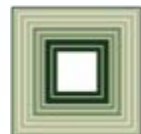


Medicaid Program Overview

January 31, 2007



FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

Medicaid Program Overview

- Purpose
- Impact
 - On the State Economy
 - On State Government
 - On the State Budget
 - On Local Government
- Services
- Recipients
- Cost Containment Efforts

Purpose of Medicaid

Three Programs In One

- Health Insurance
- Long-term Care for the Elderly
- Services for People with Disabilities

Purpose of Medicaid

Medicaid vs. Medicare

Medicaid provides health care for certain groups of poor persons, including single parent families, persons over age 65 and the disabled. Coverage is based on a person falling into one of the target groups and passing income and resources tests. In NC, Medicaid is administered by the State and counties and financed with federal, state, and county funds.

Medicare provides health care for persons over age 65 and for the disabled who receive Social Security Disability payments. Medicare is administered by the Centers for Medicare & Medicaid Services and financed primarily by employer/employee contributions to the Social Security Trust Fund. In 2006, states began paying a portion of Medicare Part D to cover the cost of prescription drugs previously paid for persons dually eligible for Medicaid and Medicare.

Purpose of Medicaid

Entitlement Status

Medicaid is a federal entitlement program. Entitlement means individuals found eligible for Medicaid have legal rights to receive services under the Medicaid Program and cannot be denied coverage.

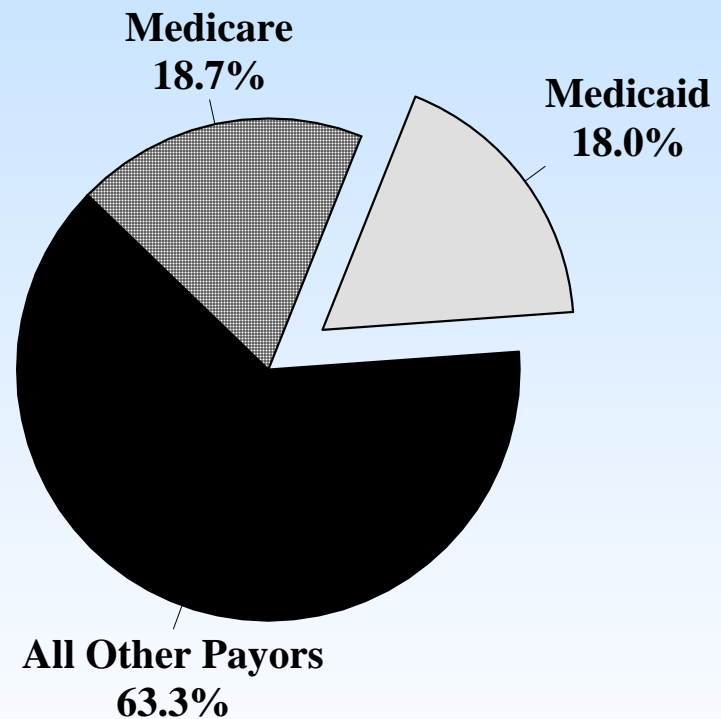
Implications for State Government

- ✓ **All Medicaid recipients must be served.**
- ✓ **Their medical bills must be paid.**
- ✓ **If appropriations for the Medicaid Program are inadequate, funding must come from other areas of State government.**

Impact of Medicaid

Sources of Funding for NC Health Care Expenditures 2004

- **NC Health Care Expenditures - \$44.5 Billion**
- **Other Payors - \$28.2 Billion**
- **Medicaid - \$8 Billion**
- **Medicare - \$8.3 Billion**
- **NC Health Care Expenditures Per Capita - \$5,221**
- **NC Medicaid Expenditures Per Capita - \$938**
- **NC Health Care Expenditures as a Percentage of State Gross Product - 13.3%**



Source: Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group (May 2006)

Impact of Medicaid

N. C. Medicaid Snapshots - SFY 2006

- Covered 1.6 Million state residents -- 18.1% of N.C.'s population
- Covered 941,000 children or 58% of Medicaid recipients.
- Covers 45% of the babies born each year
- 28.9% of recipients consumed 68.7% of resources -- includes aged, blind, and disabled
- Enrolled over 56,000 providers of medical services.

Sources: Division of Medical Assistance and Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group

Impact of Medicaid

N. C. Medicaid Snapshots - SFY 2006

- Inpatient care consumed 35.6% of expenditures for services -- includes hospitals, nursing homes, adult care homes, residential high risk intervention services and mental retardation centers.
- Expenditures for drugs were \$1.38 Billion.
- 64.4% of the state's 41,500 nursing home beds were funded through Medicaid.
- 14% of NC hospital charges were paid by Medicaid -- 28.2% are paid by Medicare (SFY 2004).

Sources: Division of Medical Assistance and Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group

