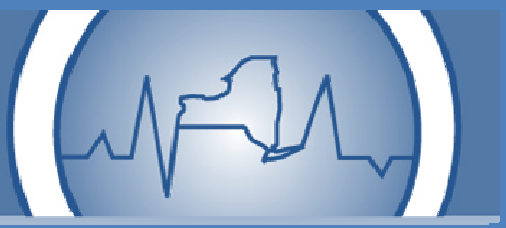
Redesigning
THE MEDICAID PROGRAM



Medicaid Global Spending Cap

September 2011 Report

NEW YORK
state department of
HEALTH

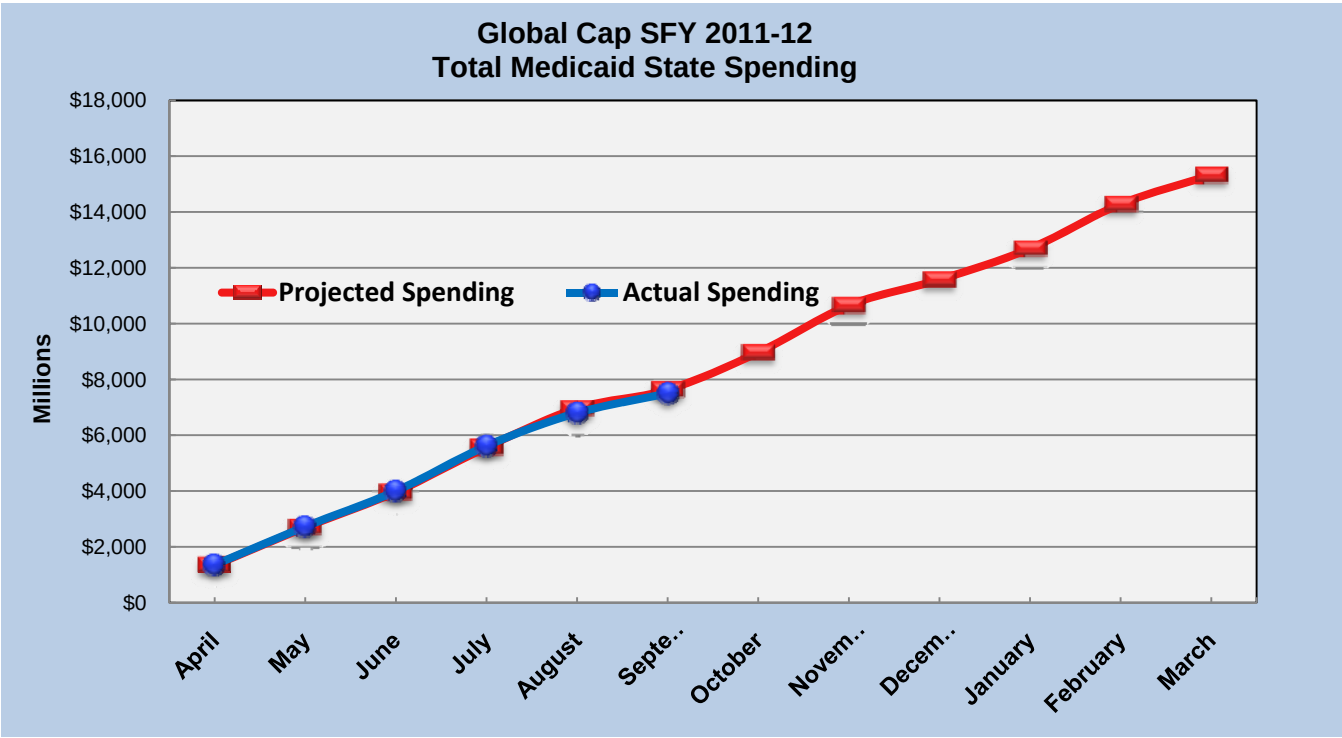
BACKGROUND

The Department of Health and Division of Budget are required to report on a monthly basis, under Chapter 59 of the Laws of 2011, Medicaid spending compared to projected State fund expenditures. The chart on page three depicts the monthly estimate for the $15.3 billion cap and actual spending through the second quarter of SFY 2011-12.

