Extension of the Medicaid 1115 Transformation Waiver

FREQUENTLY ASKED QUESTIONS

TEXAS HOSPITAL ASSOCIATION

1 Texas didn't expand Medicaid. Will this hurt our chances of successful waiver extension?

Key Takeaways:

- The health care community in Texas, particularly hospitals, strongly advocated for Medicaid expansion during both the 2013 and 2015 legislative sessions.
- Timing of legislative sessions in Texas (every other year for six months) means that there is no opportunity for Medicaid expansion in time to influence waiver extension negotiations.
- Tying waiver extension to Medicaid expansion will negatively impact uninsured Texans – the very people that Medicaid expansion is intended to help.
- Because of the highly conservative nature of Texas politics, a hardline on Medicaid expansion from CMS will have no impact on the state's decision to expand Medicaid.

In April, the Centers for Medicare & Medicaid Services alerted a handful of states, including Texas, that the agency intends to evaluate waiver renewal requests according to stated principles. One of these principles is that coverage, rather than uncompensated care pools, is the best way to secure affordable access to health care for low-income individuals, and uncompensated care pool funding should not pay for costs that would be covered in a Medicaid expansion. On the surface, it appears that Texas lawmakers' decision not to expand Medicaid will cast a shadow over waiver extension negotiations.

However, the agency also has said that it recognizes that each state has different circumstances and will be evaluated accordingly. The Texas health care community supported Medicaid expansion, and Texas hospitals, in particular, engaged in an aggressive, high-profile campaign to convince lawmakers to accept federal funds to develop a private alternative to Medicaid expansion, as has been done in Indiana, Arkansas, Iowa and several other states. The political climate in Texas, however, is simply not conducive to promotion of anything related to the Affordable Care Act.

A hard line from CMS on coverage expansion would be counterproductive. It is unlikely to convince any Texas lawmakers to change their position on the issue and could in fact further entrench opposition. There is the real possibility that such an approach from the agency would feed into the perception that the federal government is not willing to work with states individually to come up with innovative solutions for delivering health care to the uninsured.

At the same time, it is important to remember that the state legislature is finished for 2015 and will not return to lawmaking until January 2017. There is simply not an opportunity for the legislature to do anything related to Medicaid expansion in time to influence the waiver extension negotiations.

1a Has the state done anything that would support extension of the waiver?

While Medicaid expansion is a political non-starter, the Texas Legislature did, however, appropriate funds to increase Medicaid reimbursement rates for safety net hospitals and reduce the Medicaid shortfall. The $129 million appropriation for 2016-17 for safety net hospitals demonstrates a willingness on the part of the Legislature to reduce the state's reliance on supplemental payments for hospitals. The appropriation is particularly significant given the extremely tight state budget; state lawmakers recognized that an investment in Medicaid rates would reap dividends through the waiver.

1b What are the consequences if CMS does tie waiver extension to Medicaid expansion?

Most importantly, failure to extend the waiver because of the state's inaction on Medicaid expansion will primarily hurt the very individuals whom Medicaid expansion is intended to help. The waiver is providing community-based health care and supports for uninsured Texans. Without the waiver, these individuals would have no access to extended clinic hours, behavioral health services, primary care clinics and other programs and services that reduce reliance on hospital emergency departments.

THA

2

Why does the waiver extension application include such a large uncompensated care pool funding request?

Quite simply, the request is large because the need is large.

The Texas Health and Human Services Commission estimates that uncompensated care pool funding needs to total $34.6 billion over the five years from 2017 through 2021. This is the amount required to meet the need from Texas health care providers. This request is about twice as large as the current UC funding pool in the waiver.

Current UC funding has not come anywhere close to meeting need, and the pool is oversubscribed. Even adding in DSH payments, total supplemental payments from UC funding and DSH leave Texas health care providers with approximately $2 billion in uncompensated care costs for 2016.

3

Wouldn't Medicaid expansion eliminate the need for such a large UC pool?

Key Takeaways:

- Texas hospitals will still have large UC costs even with Medicaid expansion.
- Medicaid expansion will not reduce the uninsured population to zero.
- UC costs (not just the number of uninsured) are growing due to medical inflation.

Admittedly, Medicaid expansion would reduce the need for UC. However, it would not eliminate the need.