Impact of Medicaid

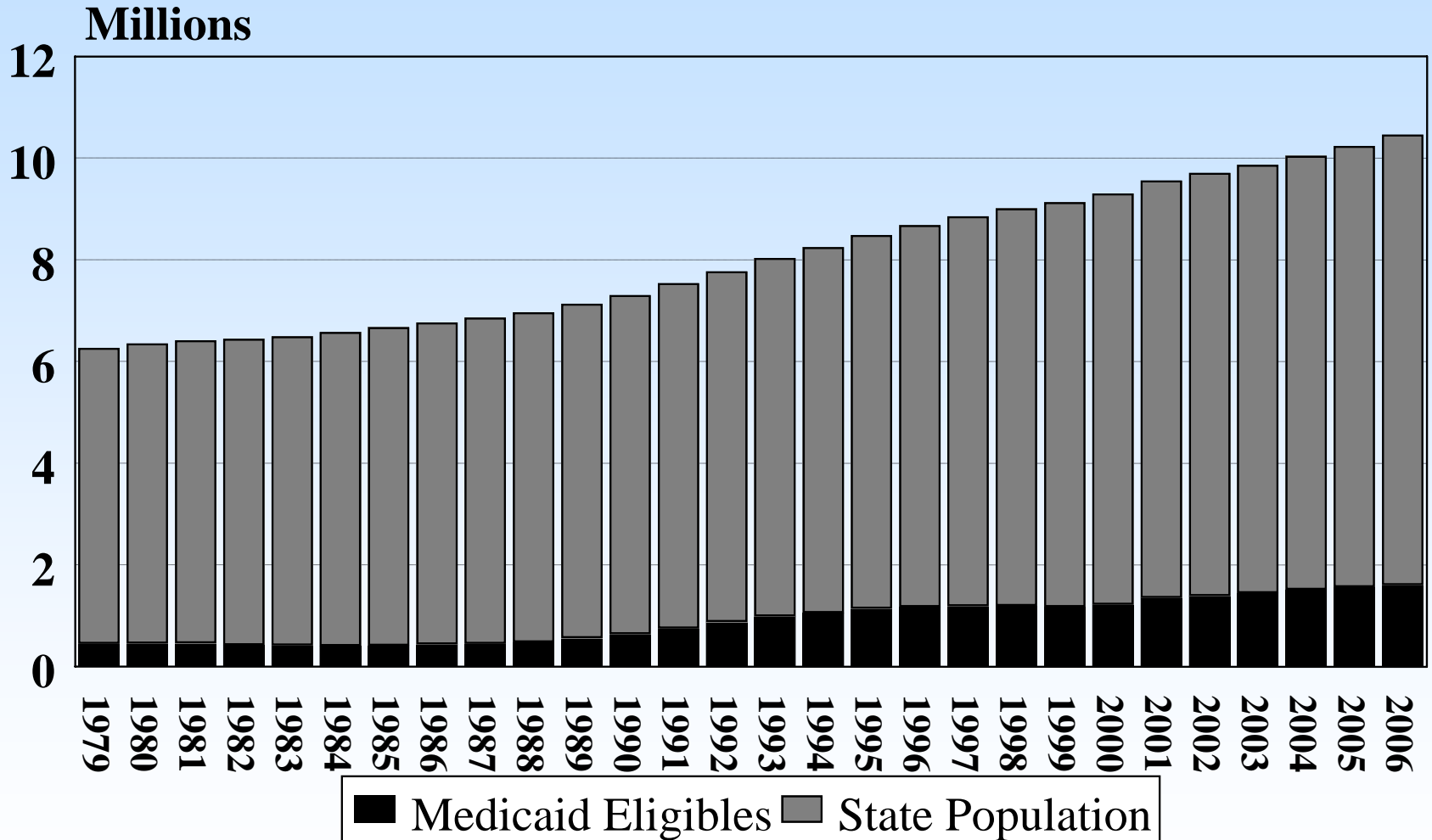
Medicaid Recipients as a Percentage of State Population

Year	State Population	Medicaid Recipients	Medicaid Recipients - % of State Population
1980	5,895,195	455,702	7.73%
1985	6,254,998	414,353	6.62%
1990	6,662,523	639,351	9.60%
1995	7,343,181	1,138,786	15.51%
2000	8,078,909	1,221,266	15.12%
2005	8,672,459	1,563,751	18.03%
2006	8,856,505	1,602,645	18.10%

Sources: Division of Medical Assistance and State Data Center

Impact of Medicaid

Medicaid Recipients as a Percentage of State Population



Sources: Division of Medical Assistance and State Data Center

Impact of Medicaid

Impact on State and Local Services

- 14% of Medicaid expenditures support State and Local services.
- The following State and Local Services receive reimbursement from Medicaid:
 - ✓ Mental Retardation Centers
 - ✓ State Psychiatric Hospitals
 - ✓ NC Special Care Center
 - ✓ UNC Hospitals
 - ✓ Local Management Entities
 - ✓ Alcohol and Drug Treatment Centers
 - ✓ Public Health Departments
 - ✓ Social Services Departments
 - ✓ County Owned Home Health Agencies
 - ✓ County Owned Ambulance Services
 - ✓ County Owned Hospitals
 - ✓ Local Education Agencies

Impact of Medicaid

Federal Revenue Maximization

North Carolina has maximized federal revenues by authorizing the NC Medicaid Program to pay for services that previously had been paid for with 100% State or local funding:

- Intermediate Care Facilities for the Mentally Retarded
- Mental Health Services
- Adult Care Home Personal Care Services
- Targeted Case Management Services
- DSH Payments for State Hospitals
- Supplemental Payments for Nonstate Hospitals
- Public Health Departments
- Health Related Services In Schools
- Administrative Claiming in Schools
- Provider Assessments for Nursing Facilities and ICF-MRs

