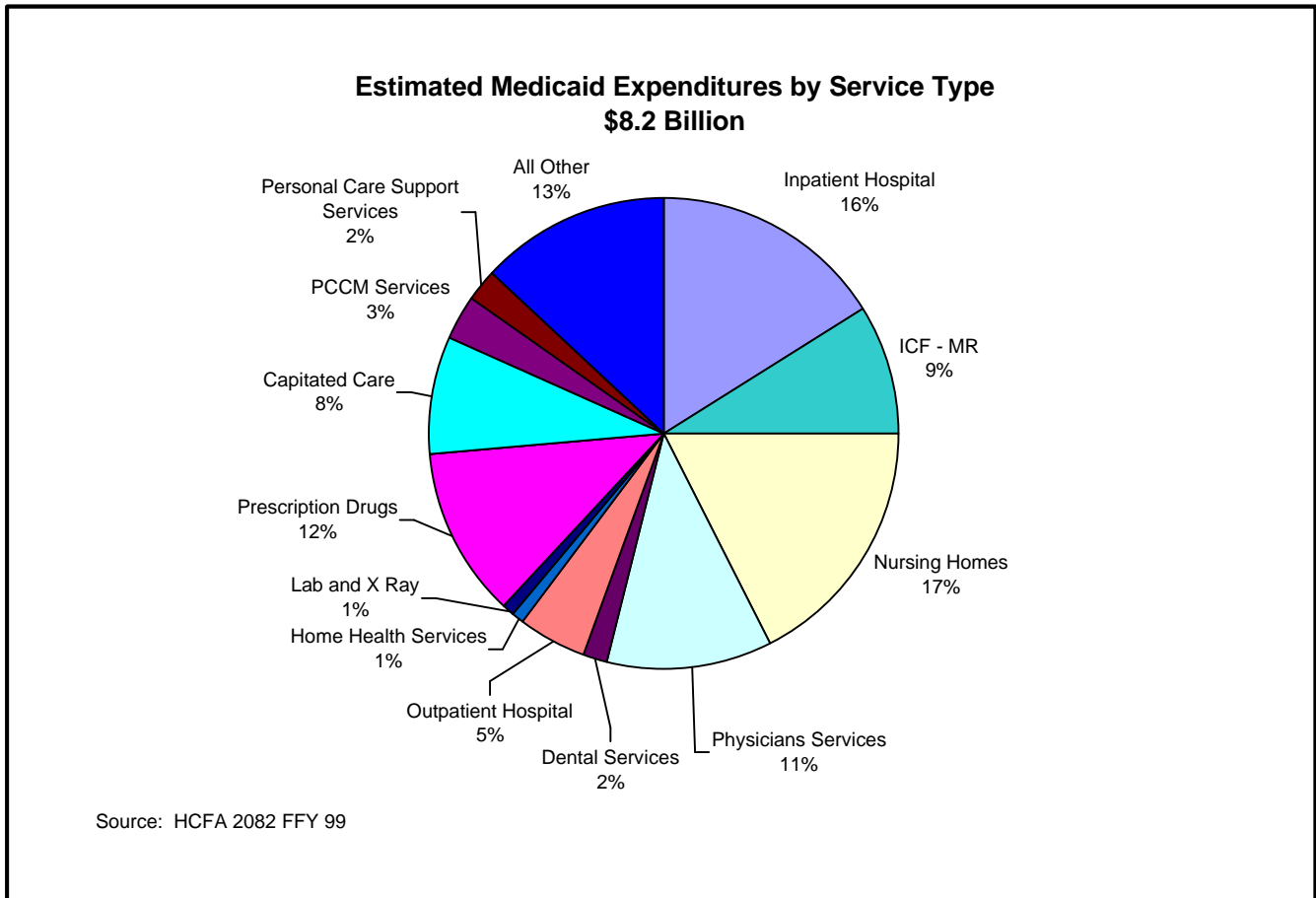


Healthcare Costs in Health and Human Services Programs