SEPTEMBER 2011 RESULTS – FISCAL NOTES

Total Medicaid State fund expenditures under the global spending cap for the first and second quarters of SFY 2011-12 are $134.9 million **below** projections, or 1.8%. Cumulative spending for the months April through September resulted in total expenditures of $7.499 billion compared to the estimate of $7.634 billion. Since April 2011, enrollment in the Medicaid program has grown by nearly 71,000 enrollees (or 1.4%) with a majority of these individuals enrolling in either the Family Health Plus or Medicaid managed care programs. This enrollment growth will drive additional spending which, if unabated, could place more pressure on the global cap.

It should be noted that Medicaid spending on a month-to-month basis is subject to significant variation due to enrollment swings, provider billing patterns, rate adjustments, and the number of billing cycles within a month. The Department of Health does not expect the Medicaid program volatility to decline in the near term due to factors such as, the enrollment trend mentioned above, as well as processing of significant retroactive rate packages (i.e, 2009 hospital rates, managed care premiums, 2009 Outpatient APGs). In addition, there are new MRT measures which are on track to be implemented prior to the conclusion of the third quarter of SFY 2011-12. As we look forward to October, DOH/DOB will be monitoring very closely the impact of the MRT proposal to “carve in” the drug benefit into the managed care program. There was approximately $4 billion in total pharmaceutical spending that migrated from fee-for-service to health plans. Accordingly, stakeholders and other interested parties should be *cautious* in making far reaching judgments and/or conclusions based on results thus far. In the coming months, the State will continue to monitor spending and enrollment trends very closely.



September Cumulative SFY 2011-12 Statistics

Category of Service	Medicaid Spending (Thousands)		
	Estimated	*Actual*	*Variance*
Inpatient	$1,068,403	$1,056,725	($11,678)
Outpatient/Emergency Room	$178,269	$157,897	($20,372)
Clinic	$150,331	$164,022	$13,690
Nursing Homes	$1,655,861	$1,625,394	($30,467)
Other Long Term Care	$984,884	$960,199	($24,685)
Medicaid Managed Care	$1,714,060	$1,724,412	$10,352
Family Health Plus	$334,232	$364,505	$30,273
Non-Institutional / Other	$1,728,187	$1,588,275	($139,912)
Cash Audits	($180,083)	($142,185)	$37,899
TOTAL	**$7,634,143**	**$7,499,244**	**($134,899)**

Variance Highlights

- ***Lower Fee-for-Service Spending:*** Through September, Medicaid spending in major fee-for-service categories was $58.3 million below projections, this includes:

  - *Inpatient Hospital spending was $11.7 million under the target estimate. The Inpatient sector has experienced a 5.8% decrease in the number of claims projected to the actual claims billed, consistent with providing services in more appropriate settings, and the migration of recipients to Medicaid Managed Care.*
  - *Outpatient/Emergency Room spending was $20.4 million below estimates and is primarily due to lower spending per person in clinics.*
  - *Total expenditures for non-hospital Clinics are $13.7 million above target estimates; this is primarily due to the timing of projected spending for certain substance abuse services.*
  - *Nursing Home spending is $30.5 million below the global spending cap estimate through September. The number of individuals served remains slightly down from the previous year.*
  - *Other Long Term Care services, which include Home Care, Personal Care, and the Assisted Living program, are $24.7 million less than projections. The variance is primarily attributable to lower than projected spending in Personal Care ($10.1 million) and Home Nursing ($9.6 million). The Personal Care variance continues to reflect efforts to reduce utilization and a reduction in fee-for-service spending as a result of the inclusion of personal care services in the benefit package for Managed Care enrollees (effective August 1, 2011). The Home Nursing variance reflects continued reduction in utilization of 7.7% over the same period in the prior year.*
  - *State fund expenditures for Non-Institutional services, such as Pharmacy, Dental, Transportation, Supplemental Medical Insurance, etc., were $15.2 million above target estimates. The variance is principally related Pharmacy spending, which was $74.3 million above projections due to both lower than anticipated drug rebates and higher spending. DOH will be working to refine its rebate collection estimates and reforecast the remaining fee for service spending from October through the balance of the State Fiscal Year. This overspending is partially offset by lower than forecasted Medicare rates ($48.7 million)*