Impact of Medicaid

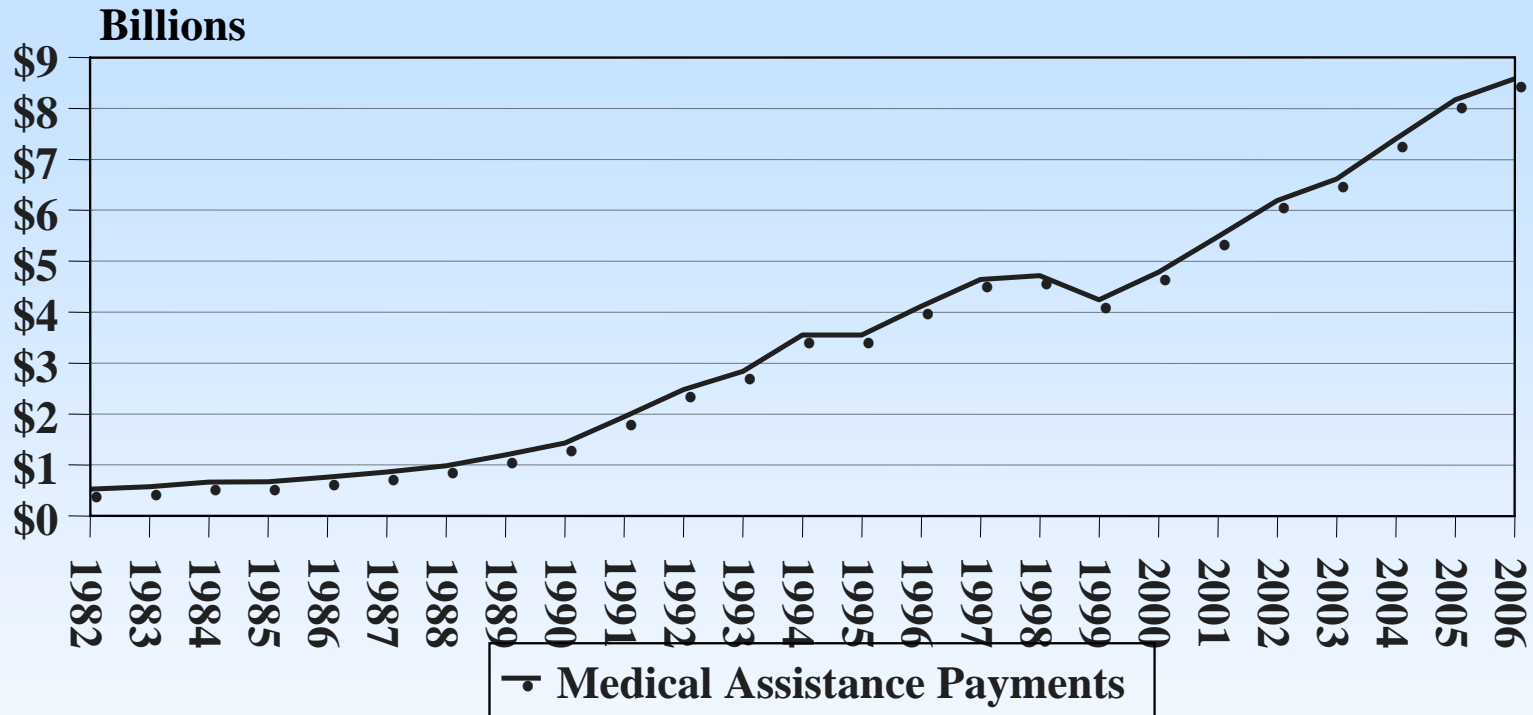
History of Medical Assistance Payments

STATE FISCAL YEAR	TOTAL EXPENDITURES
1979-80	\$410,053,625
1989-90	\$1,427,672,567
1999-00	\$5,789,133,085
2005-06	\$8,583,463,472

Note: Data Source changed in SFY 1999 from Total Medicaid Expenditures to Medical Assistance Payments.

Impact of Medicaid

History of Medical Assistance Payments



- ✓ During the past twenty years, the rate of growth for Medicaid expenditures has varied considerably - ranging from 0% to 35%.
- ✓ Higher rates of growth have occurred during years of economic distress or when major Medicaid expansions have been authorized. Lower rates of growth have occurred during years when the Medicaid population has been stable or declining.

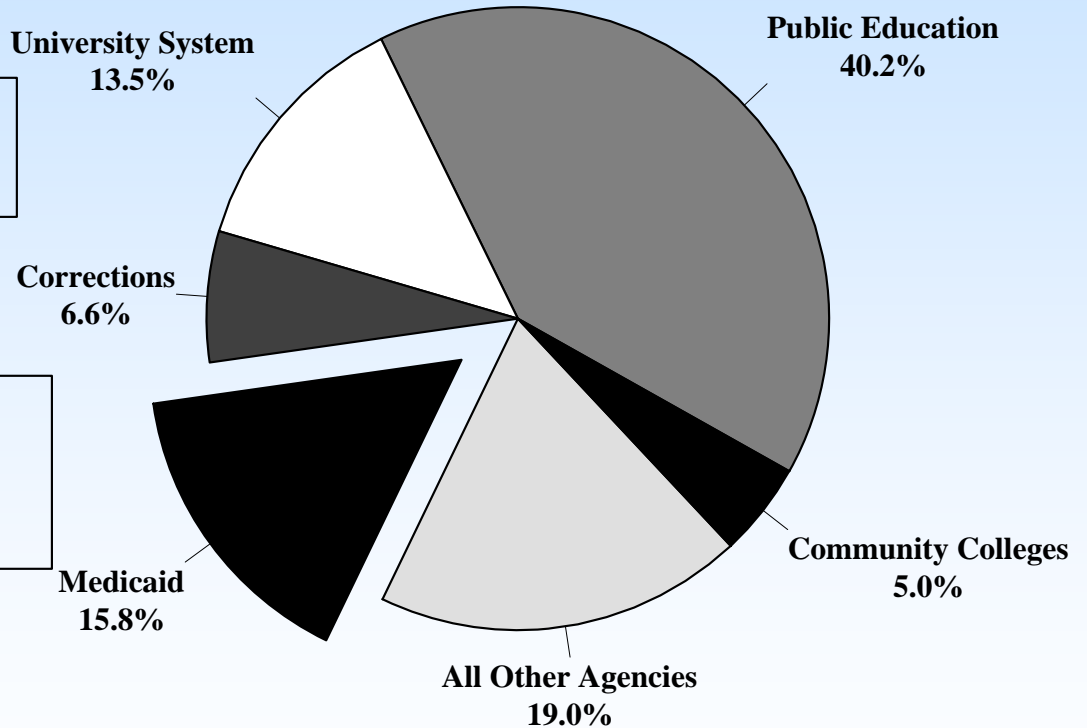
Note: Data Source changed in SFY 1999 from Total Medicaid Expenditures to Medical Assistance Payments.

Impact of Medicaid

General Fund Appropriations by Major Program Area SFY 2006-07

10 years ago, Medicaid was 8.2% of the General Fund operating budget; today it is 15.9%.

A 1% increase in Medicaid Expenditures equals a \$29 Million increase in General Fund Appropriations.



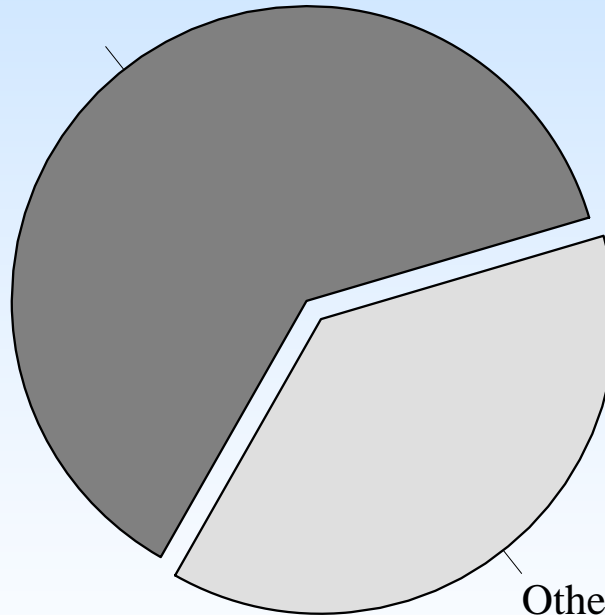
Source: NC General Fund Operating Appropriations SFY 2007

