

Office of Health Transformation **Overall Medicaid Budget Impact**

Governor Kasich's Budget:

- *Holds per member per month cost growth to below 3 percent.*
- *Invests in behavioral health, developmental disabilities, and primary care.*
- *Achieves savings from providers who benefit most from enrollment gains.*
- *Holds total program spending growth below state revenue growth.*
- *Saves \$107 million (\$319 million state share) over two years.*

Background:

Medicaid is funded and administered jointly by the state and federal governments. Under broad federal guidelines, states establish their own standards for Medicaid eligibility, benefits, and provider payment rates, although states must meet certain minimum standards. Ohio's current program covers children below 200 percent of poverty, adults below 138 percent of poverty and, in some limited cases, adults at higher incomes (the Executive Budget proposes to limit coverage for all adults to 138 percent of poverty and below). In 2014, Ohio Medicaid spent \$20.9 billion (\$5.3 billion GRF state share) to cover 2.8 million low-income Ohioans, including 1.2 million children, 430,000 seniors and people with disabilities, and 1.1 million other adults.

First Four Years:

In January 2011, Governor John Kasich created the Office of Health Transformation to control Medicaid spending and improve health outcomes. The new Office organized existing staff in the state's Medicaid-related agencies – aging, developmental disabilities, health, job and family services, mental health, and addiction services – to design and implement an aggressive package of Medicaid reforms. By most accounts, Ohio now leads the nation in the scope and impact of its reforms, and in the state's ability to control Medicaid spending.

Governor Kasich's first Medicaid budget (enacted in 2011) proposed spending \$500 million less than the trend on Medicaid in 2012 and \$942 million less in 2013. At the same time, the budget introduced new tools to improve care coordination, integrate behavioral and physical health care, rebalance long-term care spending, and modernize reimbursement to reward value instead of volume. Ohio Medicaid used these tools to drive program improvements and deliver *additional* savings, actually spending \$1.9 billion less than budgeted and saving Ohio taxpayers close to \$3.0 billion over two years compared to the trend (Figure 1).

Governor Kasich's Jobs Budget 2.0 (enacted in 2013) added to the momentum of the first two years of reform with new initiatives to fight fraud and abuse, improve care coordination in the

most at-risk populations, consolidate mental health and addiction services, make Medicaid more accountable as a stand-alone department, and extend coverage to more low income Ohioans. The Medicaid expansion went into effect in January 2014, resulting in a one-time upward shift in all-funds spending. Actual spending was significantly lower than budgeted in 2014 and on track to come in \$2.5 billion below budget over the biennium (2014-2015).

The state share of Medicaid spending has been impacted less than all funds because the Medicaid expansion is 100-percent federally funded for the first three years (the state share will be 5 percent beginning in the last six months of fiscal year 2017 and growing to a maximum of 10 percent beginning in calendar year 2020 and beyond). The state share of GRF Medicaid spending has come in under budget every year under the Kasich Administration and, after backfilling one time gaps left by the previous Administration in 2012, the rate of Medicaid growth has been steady and sustainable at 3.7 percent in 2013, 4.6 percent in 2014, and 6.8 percent in 2015 (Figure 2). The slight increase in 2015 is related to caseload growth and MyCare Ohio Medicare-Medicaid Enrollee Project implementation.

Executive Budget Proposal and Impact:

Medicaid Baseline. The total Medicaid “baseline” – what the Medicaid program would cost in the upcoming biennium assuming current eligibility, benefit, and payment policies remain unchanged – is projected to grow 10.3 percent to \$27.3 billion in 2016 and 3.5 percent to \$28.3 billion in 2017 (Table 1). The Medicaid expansion, which is included in the baseline, is 100-percent federally funded through December 31, 2016, and then requires a 5-percent state match totaling \$126 million in the last six months of the biennium (January 1 to June 30, 2017).

Executive Budget Reforms. The Executive Budget invests in critical priorities – most significantly to rebuild behavioral health system capacity and developmental disabilities services – and seeks cost savings from providers that benefit the most from projected enrollment growth, including health plans and hospitals. The net impact of these reforms is state general revenue fund savings of \$127 million in 2016 and \$193 million in 2017 compared to the baseline (Table 2).

Executive Budget Appropriations. After adjusting baseline projections for savings and cost avoidance, the Executive Budget increases overall Medicaid spending 10.2 percent to \$27.3 billion in 2016 and 3.2 percent to \$28.2 billion in 2017 (Figure 1 and Table 1). The state share-only GRF appropriations reflect projected growth of 4.4 percent to \$6.0 billion in 2016 and 6.1 percent to \$6.3 billion in 2017 (Figure 2 and Table 2). This level of Medicaid program growth is in line with state revenue growth, which means the Medicaid program is sustainable and not crowding out other state spending priorities.