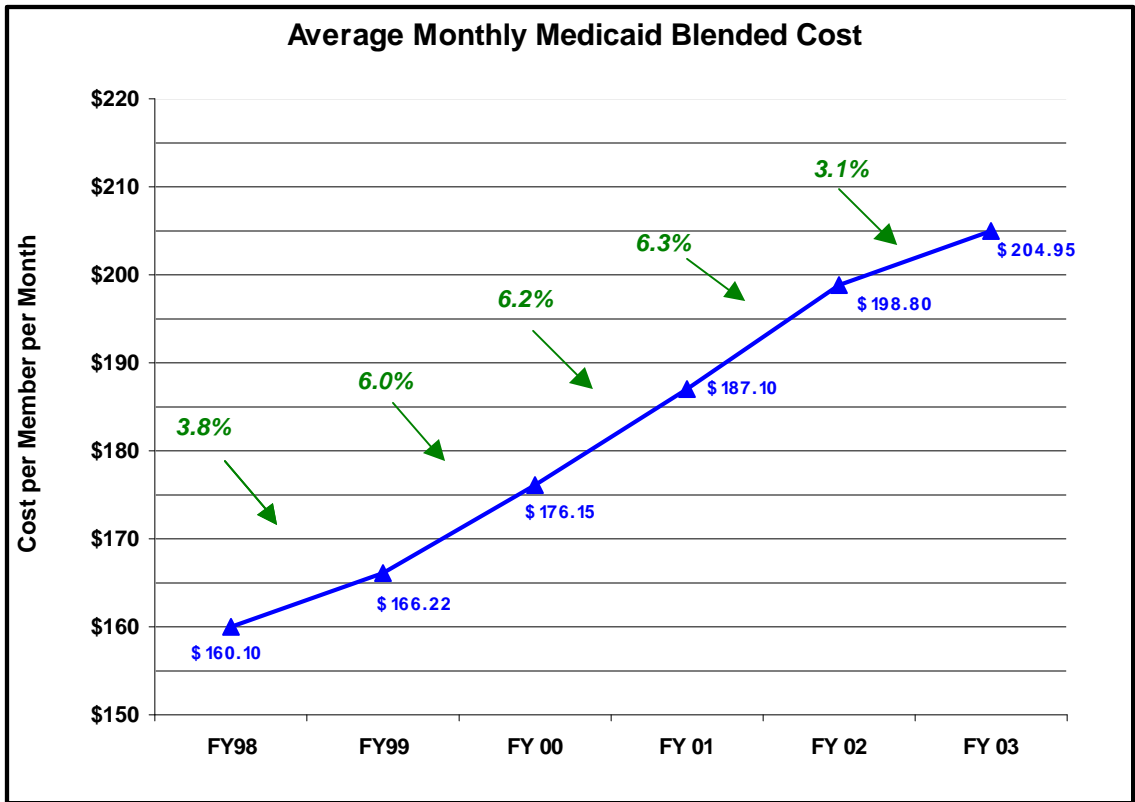
Presentation to
Senate Finance Committee
October 24, 2001
Don Gilbert, HHSC