Impact of Medicaid

Medicaid's Share of HHS General Fund Appropriations SFY 2006-07

Medicaid Program 62.4%
\$2.64 Billion

Total HHS Appropriations
\$4.23 Billion



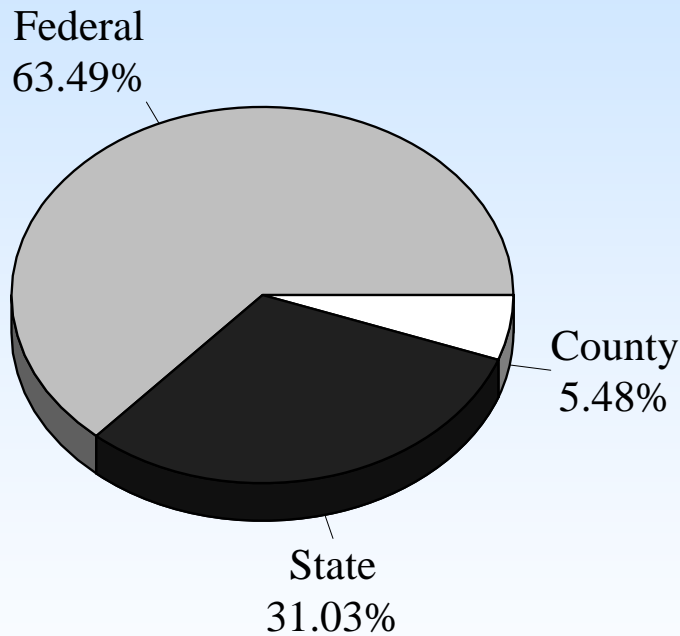
Other HHS Programs 37.6%
\$1.59 Billion

Source: NC General Fund Operating Appropriations SFY 2006-07

Impact of Medicaid

Federal Financial Participation

Medical Benefits



SFY 2005-06

Other Matching Rates

Family Planning

Federal	90%
State	8.5%
County	1.5%

Breast and Cervical Cancer

Federal	74.44%
State	21.64%
County	3.82%

Administration - Skilled Medical Personnel & MMIS

Federal	75%
Nonfederal	25%

Administration - All Other

Federal	50%
Nonfederal	50%

Impact of Medicaid

Impact on Counties

- State law requires counties to pay 15% of the nonfederal share of Medicaid Services and 100% of the nonfederal share for County Medicaid Administration.
- In SFY 2006, counties paid \$426 million for Medicaid Services or 5.5% of the expenditures for Medicaid Services.
- Counties also pay 50% of the expenditures for County Medicaid Administration.

Impact of Medicaid

SFY 2006-07 One-Time Cap on County Share of Medicaid

- During the 2006 Session, the North Carolina General Assembly appropriated \$27.4 million in nonrecurring funds to provide a one-time cap of the county share of Medical Assistance Payments during SFY 2006-07.
- Funding was appropriated to the Division of Medical Assistance to cover the increased State costs for the nonfederal share of Medical Assistance Payments (administrative costs are excluded) resulting from the one-time capping of the county share of Medical Assistance Payments at the SFY 2005-06 expenditure level.
- While counties do not receive direct funding from the \$27.4 million appropriation, the intent of the one-time cap is that county Medicaid payments will not exceed the levels paid during SFY 2005-06 as defined in session law.

States Requiring Counties to Financially Participate in Medicaid

State	Admin.	All/Most Services	Long-term Care	Hospital Services	Mental Health Services	Case Management Services	Notes
Arizona	X		X	X			
Arkansas				X			Only one county
California	X		X		X		
Colorado	X						
Florida			X	X			
Illinois			X				
Indiana			X		X		Counties required to pay State match for children in foster care.
Iowa					X		
Michigan	X				X		
Minnesota	X		X				
Mississippi	X	X					County share is 5%
Nevada	X		X				
New Hampshire		X					County share is 25%
New Jersey	X						
New York	X	X					County share is capped with 3% annual growth.
North Carolina	X	X					County Share is 15% of the nonfederal match. One-time cap in SFY 2007.
Ohio	X						
Oregon						X	
Pennsylvania	X		X				
South Carolina		X					50 cents per capita
Utah		X					County Share is 30% of nonfederal match
Virginia	X				X		
Wisconsin	X				X	X	

Source: Data compiled by National Conference of State Legislatures (March 2006)

Medicaid Services

Mandatory Services and Recipients

- Under federal law, all states operating a Medicaid Program are required to provide certain services and serve specific categories of recipients.
- The services and recipients are **mandatory** and must be included in order to receive federal reimbursement.

Medicaid Services

Mandatory Services

- Hospital Inpatient
- Hospital Outpatient
- Nursing Facility
- Physician
- Home Health
- Durable Medical Equipment
- Rural Health Centers
- Medical Transportation
- Prenatal Care
- Vaccines for Children
- Federally Qualified Health Centers
- Health Check (EPSDT)
- Specialty Hospitals
- Family Planning
- Other Laboratory and X-Ray
- Nurse Midwife
- Nurse Practitioner
- Hearing Aid (under 21)
- Psychiatric Residential Treatment Facility Services (under 21)
- Residential Treatment Services (under 21)

Medicaid Services

Optional Services and Recipients

- Current federal law also will provide federal reimbursement for other services and recipients that are discretionary, and are allowed under federal law.
- Each state is allowed to choose which optional services it wants to provide and optional categories of recipients it wants to serve.
- The North Carolina Medicaid Program covers 28 of the 34 optional Medicaid services.