- ***Higher Medicaid Managed Care Spending:*** The Medicaid Managed Care program is over budget by $10.4 million, which is the result of higher than anticipated enrollment. Premium increases have yet to be processed and are not reflected in these expenditures. Total enrollment in Medicaid Managed Care has increased by 75,000 members (from 2,964,177 to 3,039,483) between April and September.
- ***Higher Family Health Plus Spending***: Increased spending of $30.3 million also continues to reflect higher than anticipated enrollment. Premium increases have yet to be realized. A similar scenario to Medicaid Managed Care also applies to Family Health Plus where enrollment has increased by 14,000 members since April.
- ***Medicaid Audit Offsets:*** Through *Sept*ember, the spending offsets anticipated from Medicaid audit recoveries are $37.9 million below projected levels. This variance may be due to the timing of collections.
- ***Lower Federal Medical Assistance Payments:*** Enhanced Federal share payment benefits are $55.6 million below projections through September. A portion of this variance may be attributed to the receipt of the anticipated benefit through lower payments in other service categories.
- ***Lower Local Medicaid Cap Costs:*** Under the 2005 Local Medicaid Cap statute, the State is responsible for covering local costs of Medicaid that exceed the annual cap. To date, Local Medicaid Cap expenditures are below projected levels by $78.4 million. These Local Medicaid Cap costs are related to both fee-for-service and Managed Care spending variances and may be timing related and, as such, should not be material in an annual spending context.
- ***Lower Other State Agency Offset Transfers:*** Medicaid spending by other State agencies is running $93.5 million above projections through September. This spending is processed by the Department of Health and subsequently offset by transfers from the other agency budgets. This rate of overspending appears to be timing related and, as such, should not be material in the annual spending context.

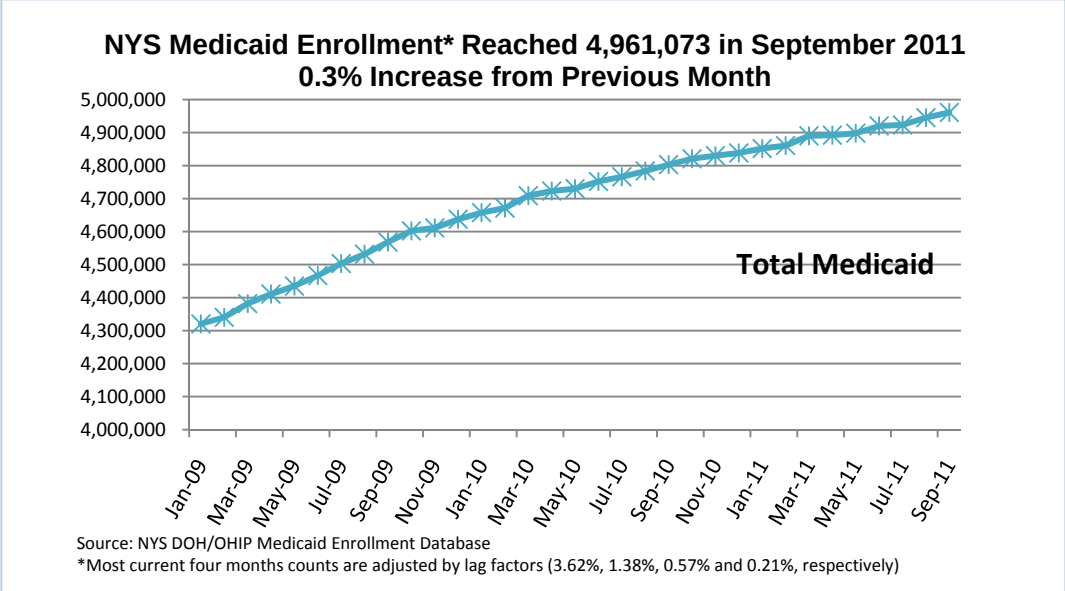
Accounts Receivable

The Department of Health has approximately 80 different rate adjustment packages to process between November 2011 and February 2012. Many of these rate packages have retroactive impacts (meaning they adjust rates for prior periods). With a few exceptions (those pertaining to mental hygiene programs not subject to the global cap), these rates are all included in the global cap calculation and the impacts they will have on the State's Financial Plan are important to note. When the State makes payment on these rate packages, all adjustments with a positive impact get paid to providers on the date of the transaction. For those providers with a rate decrease, the State's policy has been to collect these funds back by intercepting a portion of future payments over time. This avoids creating an undue hardship on the provider.