Health Care Costs in Medicaid

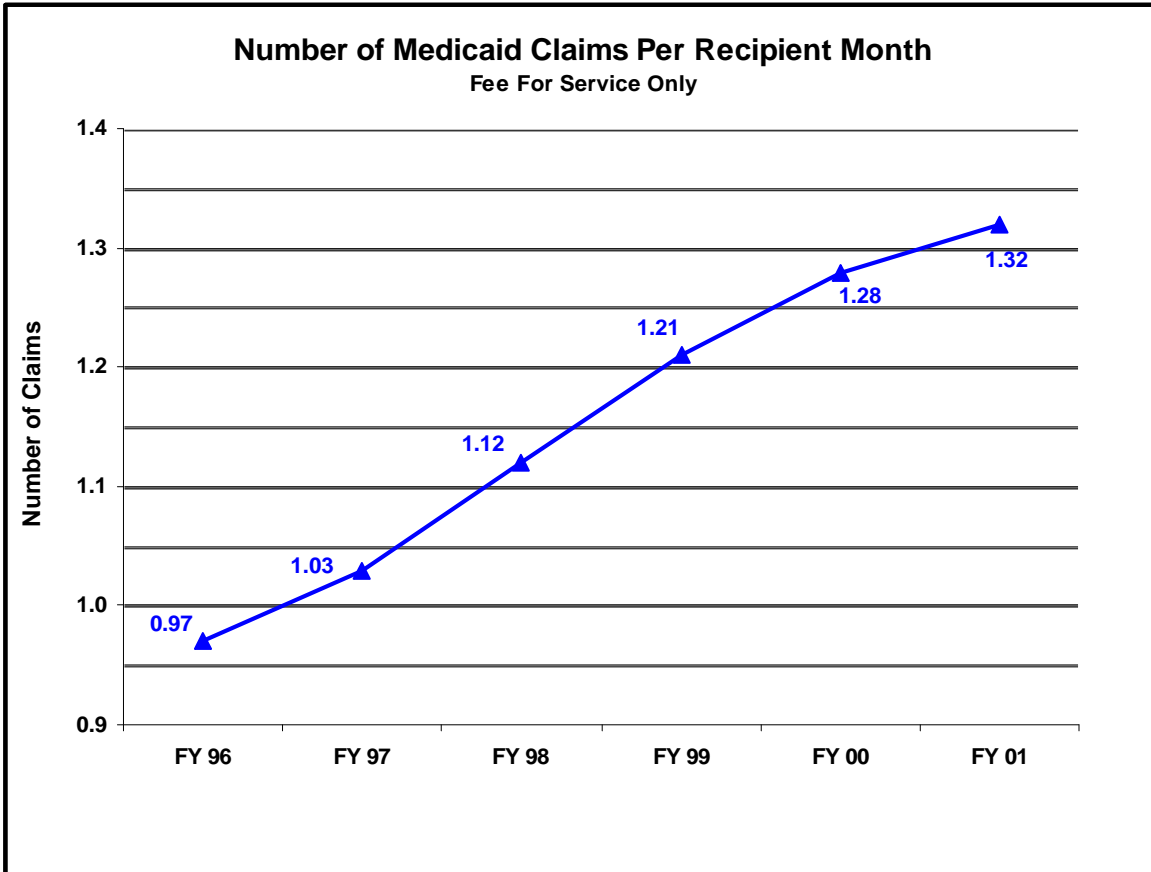


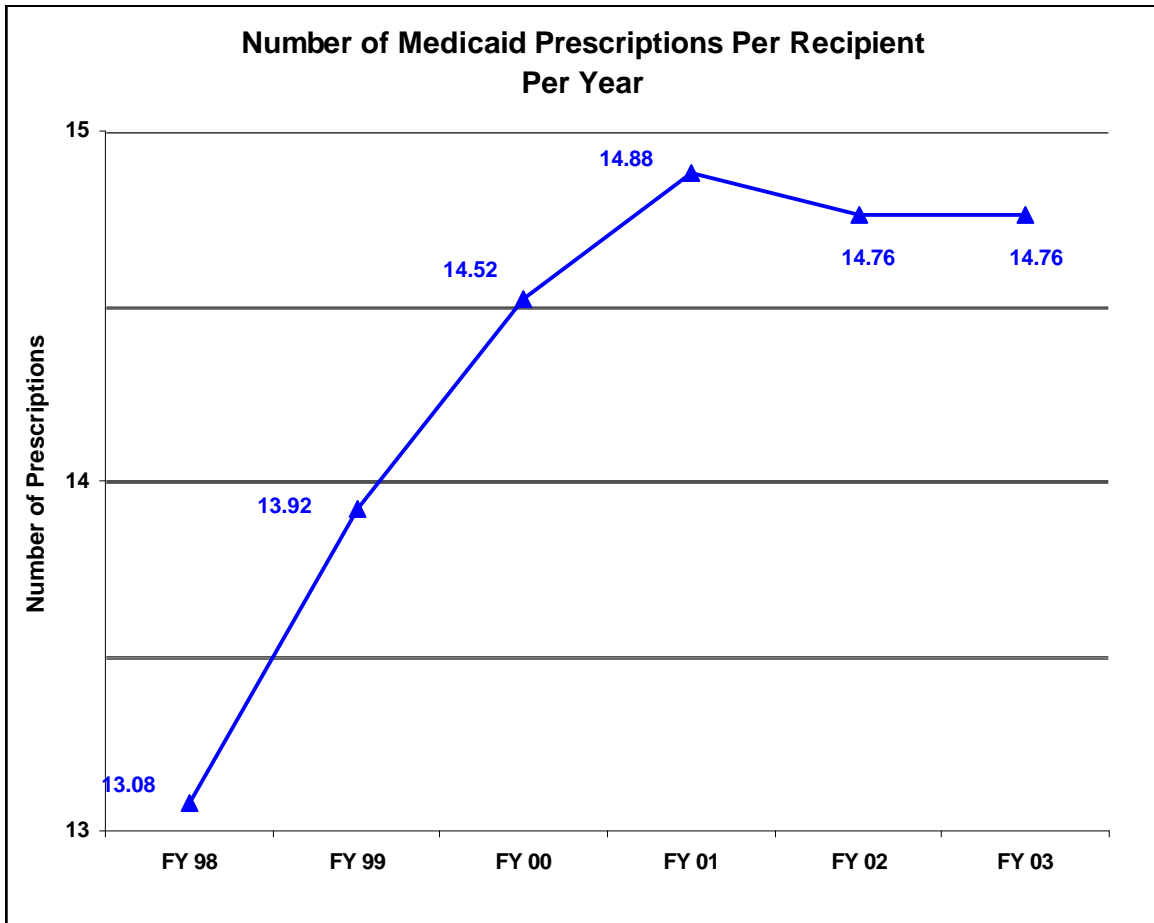
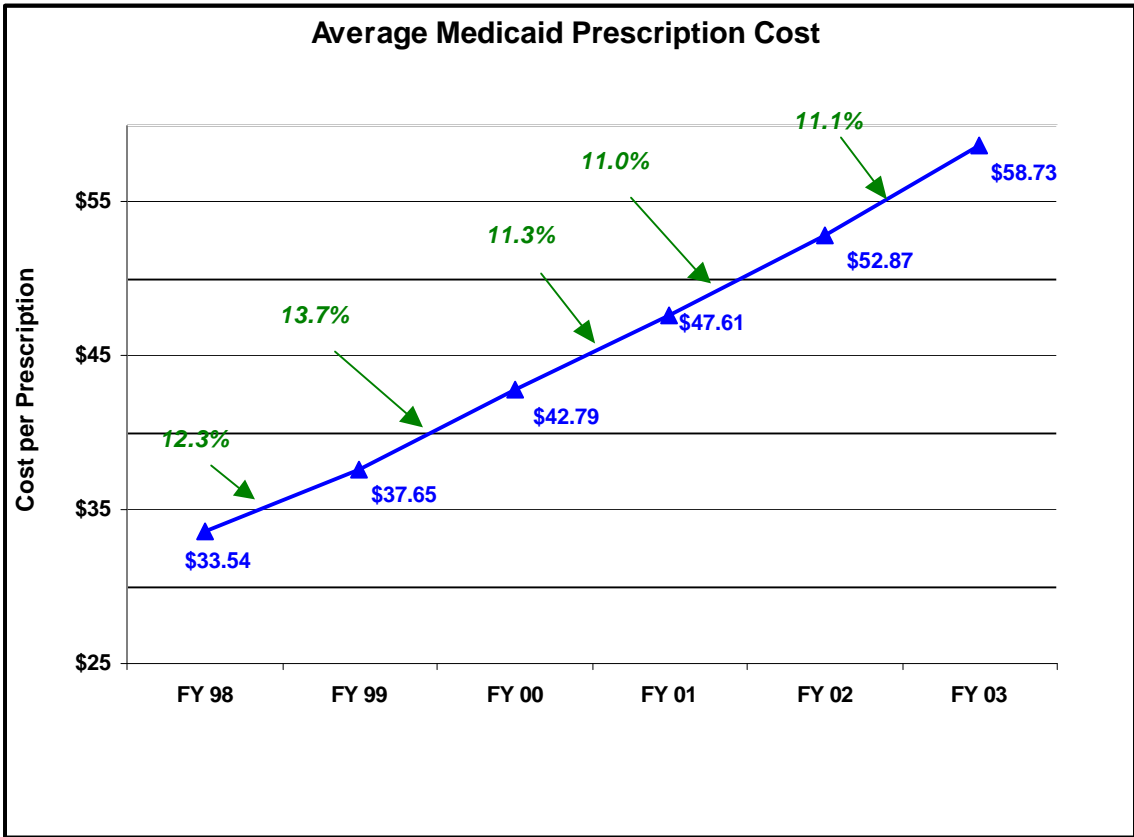
For the purposes of this presentation, Medicaid costs will be described as the cost per service as differentiated from the expense to the state budget. Expense to the state budget is the multiplication of service cost and service utilization. Service cost, therefore, will be discussed in the rather narrow context of cost per service. Service utilization, as a function of caseload and case mix, will be reviewed under charge #3.

