F I S C A L   I M P A C T   R E P O R T

ORIGINAL DATE 2/03/09
SPONSOR Gardner **LAST UPDATED** ______ **HB** 238

SHORT TITLE Medicaid Invests in Health Demo Project **SB** ______

ANALYST Earnest

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY09	FY10	FY11	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		$4,300.0*		$4,300.0	Non-recurring	State and Federal Funds

(Parenthesis ( ) Indicate Expenditure Decreases)
***See Fiscal Implications Section**

SOURCES OF INFORMATION
LFC Files

Responses Received From
Human Services Department (HSD)
Higher Education Department (HED)
Health Policy Commission (HPC)

SUMMARY

Synopsis of Bill

House Bill 238 creates the Medicaid Invests in Health Demonstration Project at the Human Services Department to establish Health Opportunity Accounts (HOA) for certain Medicaid-eligible individuals. State and federal funds would be deposited in the individuals HOA, which could then be used to pay the deductible for health care services under the individual's higher deductible health insurance plan. The bill requires HSD to submit a Medicaid state plan amendment to the Centers for Medicare and Medicaid Services and promulgate rules to implement the project.

FISCAL IMPLICATIONS

Assuming 1,000 individuals participate in the first year, HSD estimated operating expenses of $4.3 million to implement the Medicaid Invests in Health Demonstration Project, including:

- The initial HOA budget of $2,500 for each participant - $2,500,000
- Ten additional FTE as enrollment counselors and program managers - $800,000
- Contract with administrator to oversee HOA - $250,000
- Medicaid MMIS System changes and reporting - $250,000

- Eligibility, ISD2 System, changes and reporting - $500,000

HSD also notes that the bill has a significant impact to update the department's ISD2 -- 1600 Hrs to provide for a new Medicaid Category of Eligibility (COE).

However, it appears that the department's estimate of $2.5 million for the HOA could be offset by reduced expenditures for HOA participants in the regular Medicaid Program. The savings would come from the department by purchasing a potentially less expensive high deductible plan for participants who would otherwise be covered through NM's mangaged care program.

SIGNIFICANT ISSUES

The federal Deficit Reduction Act of 2005 established a new demonstration program that allows states to offer HOAs, essentially savings accounts controlled by consumers to pay for medical expenses in conjunction with a high deductible health plan. Like Health Savings Accounts in the private sector, HOAs are intended to give consumers more control and more risk for their health care decisions. A Centers for Medicare and Medicaid Services (CMS) fact sheet is attached.

HSD provided the following comment:

> The Medicaid consumer-directed care Health Opportunity Act (HOA) model builds on the same concept as Health Savings Accounts (HSAs) and uses the same logic that a consumer who is in control of, and at greater risk for, his or her own health care costs will result in more appropriate decision-making by the consumer. An access to care issue arises when consumers do not seek preventive services due to concerns about depleting the account in case of future emergencies. This should be alleviated somewhat because the deductible is funded at 100%-110%. However, consumers who have to make up any out of pocket amount may not seek care. Because the deductible for an HOA plan may be up to 10 percent greater than the amount the state contributes to an HOA account, people who have HOAs can have a gap in their coverage. Even a modest gap in coverage may mean that individuals will forgo necessary medical care because they cannot afford it
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> Another significant issue with the consumer-directed care model is that individuals may not have access to the information or education they need in order to effectively manage price and quality of care issues and make informed decisions regarding their health care. The bill assumes that Medicaid recipients will become more cost-conscious by making appropriate decisions regarding utilization of Medicaid services by receiving counseling. Most low-income individuals and families already make tough decisions about their health and health care. Having to manage a health savings account may actually exacerbate, rather than alleviate, problems that these recipients already face in affording and accessing needed health care.
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> Also, extensive training and outreach efforts would have to be conducted in order for Medicaid recipients to understand how to become educated purchasers of health care services and to make appropriate utilization decisions. Many beneficiaries will have limited experience in managing cash accounts.

ADMINISTRATIVE IMPLICATIONS

As noted in the Fiscal Implications section, HSD anticipates additional operating expenses to implement the bill, including additional staff, systems changes, contracting, reimbursement and oversight of a contracted administrator. According to HSD, “hiring and training staff and making system changes could take many months or longer. Changes to the aging and fragile eligibility system, ISD2, are very expensive and may not even be possible. Putting resources into these changes not only costs money, but is also at the cost of other changes not getting done.”