Medicaid Services

Optional Services

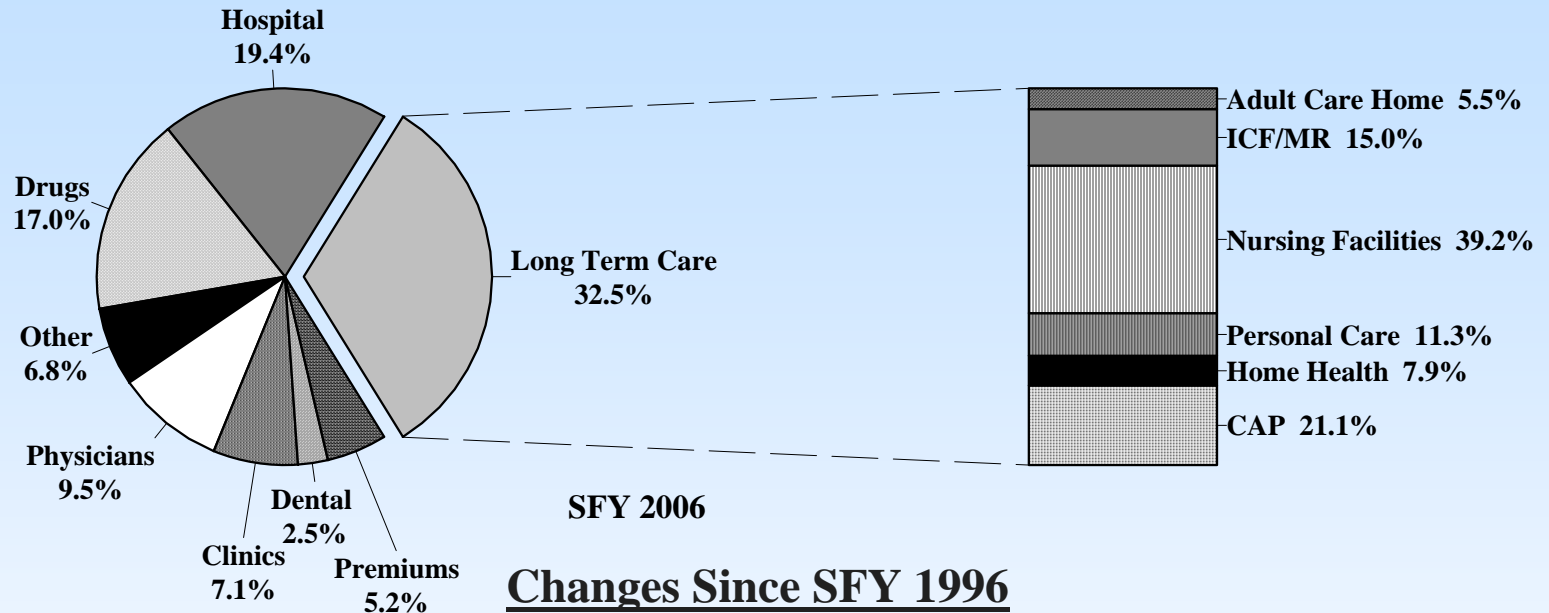
- Clinical Services
- Eye Care and Eye Glasses
- Dental Care Services (Dentures)
- Hospice
- Prosthetics and Orthotics
- Community Alternatives Programs (CAP)
- Targeted Case Management Services
- Primary Care Case management Services
- Intermediate Care Facilities for the Mentally Retarded (ICF-MR)
- Prescription Drugs
- Chiropractors
- Podiatrists
- Personal Care Services
- Private Duty Nursing Services
- Mental Health Services
- Rehabilitation Services
- Transportation Services
- Mental Hospitals (65 and older)
- Inpatient Psychiatric Care (under 21)
- Diagnostic, Screening and Preventative Services
- Occupational, Physical, and Speech Therapies

Medicaid Services

Expenditures for Services for SFY 2006

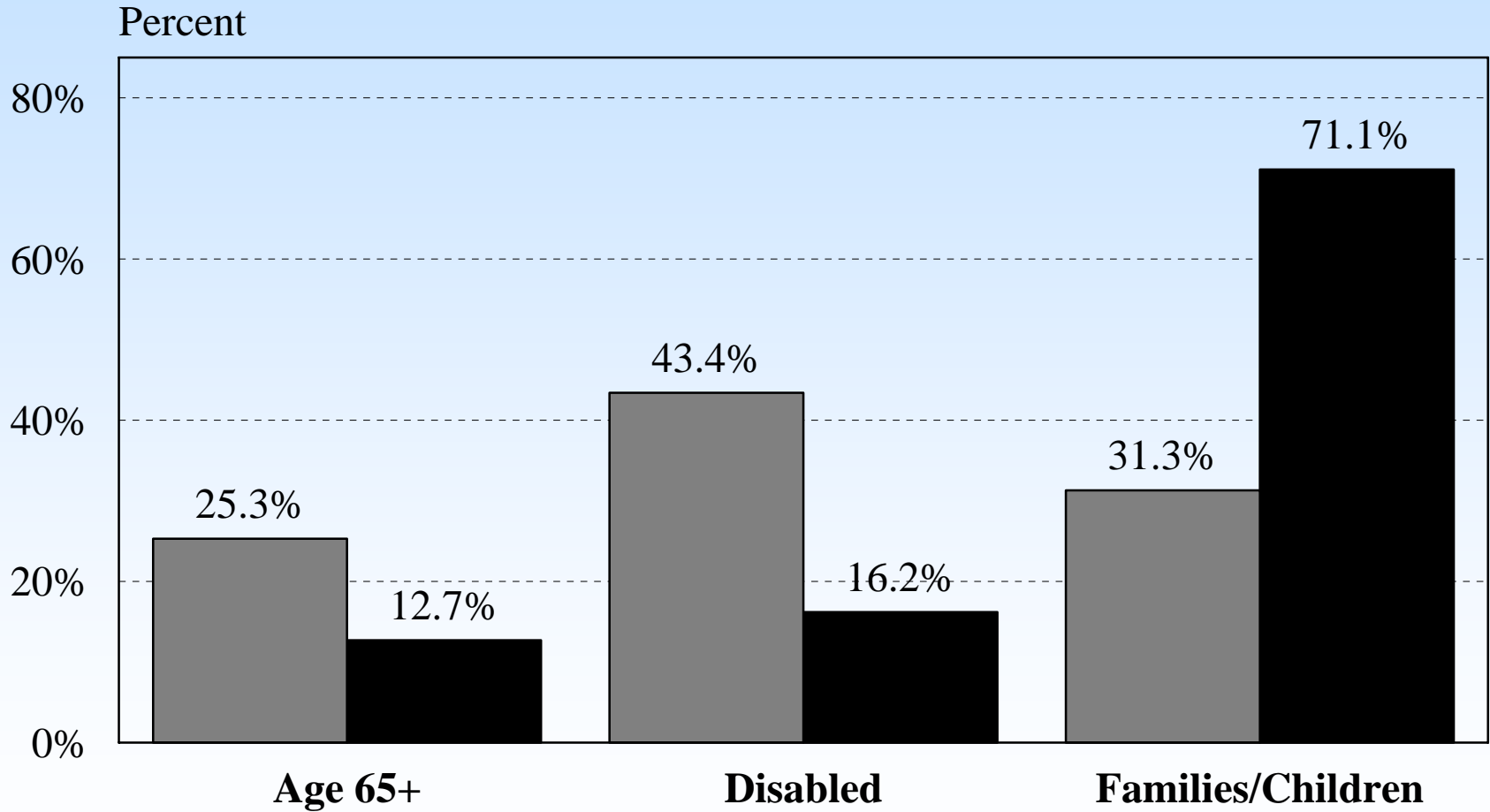
- Total expenditures for services and premiums - \$8.6 Billion.
- State share - \$2.9 Billion.
- 93.7% of expenditures for services paid for direct medical services
- 6.3% of expenditures paid for Medicare and HMO premiums and the Medicare Part D Clawback.

Medicaid Services Expenditures for Services



- ✓ Long-Term Care expenditures continue to be about one third of total expenditures.
- ✓ In-Home Services are an increasing share of Long-Term Care expenditures - 18.5% to 40.3%
- ✓ Hospital expenditures continue to decline - 26.9% to 19.4%.
- ✓ Drug expenditures have begun to decline after reaching 20.3% of total expenditures in SFY 2005.