The only major Medicaid Service in which the rate of reimbursement operates independent from the appropriation is the vendor drug program. Reimbursement rates are based on the fluctuating acquisition cost to the pharmacy plus a fixed dispensing fee.



Note: Fee for Service and Managed Care for all Risk Groups.





- Prescription drug costs account for 12 percent of Texas Medicaid spending in FY 2000.
- Department of Health and Human Services projects prescription drug costs to increase by an average of 12.6 percent per year over the next 10 years.
- Increases in prescription drug costs since 1993 appear to be attributable to:

Price changes to existing products	18%
New/more expensive products	39%
Increased utilization	43%

- The Vendor Drug Program establishes reimbursement for each prescription drug. The general formula includes the acquisition cost of the drug (which includes a number of purchase options) plus a dispensing fee, an inventory management factor, and a delivery incentive. The total of this formula is then compared to the reported Usual and Customary price and the lower of the two is paid.
- The new pharmacy services reimbursement rules were adopted with an effective date of October 21, 2001. Under these new rules, the Commission may use whatever reliable market resources are available to set drug product pricing for the Medicaid Vendor Drug Program. This allows us to respond more quickly to changes in the marketplace that influence reimbursement.

What are the main drivers in health care costs other than caseload for major HHS programs?

Medicaid Fee for Service

In the Medicaid Fee for Service program, the cost per Medicaid recipient has increased by 30 percent over the last five years.

- The primary driver of the increased cost per Medicaid recipient (cost per recipient month) is an increase in the number of services that recipients are getting; not an increase in the cost of those services.
- That is, over the last five years, while the average cost of individual services has remained fairly stable, the number of services per recipient has increased an average of six percent each year.

Vendor Drug Program

In the Vendor Drug Program, the cost per recipient per month has more than doubled (122.5 percent) over the last five years.

- While there has been an increase in both the cost per prescription and in the number of prescriptions per recipient, the primary driver of the increased cost per Medicaid recipient is the increase in the cost per prescription.
- That is, over the last five years, the average cost per prescription has increased by 69 percent while the average number of prescriptions per recipient has increased by 30 percent.

CHIP

The CHIP premium rates for the second year of the program increased approximately 19.7 percent, on average, as compared to first year rates.

- In developing the premium rates for this year we assumed that the average cost of medical services would increase 6 percent and the average cost of prescription drug services would increase 18 percent per year. These cost increase factors include both utilization and inflation components.
- Regarding utilization rates, while trend assumptions for Inpatient Hospital Services utilization was as expected, Outpatient Hospital Services, Physician Services, Lab and X-ray services, Behavioral Health, Prescription Drugs, and Other Services utilization exceeded expectations by twenty five percent on average.

