 Trustees Annual Report.
<b>H</b>	Additional cost from new policy	\$0	\$30.40	\$60.80	Row F: (Current Year - Prior Year) * .80
<b>I</b>	Estimated Incremental Cost	\$0	\$1,546,022	\$3,123,235	Row E * Row G