Medicaid Services Expenditures and Recipients



SFY 2006

■ Expenditures ■ Recipients

Medicaid Services and Recipients

Expenditures and Recipients

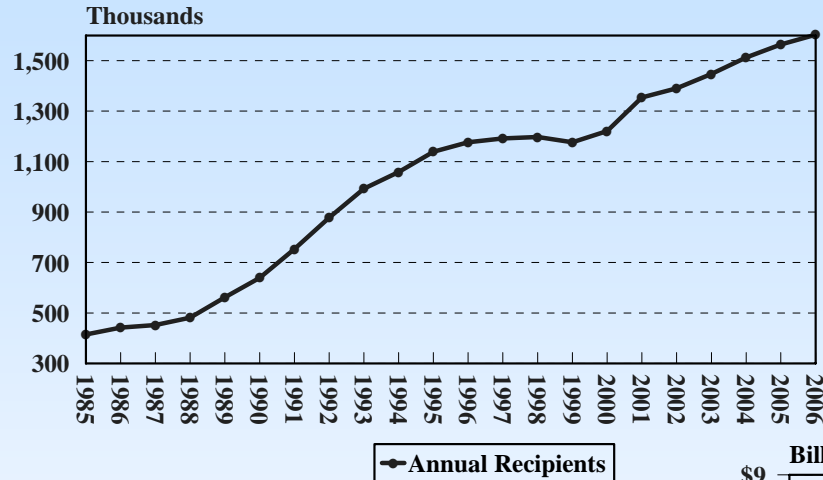
SFY 2006

Eligibility Category	Number of Recipients	Expenditures	Annual Cost Per Recipient
Elderly	209,719	\$2,161,126,767	\$10,305
Disabled	266,525	\$3,789,716,148	\$14,219
Families & Children	1,155,305	\$2,606,217,400	\$2,255
Aliens & Refugees	18,980	\$61,093,589	\$3,219

Note: Expenditures and annual cost per recipient for the Elderly and Disabled include Medicare Part D payments and Medicare crossover payments

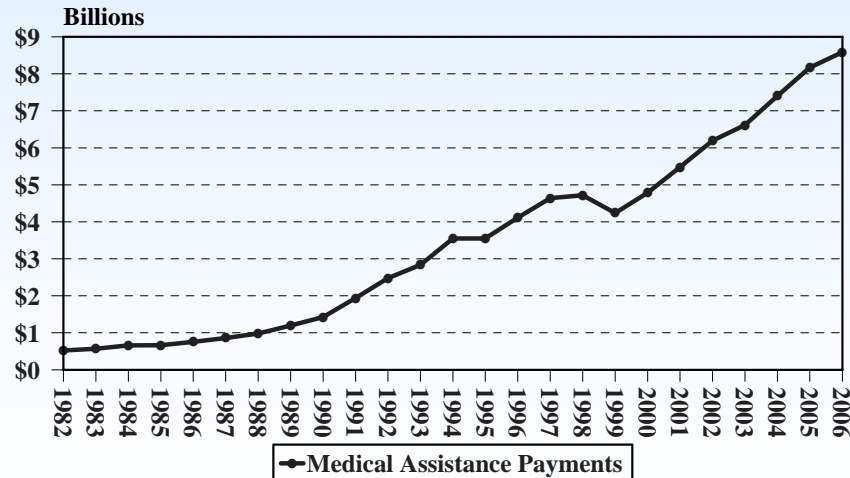
Medicaid Recipients

Growth in Recipients and Expenditures



During the early 1980s, the number of recipients did not grow significantly, and the rate of growth in expenditures for Medicaid was moderate.

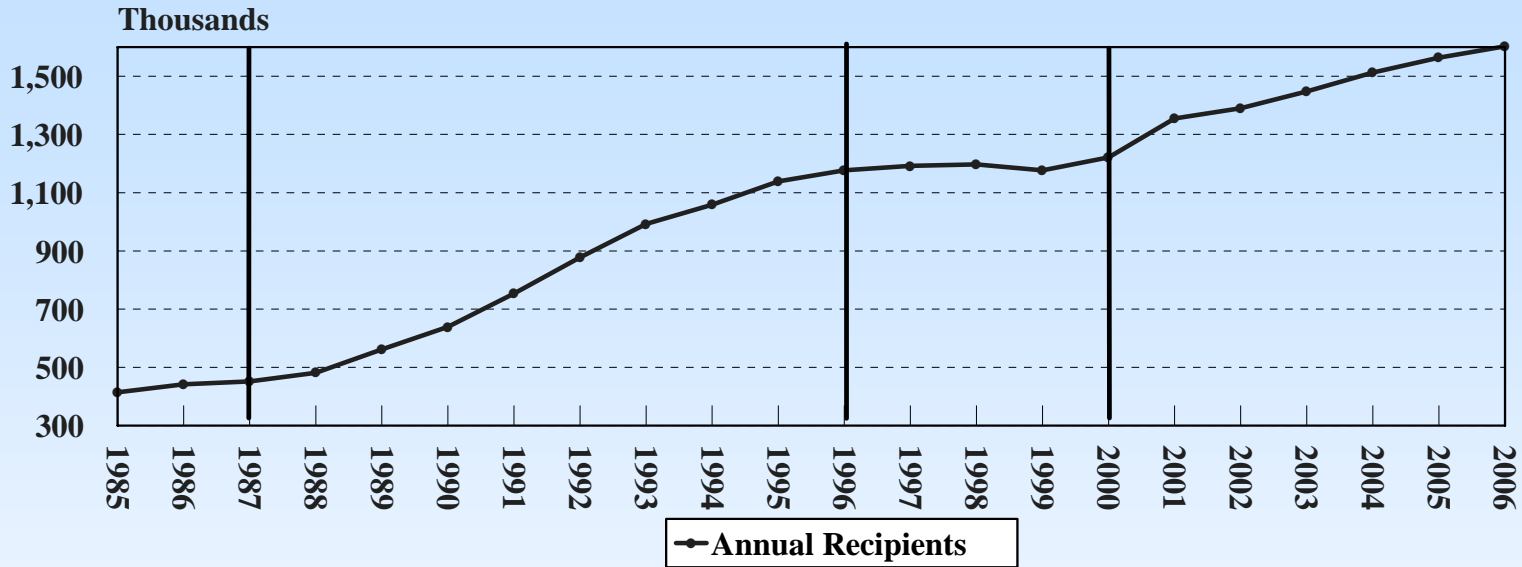
Beginning in 1987, a series of mandated and optional eligibility expansions occurred and expenditures for Medicaid began to grow rapidly.