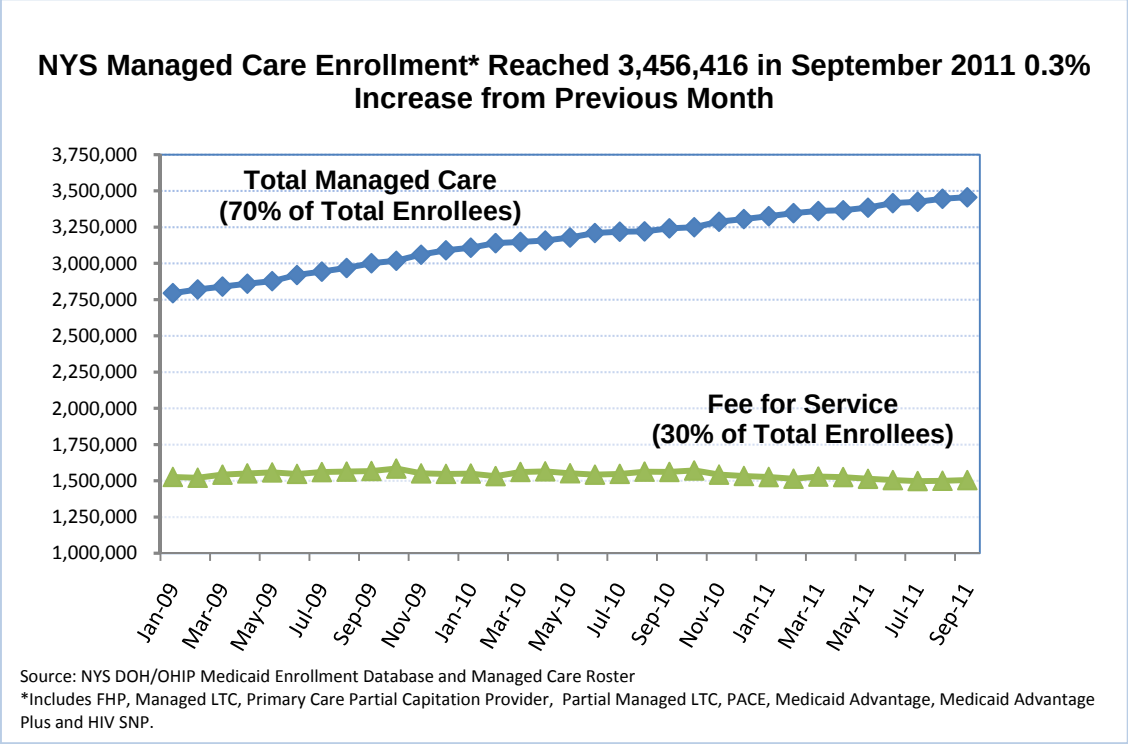
The accounts receivable for retroactive rates owed to the State as of September is $431.2 million and will increase by almost $100 million by the end of October. The State is forecasting, with the activation of the rates noted above, that the balance will peak at nearly $700 million in December, but then will begin to decline in the last quarter of the State Fiscal Year. It is important that the Department closely monitor these balances. To the extent recoveries are not made, there will be a direct impact on the global cap.

Enrollment

Medicaid total enrollment reached 4,961,073 enrollees at the end of September 2011 (when adjusted for retroactive eligibility lag factor, 3.62%), or 0.3% increase (16,000 enrollees) from August and 1.4% increase (71,000 enrollees) since April 1, 2011.



Managed Care total enrollment in September (FHP and Managed LTC included but CHP excluded) rose to 3,456,416 enrollees, an increase of 0.3% from the previous month and an increase of 95,000 enrollees since April 1, 2011. The Managed Care enrollment accounted for 70% of total Medicaid enrollment, which is an increase of 0.9% from the start of MRT.



Regional Spending Data

The Global Cap legislation requires the Department to release Medicaid spending by region. The regions selected are based on the Governor's economic development areas. This regional information can be found on the Department of Health's website at:

http://www.health.ny.gov/health_care/medicaid/regulations/global_cap/regional/index.htm