Expanding Medicaid in Texas would provide health insurance coverage for approximately 1.1 million Texans. But for a number of reasons, the state would still have a significantly large uninsured population. The Urban Institute estimates even with full implementation of the Patient Protection and Affordable Care Act, nearly 3 million Texans, or 12.8 percent of the population, would be uninsured. The population of Texas is growing faster than any other state in the nation, but not all of these individuals have access to health insurance.

Texas hospitals will continue to have financial challenges associated with their legal obligation to care for all patients, regardless of insurance status. Uncompensated care costs in Texas are projected to reach almost $8.8 billion in 2019.

One reason for growing UC costs is the fact that medical inflation still outpaces general inflation. Hospitals are proactively bending the cost curve and improving quality at the same time through numerous means, such as reducing preventable readmissions. But, upward cost pressures imposed by other forces in the health care sector – such as specialty prescription drug costs – are keeping medical inflation relatively high.

4

Aren't waivers expensive and not budget neutral?

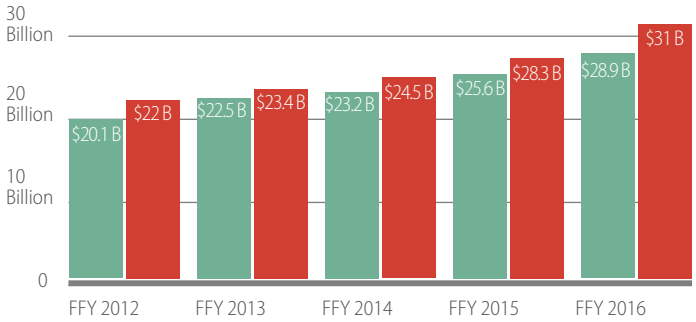
The Texas Medicaid 1115 waiver has generated significant savings for the state and federal governments. Texas hospitals would like to see these savings re-invested into the waiver for the next five years so that they can continue providing needed health care services to the uninsured; investing in programs and services that improve quality and outcomes; and reducing costs.

For each year of the Texas Medicaid 1115 waiver, expenditures have been significantly less than they would have been in the absence of the waiver. Over the five-year term of the waiver, savings have exceeded $8.7 billion.

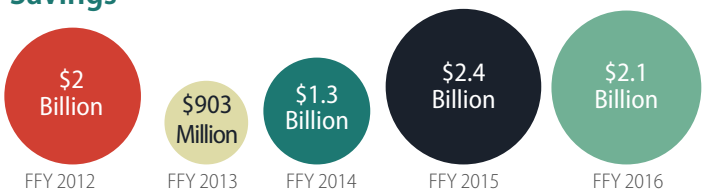
Expenditures

Expenditures **Without** the Waiver

Expenditures **With** the Waiver (including waiver pools and network access improvement project payments)



Savings



THA

Isn't the waiver just a bailout for the hospital industry?

The two pools of funding in the waiver – uncompensated care and delivery system improvement incentive program payments – are *earned* by Texas hospitals by providing health care services to low-income populations.

UC Pool

Texas hospitals qualify for UC payments by demonstrating to the state Medicaid agency through a single, uniform, cost-based methodology that they provided uncompensated care to Medicaid and uninsured patients.

The UC pool is a key financing component for the health care safety net in Texas, particularly because of potential decreases in the federal allocation of Medicaid DSH funds made to Texas and continued population growth in Texas at a rate more than double the national average.

The waiver UC pool also is not new money. Prior to the waiver, Texas hospitals were partially reimbursed for uncompensated care costs through the Upper Payment Limit supplemental payment program. The waiver's expansion of Medicaid managed care rendered this UPL program obsolete.

DSRIP

DSRIP payments are earned by participating providers – hospitals, local mental health authorities, local health departments and physicians – by meeting established metrics for access and quality outcomes. DSRIP performing providers report twice a year on project metrics and milestones, as agreed upon by THHSC and CMS. If projects are not successful and cannot demonstrate outcomes achievement, hospitals do not earn DSRIP dollars.

TEXAS HOSPITAL ASSOCIATION

For more information, contact:

John Hawkins
Senior Vice President for Government Relations
Texas Hospital Association
512/465-1505
jhawkins@tha.org

Taylor Coffey
Vice President, Federal Affairs
Texas Hospital Association
979/575-9477
tcoffey@tha.org