Note: Data Source changed in SFY 1999 from Total Medicaid Expenditures to Medical Assistance Payments.

Medicaid Recipients

History of Medicaid Recipients



- ✓ Early 1980s - The growth rate for recipients was flat because the economy was stable.
- ✓ 1987 through 1996 - A series of mandated and optional eligible expansions occurred, and welfare caseloads increased significantly during the economic downturn in the early 1990s.
- ✓ 1996 through 1999 - Welfare reform and the improved economy caused welfare caseloads to decline and actually decrease.
- ✓ 2000 through 2006 - Economic downturn caused enrollment to increase and the last major eligibility expansions were enacted.

Medicaid Recipients

Mandatory Recipient Groups

- Low Income Families and Children (Based on the AFDC State Plan as of July 16, 1996)
- Transitional Medicaid
- Aged, Blind, and Disabled SSI Recipients
- Infants born to Medicaid eligible women (to 185% of FPL)
- Children under age 6 (to 133% of FPL)
- Pregnant Women (to 185% of FPL)
- All Children born after 9/30/83 (to 100% of FPL)
- Recipients of Adoption Assistance and Foster Care
- Refugees/Aliens
- Certain Medicare Recipients
 - Dual Eligibles
 - Qualified Medicare Beneficiaries
 - Specified Low-Income Medicare beneficiaries
 - Qualified Disabled and Working Individuals

Note: FPL is the Federal Poverty Level

Medicaid Recipients

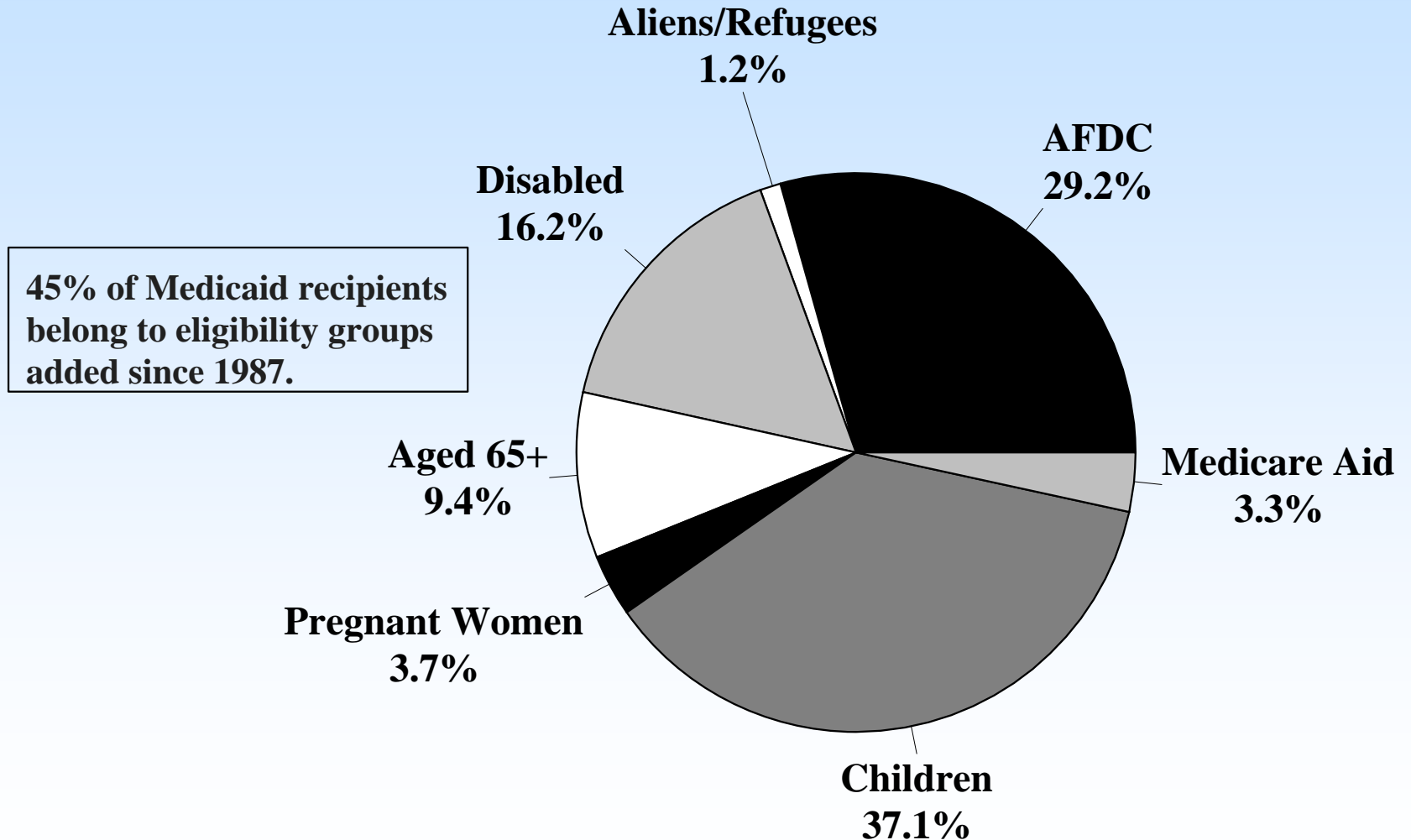
Optional Recipient Groups

- Children age 19 and 20 meeting AFDC income standards
- Children under age 6 (134% to 200% of FPL)
- Special Needs Adoptive Children
- Recipients of State/County Special Assistance
- Recipients of State Assistance to the Blind
- Persons receiving care under home and community-based waivers
- Aged, Blind, and Disabled persons presumed eligible, but not receiving SSI
- Aged, Blind, and Disabled persons with non-SSI income (to 100% of the FPL)
- Medically Needy Persons
- Women with Breast and Cervical Cancer (to 185% of FPL)