Per Member Program Spending. In addition to total spending, the Joint Committee on Medicaid Oversight (JMOC) is required to develop a projected medical inflation rate for the Medicaid program based on the per member per month (PMPM) cost of continuing current Medicaid policy. JMOC then sets a goal for the Medicaid director to limit program growth to the lower of the JMOC rate or the three-year average Consumer Price Index (CPI) for medical

services. Based on these parameters, [JMOC recommends](#) limiting growth in PMPM costs to 2.9 percent in 2016 (the JMOC upper bound) and 3.3 percent in 2017 (medical CPI), or 3.1 percent on average over the biennium. The Executive Budget meets this test by holding growth in PMPM costs to 1.38 percent in 2016 and 4.5 percent in 2017, or 2.94 percent on average over the biennium. Much of the increase in 2017 is related to increases in spending on services for people with developmental disabilities. If Medicaid spending through the Ohio Department of Developmental Disabilities is excluded, then the remaining Medicaid growth in PMPM costs is 0.75 percent in 2016 and 4.05 percent in 2017, or 2.4 percent on average over the biennium (Table 3).

Table 3. Projected Rates of Ohio Medicaid Growth Per Member Per Month					
State Fiscal Year	JMOC Upper Bound	Medical CPI	JMOC Target	Ohio Medicaid with Policy Changes	
				(All Agencies)	(Excluding DODD)
2016	2.90%	3.30%	2.90%	1.38%	0.75%
2017	4.50%	3.30%	3.30%	4.50%	4.05%
Average	3.70%	3.30%	3.10%	2.94%	2.40%

Source: Optumas and Ohio Medicaid (January 2015).

Figure 1.

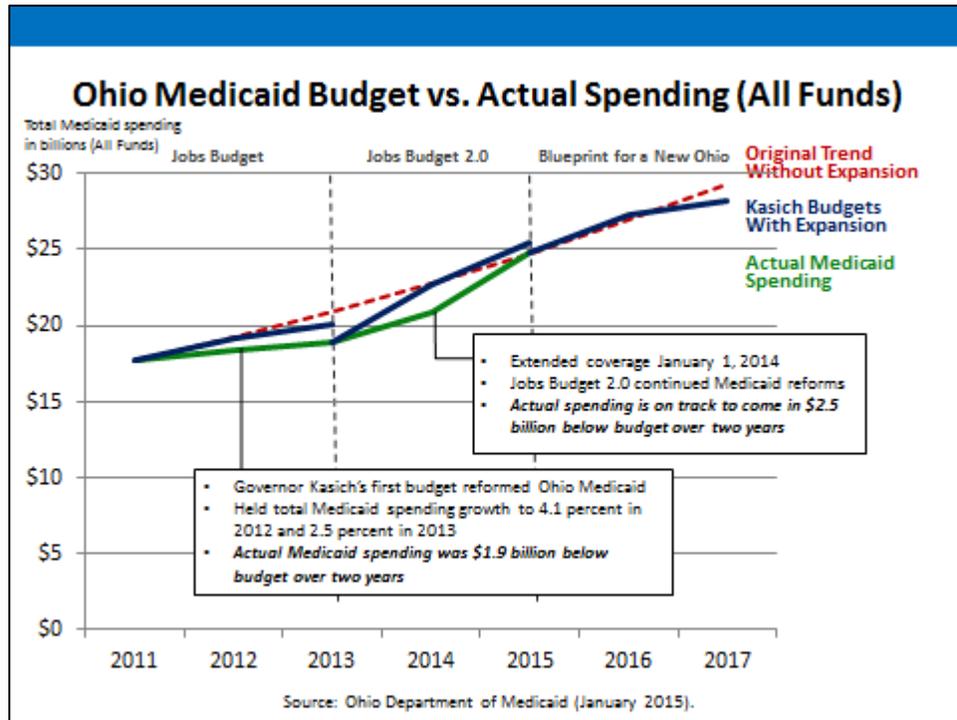


Figure 2.

