AHCCCS Update

August 3, 2012

Topics to Cover

- The Executive's Guiding Principles
- Process and Timeline for Deliberation
- Health Insurance Exchange
- AHCCCS Coverage Solutions
- Opportunities for Operational Efficiencies

Arizona Health Care Reform Guiding Principles

- Leverage the competitive, private insurance market to promote individual choice and reduce dependency on public entitlements, thereby maximizing coverage and strengthening Arizona's health care system.
- Recognize that, through Proposition 204, Arizona voters mandated coverage (within available resources) of individuals with incomes below 100% FPL.
- Identify enhanced federal match rate opportunities for the restoration of Proposition 204 as a sustainable component of the coverage solution based upon the principles of flexibility and state/federal partnership set forth in the AHCCCS Waiver.

Arizona Health Care Reform Guiding Principles

- Implement payment reform strategies that lower costs by promoting quality of care and by maximizing personal responsibility through innovative cost-sharing designs.
- Increase efficiency and responsiveness of Arizona's public health system by examining opportunities to streamline and consolidate duplicative agency functions related to the purchase and oversight of health care services.
- Work with health care, business and community stakeholders to build a high quality health care infrastructure that is patient-centered, sustainable, accessible and affordable.

Arizona Health Care Reform Guiding Principles

- Keep health care decision making as local as possible.
- Acknowledge the importance of the health care industry to the state's overall economy and the impact of a stable health care system on Arizona's ability to attract and retain high quality jobs, including those in the medical profession.

Process and Timeline for Deliberations

- Ongoing: Submit clarifying questions to Federal Government and await further guidance on Federal interpretation of Supreme Court ruling for Medicaid.
- August 2012: Update fiscal estimates on State options.
- July – November 2012: Engage stakeholders and obtain public input.
- November – December 2012: Incorporate final decisions into normal policy-making process.

Health Insurance Exchange

- Overview
- Planning to Date
- Essential Benefits Discussion
- Funding a Self-Sustaining Exchange
- State-based vs. Federally-facilitated Exchange: Pros and Cons

Health Insurance Exchange: Principles for an Arizona Exchange

- Build on Arizona's Strong Health Insurance Market.
- Support Market Facilitator Approach.
- Maximize Choice and Competition.
- Impose Minimal Regulations and Reporting Requirements.

Exchange Timeframes

- September 2012: Essential Benefits decision
- **November 2012: Submit State's Intent regarding Exchange to HHS Secretary**
- January 2013: HHS Secretary Certifies Exchange
- July 2013: Systems Readiness Testing
- October 2013: Exchange enrollment begins
- January 2014: Exchange coverage begins
- January 2015: Exchange must be self-sustaining through user fees, assessments or other funding sources

Health Insurance Exchange: Essential Health Benefits

- ACA requires states to establish the Essential Health Benefits (EHB) that must be included in all new individual and small group policies sold within or outside of the Exchange.
- EHB must be based on a benchmark plan selected by the State by September 30, 2012 and must satisfy the following requirements:
  - Cover services within each of the 10 statutory service categories;
  - Chosen from the 10 benchmark plan options;
  - Supplemented from the federally-defined options if the benchmark plan does not provide coverage for all of the EHB categories.

Health Insurance Exchange: 10 EHB Statutory Service Categories

- Hospitalization
- Emergency Services
- Ambulatory Services
- Maternity and Newborn Care
- Mental Health and Substance Use Disorder Services, including Behavioral Health Treatment
- Prescription Drugs
- Rehabilitative and Habilitative Services and Devices
- Laboratory Services
- Preventative and wellness services and chronic disease management
- Pediatric services, including oral and vision care

Health Insurance Exchange: Funding

- Federal grants fund all planning, design and start-up costs through December 31, 2014.
- Arizona received a one-year planning grant for $1 million on September 30, 2010.
- Arizona received a one-year grant for $29.8 million on November 28, 2011.

Health Insurance Exchange: State vs. Federal

State-based Exchange

Arizona decides:

- Number of insurers on Exchange
- AHCCCS eligibility
- How to fund Exchange
- Benefits, providers and plans offered on the Exchange

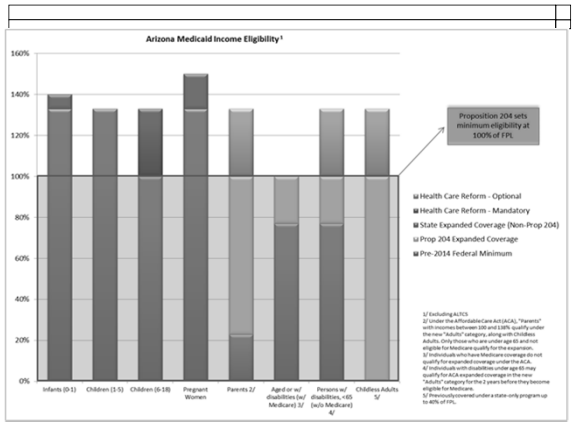
Federally-facilitated Exchange

HHS decides:

- Which insurers are included in Exchange marketplace
- AHCCCS eligibility
- How Arizonans will pay for Exchange costs
- Benefits, providers and plans offered on the Exchange

AHCCCS Coverage Solutions: Current AHCCCS Population

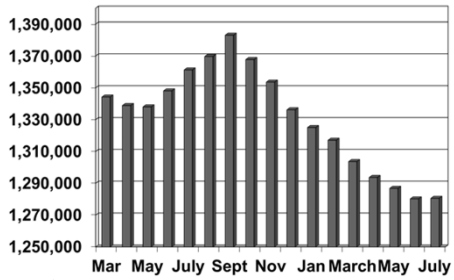
- 1.2 million AHCCCS members, including coverage for:
  - Disabled (ALTCS): 225% FPL; parental income is disregarded for children served in ALTCS.
  - Pregnant women: 150% FPL.
  - Infants age 0-1: 140% FPL.
  - Children ages 1-5: 133% FPL.
  - Children ages 6-18: 100% FPL.
  - Parents: 100% FPL.
  - Childless adults: 100% FPL. (Currently frozen)
  - KidsCare: 100% - 200% FPL. (Currently frozen)



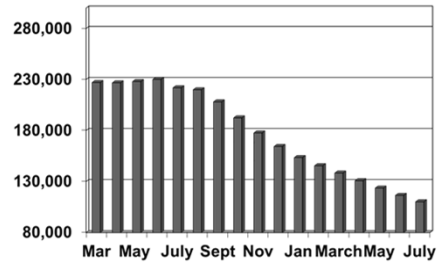
AHCCCS Coverage Solutions: Current Status of the AHCCCS Program

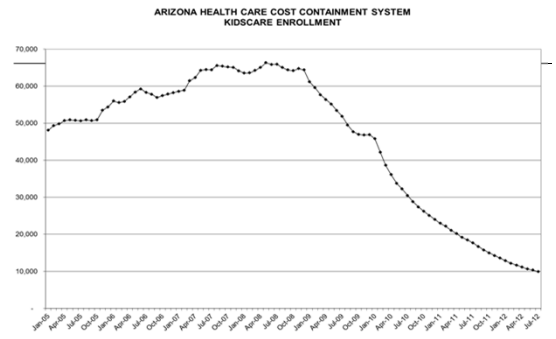
- Great Recession decreased State revenues by approximately 30% while AHCCCS enrollment increased by 30%.
- Reductions to State General Fund expenditures across the board were needed to address shortfalls.
- The AHCCCS program was reduced by over $2 billion.
- Some of these measures included:
  - Enrollment freeze for KidsCare on January 2010.
  - Phase out of Spend Down program that began May 2011.
  - Enrollment freeze for Childless Adult population (covered between 0% to 100% FPL) on July 2011.

Total AHCCCS Population



Childless Adult Population





AHCCCS Coverage Solutions: Current Status of the AHCCCS Program

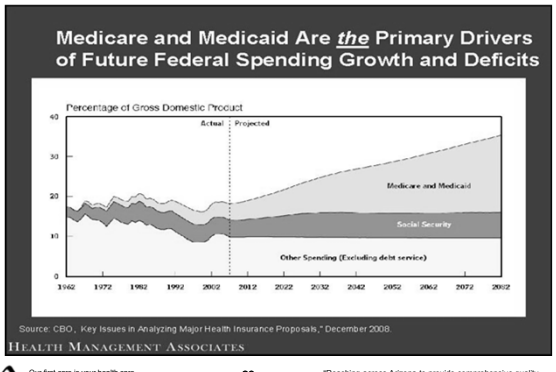
- Prop. 204 mandates AHCCCS cover all Arizonans up to 100% FPL *within available resources.*
- State Supreme Court approved freeze because Legislature determined additional resources were not available.
- The childless adult enrollment freeze also necessitated a change to the AHCCCS Waiver, which provides federal authority to cover this population.
- The current Waiver ends January 1, 2014; childless adults will lose their coverage without some further action.
- The current childless adult population (0-100% FPL) does not have access to subsidies on the Exchange.

AHCCCS Coverage Solutions: Current Status of the AHCCCS Program

- Current Waiver supports creative solutions to mitigate AHCCCS reductions (end Jan. 2014):
  - Safety Net Care Pool using local dollars to cover uncompensated hospitals costs ($332M program).
  - KidsCare II allowing coverage for 22,000 children using local dollars.
  - First-ever funding program to support uncompensated care costs for Indian Health Services and Tribally Operated facilities.

AHCCCS Coverage Solutions: Achieving Long-Term Sustainability

- Recent events demonstrate the challenges of achieving long-term sustainability of open-ended entitlement programs.
- In their current form, Medicare and Medicaid programs are unsustainable at the federal level; reductions of some kind are inevitable.