BE/mc

Important Facts for State Policymakers
Deficit Reduction Act

November 5, 2007

Health Opportunity Accounts

The Deficit Reduction Act of 2005 establishes a new demonstration program that allows States to offer "Health Opportunity Accounts" – savings accounts that can be used to pay for medical expenses in conjunction with a high deductible health plan.

Background

The private sector increasingly allows health care consumers to have more control in their health care by determining how their health care dollars are spent. Private sector health insurance companies do this by offering savings products (health savings accounts) in combination with high deductible health plans. The Deficit Reduction Act (DRA) of 2005 included a demonstration program to provide a new type of these consumer-controlled health care accounts ("Health Opportunity Accounts") to Medicaid beneficiaries.

The Demonstration Program for Health Opportunity Accounts

This demonstration tests alternative systems of delivering Medicaid benefits through a savings account in combination with a high deductible health plan. The new option allows States to set up accounts for Medicaid enrollees that can be used to pay for out of pocket costs for medical expenses. These Medicaid enrollees will be offered insurance plans that include at least the State Medicaid benefits.

The demonstration allows up to ten states to test Health Opportunity Accounts (HOAs) over a five-year demonstration period. The State and Federal government will contribute up to a total of $2,500 for an eligible adult and $1,000 for a child towards deposits in the beneficiary's HOA.[1]

Who May Participate?

Enrollment in Health Opportunity Accounts is voluntary and will last for a period of 12 months. Individuals who are eligible to participate in the demonstration are primarily healthy adults and healthy children. Below are groups of Medicaid beneficiaries that are not eligible to participate in the demonstration programs. States may choose to further limit eligibility.

Beneficiaries Not Eligible for HOAs

- Individuals 65 and older
- Individuals who are blind or disabled
- Pregnant women
- Individuals who have been eligible for medical assistance for less than three months;
- Certain individuals in hospitals, nursing homes and other medical institutions

[1] People who become ineligible for Medicaid, but have remaining balances in their Health Opportunity Account, can use the balance (less 25 percent) for up to three years to cover the cost of such things as medical expenses or to purchase private health insurance coverage. Individuals who have had a Health Opportunity Account for more than one year before becoming ineligible may use any surplus funds for such things as job training programs or tuition payments, if permitted by the State.

- Individuals entitled to any part of Medicare
- Individuals who are terminally ill and are receiving benefits for hospice care
- Certain individuals who are medically frail or have special medical needs
- Children receiving Title IV-E foster care or adoption assistance

What Should the Demonstration Look Like?

States' Health Opportunity Account demonstrations must:

1. Create patient awareness of the high cost of medical care;
2. Provide incentives to patients to seek preventive care services;
3. Reduce inappropriate use of health care services;
4. Enable patients to take responsibility for health outcomes;
5. Provide enrollment counselors and ongoing education activities;
6. Allow transactions involving Health Opportunity Accounts to be conducted electronically and without cash; and,
7. Provide access to negotiated provider payment rates.

How Do HOAs Work?

Health Opportunity Accounts work in combination with a high-deductible health plan (HDHP).

- A beneficiary voluntarily enrolls in the State's HOA demonstration.
- Up to $2,500 for an eligible adult and $1,000 for a child are deposited in the individual's HOA. The State's contribution is matched by a Federal contribution based on the State's Federal Medical Assistance Percentage (FMAP).
- The State simultaneously enrolls the individual in the HDHP.
- Reimbursement for medical expenses incurred which are not covered by the HDHP (including premiums, co-payments and co-insurance) are from an individuals HOA account. States must establish electronic systems to reimburse the providers for the service.

Applying for a HOA Demonstration

States interested in operating a HOA demonstration program must submit a State plan amendment (SPA) to the Centers for Medicare & Medicaid Services (CMS). CMS will evaluate each HOA submission to assure that every element is addressed before the SPA will be approved. CMS will approve the first 10 demonstration requests that fully address the seven criteria listed above, and meet other programmatic requirements that are detailed in the State Medicaid Director Letter issued on January 10, 2007. As of June 2007, one demonstration has been approved. Only 10 State projects may be approved during the first five years of the program.

Important Links

State Medicaid Director Letter on DRA Health Opportunity Accounts
http://www.cms.hhs.gov/smdl/downloads/SMD011007.pdf
Health Opportunity Accounts State Plan Amendment Preprint template
http://www.cms.hhs.gov/smdl/downloads/HOApreprintfinal112906.pdf