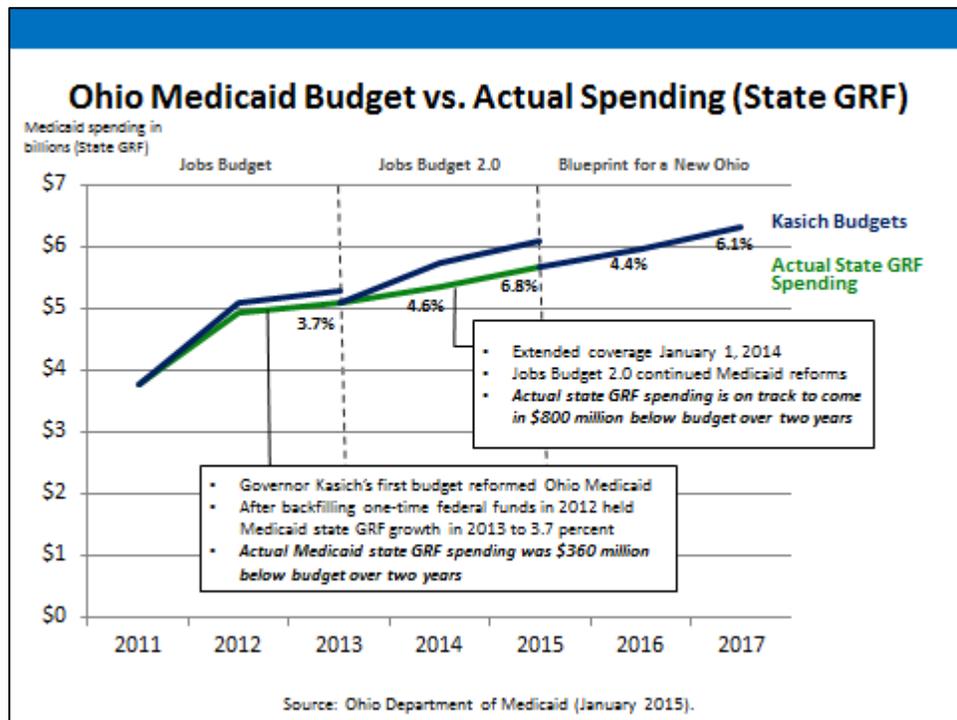


Table 1. Ohio Medicaid Spending (All Funds in millions)

All Funds	SFY 2012	SFY 2013	%	SFY 2014	%	SFY 2015	%	SFY 2016	%	SFY 2017	%	SFY 2016/17
Baseline Total	\$ 18,401	\$ 18,857	2.5%	\$ 20,859	10.6%	\$ 24,764	18.7%	\$ 27,309	10.3%	\$ 28,252	3.5%	\$ 55,561
Executive Budget Reforms												
Eligibility Reforms								\$ (23)		\$ (77)		\$ (99)
Benefit Reforms								\$ 57		\$ 137		\$ 193
Reform Health Plan Payments								\$ (73)		\$ (270)		\$ (343)
Reform Physician Payments								\$ -		\$ 25		\$ 25
Reform Hospital Payments								\$ (66)		\$ (167)		\$ (233)
Reform Nursing Facility Payments								\$ -		\$ 61		\$ 61
Reform Home Care Payments								\$ -		\$ (19)		\$ (19)
Enhance Community Developmental Disabilities Services								\$ 80		\$ 219		\$ 299
Program Integrity								\$ 9		\$ -		\$ 9
Subtotal								\$ (16)		\$ (91)		\$ (107)
Subtotal with Budget Reforms	\$ 18,401	\$ 18,857	2.5%	\$ 20,859	10.6%	\$ 24,764	18.7%	\$ 27,293	10.2%	\$ 28,161	3.2%	\$ 55,454
Include: Transfers	\$ 1,358	\$ 1,206		\$ 1,085		\$ 1,895		\$ 91		\$ 91		\$ 183
Executive Budget	\$ 19,759	\$ 20,063	1.5%	\$ 21,944	9.4%	\$ 26,660	21.5%	\$ 27,384	2.7%	\$ 28,253	3.2%	\$ 55,637
<i>Ohio Department of Medicaid</i>								\$ (96)		\$ (310)		\$ (406)
<i>Ohio Department of Developmental Disabilities</i>								\$ 80		\$ 219		\$ 299

Includes all state Medicaid expenditures regardless of agency. Excludes non appropriated local funding. SFY2012-2014 are actuals, SFY 2015 is an estimate. Totals may not add due to rounding.

Table 2. Ohio Medicaid Spending (State Share of General Revenue Funds in millions)

GRF State Share	SFY 2012	SFY 2013	%	SFY 2014	%	SFY 2015	%	SFY 2016	%	SFY 2017	%	SFY 2016/17
Baseline Total	\$ 4,935.3	\$ 5,115.8	3.7%	\$ 5,349.1	4.6%	\$ 5,715	6.8%	\$ 6,095	6.7%	\$ 6,527	7.1%	\$ 12,621
Executive Budget Reforms												
Eligibility Changes								\$ (12)		\$ (35)		\$ (47)
Benefit Changes								12.9		42.3		\$ 55
Health plan changes								\$ (27)		\$ (103)		\$ (130)
Physician changes								\$ -		\$ 9		\$ 9
Hospital changes								\$ (132)		\$ (204)		\$ (336)
Nursing Facility changes								\$ -		\$ 23		\$ 23
Home care changes								\$ -		\$ (6)		\$ (6)
Developmental Disabilities System Redesign								\$ 30		\$ 82		\$ 112
Fight fraud and Abuse								\$ 2		\$ (1)		\$ 0
Subtotal								\$ (127)		\$ (193)		\$ (319)
Executive Budget	\$ 4,935.3	\$ 5,116	3.7%	\$ 5,349	4.6%	\$ 5,715	6.8%	\$ 5,968	4.4%	\$ 6,334	6.1%	\$ 12,302
<i>Ohio Department of Medicaid</i>								\$ (157)		\$ (275)		\$ (431)
<i>Ohio Department of Developmental Disabilities</i>								\$ 30		\$ 82		\$ 112

Includes all state Medicaid expenditures regardless of agency. Excludes non appropriated local funding. SFY2012-2014 are actuals, SFY 2015 is an estimate. Totals may not add due to rounding.