AHCCCS Coverage Solutions: Achieving Long-Term Sustainability

- Although the AHCCCS program has achieved balance within its budget, concerns remain:
  - Prop. 100 temporary, one-cent sales tax expires July 1, 2013.
  - Proposed Quality Education & Jobs Initiative seeking to establish one-cent tax offers no help:
    - Directs funding for healthcare only to KidsCare.
    - Additional funding for KidsCare is not needed since federal government will cover 99% of KidsCare costs under ACA.
    - Offers no flexibility to support broader AHCCCS program.
  - State's budget was planned through Fiscal Year 2015, incorporating cost of full Medicaid expansion and resulting in $400M deficit.

AHCCCS Coverage Solutions: Building on a Tradition of Flexibility, Partnership

- Flexibility, partnership are cornerstone of AHCCCS success, mainly through 1115 Waiver, which:
  - Created first statewide, mandatory Medicaid Managed Care program (1982);
  - Permitted Home and Community Based Services to allow elderly and individuals with disabilities to stay at home instead of being placed in institutions for their care (1989).
  - Allowed coverage for Childless Adults in response to Prop. 204 (2001);
  - Supported personal responsibility through mandatory copays for Childless Adults (2003); and
  - Provides State ability to manage program during fiscal crisis.

AHCCCS Coverage Solutions: Requires Partnership with Federal Government

- Additional guidance needed on what populations are optional:
  - Confirm Children up to 138% FPL mandatory.
  - What about parents?
- Can Arizona obtain enhanced match for restoring childless adult coverage to 100% FPL, but not 133%?
- What type of flexibility will states have via 1115 waiver process?
- How will November elections impact policy direction?

Policy Opportunities and Considerations

- Opportunities for private, commercial coverage of:
  - Non-AHCCCS eligible individuals with Serious Mental Illness; impact on the State's role.
  - KidsCare eligible children.
- How to address state cost of Childless Adult population, which is not 100% federally funded?
- Need to assess impact of federal reductions to DSH.
- What is impact of converting FPL to new MAGI; what is actual FPL and what are associated costs?

Opportunities for Operational Efficiencies

- Currently, multiple agencies across state government are performing the same function of purchasing healthcare services for the State.
- Modernizing Arizona's healthcare infrastructure presents opportunities to consolidate some of these functions.
- Streamlining government functions supports best practices, leverages existing capacity and achieves greater efficiencies.
- The State could better focus on reform initiatives to align incentives in healthcare, pay for quality of care and not quantity of services, modernize reimbursement strategies (e.g., use of APR-DRGs), and pursue innovation grants.

Triple Crown and Integration

Procurement Opportunities (Triple Crown)

- Maricopa RBHA - $5 billion plus
- Statewide Acute - $40 billion plus
- CRS - $500 million plus

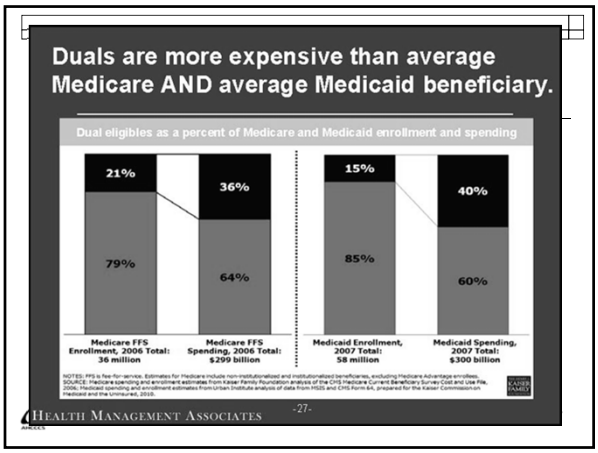
Integration – Care Management for frail members

- Duals Members (Medicare and Medicaid)
- CRS members
- Members with SMI

Manage/Leverage Unprecedented Competition

Dual Members Demonstration

Unprecedented historical opportunity to improve care
April – Presentation to CMS and OMB
May - Meetings with
1. CMS Administration 2. Congressional Staff
3. MEDPAC/MACPAC
June – Hosted California Staff
July – Congressional Testimony
Concerns expressed include (non CMS)
Speed – Size – Health Plan Capacity – Unresolved Issues – Medicare Principles
Current model is fragmented, unsustainable and results in lack of accountability and sub-optimum outcomes



Other Issues

- Prop 202 Funding – August
  - Original $20 m 90% Trauma -10% ED split
  - Additional - $13 m 40% rural – 30% ED – 30% Trauma
- Safety Net Care Pool Status
- APR-DRG Status – 10-1-14
- DSH Status
- HIT Payments – 47 hospitals $56 m – 986 providers - $21 m

Other Issues

- Audits and Reviews
  - Sunset Audit – 2 of 4 reports complete
    - Eligibility 1.1% Error Rate – see attachment
  - Medicare Part B Payments – Disallowance
  - PERM Review
  - RAS Recovery Audit
  - CMS ALTCS Review – GAO Managed Care Review
- Care Management – DFSM efforts
- SCAN Transition Maricopa County 2,700 members
- Nursing Facility Assessment Fee Legislation