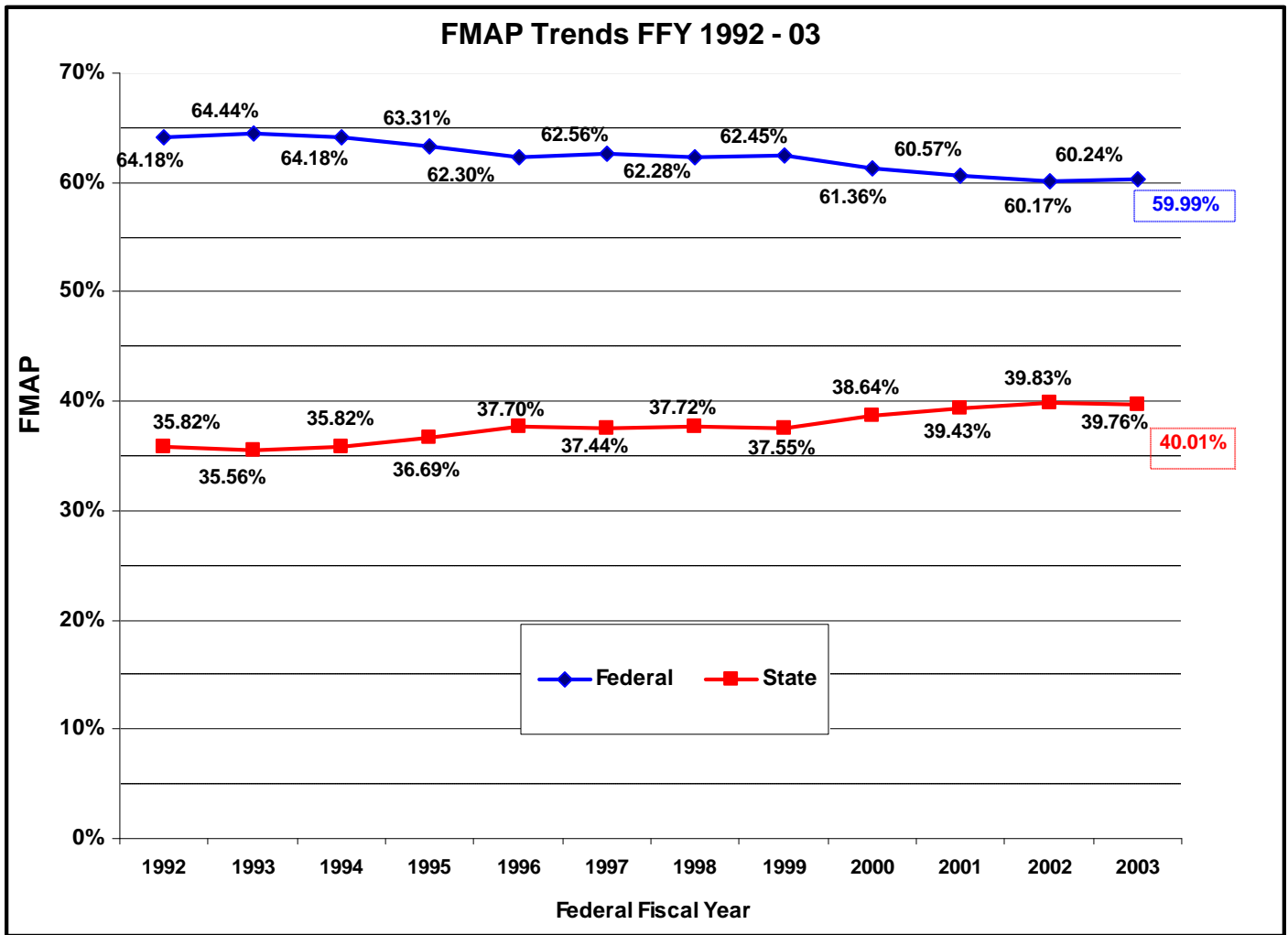
Long-Term Care

- In Nursing Homes the major cost driver is employee compensation (including benefits) primarily associated with nurses and nurse aides. Employee compensation is one of many costs that increase with inflation.
- Professional liability insurance has seen a significant rise in cost. While the cost of liability insurance is rising, it currently makes up about two percent of the overall average nursing home cost. Relative to employee compensation, liability insurance is not as major a driver of costs. HHSC Rate Setting Division is conducting a survey seeking to ascertain what portion of providers carry which insurance type in an effort to determine which providers would receive an associated rate adjustment that is being developed.
- Also the acuity of Long Term Care clients is increasing one or two percent per year.
- In the Community Care program likewise, the average number of hours of service needed by residents (acuity) is increasing one or two percent per year.

FMAP

The federal match on state spending on medical care can change from year to year with significant impact to the state. This federal match for Medicaid is referred to as the Federal Medical Assistance Percentage (FMAP) rate. The federal match for CHIP is also based on an enhanced version of this rate (the EFMAP).

- The FMAP formula is based on a state's three year average per capita income compared to the national per capita income. So, if the state has a healthier economy than the rest of the nation, the federal share of these expenses will decrease requiring the state to pick up a larger portion.
- Because of the volume of spending covered by the FMAP, what may be a minor percentage change in this rate can mean millions of dollars of increases or decreases in required state spending.



- The most recent information we have (October 19, 2001) from the Federal Funds Information for States (FFIS) projects the FMAP for federal FFY2003 to be 59.99 for Medicaid and 71.99 for CHIP.
- The April projection for the FFY2003 FMAP from FFIS used in the appropriations process was 60.24 for Medicaid (0.18 percent higher than now projected) and 72.17 for CHIP (0.13 percent higher than now projected). The HHS CFOs are preparing an estimate of the impact based on these new FFY 03 projected expenditures.