Note: FPL is the Federal Poverty Level

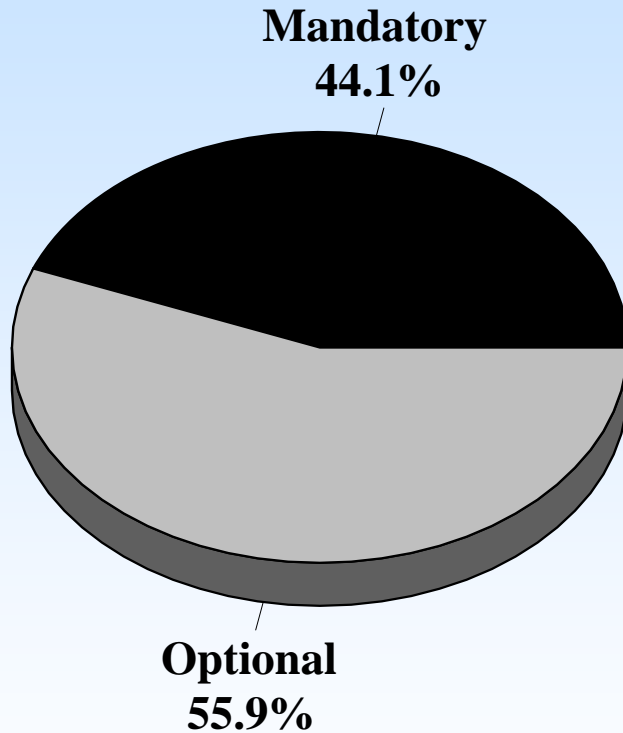
Medicaid Recipients

Medicaid Recipients by Eligibility Groups for SFY 2006



Medicaid Services and Recipients

Mandatory Vs. Optional



Mandatory includes expenditures when services and recipients are both mandatory.

\$3.23 Billion

Optional includes expenditures when either services or recipients are optional.

\$4.1 Billion

Actual Expenditures for SFY 2004

Medicaid Cost Containment

SFY 2001 - 2006

Changes to Prescription Drug Policy

- ✓ Prior Authorization Program for high-cost, high-risk, or high-use drugs
- ✓ State "Maximum Allowable Cost" Drug List
- ✓ Limited most drugs to a 34-day supply
- ✓ Increased use of generic drugs
- ✓ Voluntary Preferred Drug List
- ✓ Increased co-payments for brand name and generic drugs (\$1 to \$3)
- ✓ Reduced dispensing fees for brand name drugs (\$5.60 to \$4.00)
- ✓ Required pharmacists to coordinate pharmacy benefits
- ✓ Authorized use of over-the-counter drugs when they are effective and cost-efficient.
- ✓ Eliminated coverage for weight loss and weight gain drugs
- ✓ Mandatory management of recipients receiving 11 or more prescriptions

Medicaid Cost Containment

SFY 2001 - 2006

Changes for Medicaid Providers

- ✓ Reduced Physician rates from 100% of Medicare rates to 95%.
- ✓ Eliminated inflationary increases for SFY 2003, SFY 2004, SFY 2006. and 2007.
- ✓ Reduced rates by 5% for the following providers: private duty nursing, home infusion therapy, home health supplies, durable medical equipment, optical service, ambulatory surgical centers, and high risk intervention
- ✓ Reduced hospital payments by .5 %
- ✓ Limited Medicare crossover claims to Medicaid rates
- ✓ Applied Medicaid medical policy to Medicare crossover claims

Medicaid Cost Containment

SFY 2001 - 2006

Changes for Medicaid Recipients

- ✓ Applied federal transfer of asset policies to real property excluded as "income producing" under Title XIX.
- ✓ Applied transfer of asset policies to persons receiving personal care services while residing in their homes
- ✓ Adopted the SSI method for considering equity value in income-producing property for aged, blind and disabled persons
- ✓ Eliminated twelve month State Transitional Medicaid Coverage for families who are working and no longer receiving welfare payments.
- ✓ Increased co-payments for services (\$1 to \$3)
- ✓ Increased look-back period for transferring assets from three to five years (federal mandate)
- ✓ Required Medicaid recipients to provide proof of state residency.
- ✓ Required Medicaid recipients to provide proof of US citizenship (federal mandate)

Medicaid Cost Containment

SFY 2001 - 2006

Changes to Medicaid Services

- ✓ Reduced monthly limit for Personal Care Services from 80 hours to 60 hours for most recipients
- ✓ Limited Personal Care Services to 3.5 hours per day
- ✓ Developed a management utilization system for Personal Care Services
- ✓ Eliminated optional circumcision procedures except in cases of medical necessity
- ✓ Reduced case management services for adults and children by reducing rates, streamlining services, and eliminating duplicated services

Medicaid Cost Containment

SFY 2001 - 2006

Managed Care Initiatives -- Community Care of NC

- Community Care of North Carolina (CCNC) is a statewide program of local community networks organized and operated by local physicians, hospitals, health and social services departments.
- Statewide there are 14 networks, with more than 3,000 physicians serving nearly 750,000 Medicaid recipients. (November 2006)
- These networks operate local systems needed to achieve quality, cost, access and utilization objectives in managing the care of Medicaid recipients.

Medicaid Cost Containment

SFY 2001 - 2006

Managed Care Initiatives -- Community Care of NC

- Key Elements of Community Care of NC are:
 - ✓Implementing Best Practices
 - ✓Implementing Disease Management
 - ✓Managing High-risk Patients
 - ✓Managing High-cost Services
 - ✓Building Accountability

Medicaid Cost Containment

SFY 2001 - 2006

Managed Care Initiatives -- Community Care of NC

- To accomplish these objectives, Community Care of North Carolina:
 - ✓ Works directly with the community health care providers
 - ✓ Builds private and public partnerships effectively using existing resources
 - ✓ Conveys responsibility for managing care to the community network
 - ✓ Places responsibility for performance with those delivering the care
 - ✓ Ensures that all funds remain local and provide care
 - ✓ Empowers the local networks to manage patients and address larger community health issues

Medicaid Cost Containment

SFY 2001 - 2006

Managed Care Initiatives -- Community Care of NC

- Clinical care directors meeting monthly to review past and develop new clinical improvement initiatives, such as:
 - ✓ Asthma
 - ✓ Congestive Heart Failure
 - ✓ Diabetes
 - ✓ Emergency Room
 - ✓ Pharmacy
- The Medicaid pays \$5.00 per member per month for the CCNC program:
 - ✓ \$2.50 per member per month is paid to the network for an enhanced care management fee
 - ✓ \$2.50 per member per month is paid to the primary care provider.

Medicaid Cost Containment

SFY 2001 - 2006

Managed Care Initiatives -- Community Care of NC

- CCNC cost for SFY 2006 was \$40.7 million.
- Actuarial studies of the Community Care of NC program have documented that the program is effective in containing the growth in Medicaid expenditures.

Questions?

Fiscal Research Division

Suite 619 and 2nd Floor, LOB

Phone Number: 919-733-4910.

Fax Number: 919-715-3589

Web site: <http://www.ncleg.net/fiscalresearch/>