

## MEDICAL ASSISTANCE STUDY AND REPORTS - BACKGROUND MEMORANDUM

### MEDICAID STUDY

Section 5 of 2005 House Bill No. 1459 (attached as Appendix A) provides for a Legislative Council study of the Medicaid medical reimbursement system, including costs of providing services, fee schedules, parity among provider groups, and access to services.

#### Previous Study

The 2003-04 interim Budget Committee on Health Care studied the feasibility and desirability of establishing an advisory council for the Medicaid program and reviewed Medicaid payments, access to services, and utilization. The committee made no recommendations as a result of its study.

#### Muse and Associates Report

During the 2005 legislative session, the Legislative Assembly received a report from Muse and Associates, consultants who conducted a review of the North Dakota Medicaid program during the 2003-04 interim. The report included a number of recommendations relating to the North Dakota Medicaid program. A copy of the report is attached as Appendix B.

#### Medicaid Funding

For the 2005-07 biennium, the Legislative Assembly appropriated \$976.1 million for medical assistance, of which \$307 million is from the general fund. Of the \$976.1 million total, \$385.6 million is for medical services, \$343 million is for nursing home services, \$211.6 million is for developmental disabilities grants, \$12.1 million for Healthy Steps, and \$23.8 million for other services, including personal care services, targeted case management, and waiver services. Charts showing a history of legislative appropriations for medical assistance since the 1995-97 biennium and the major cost categories within medical assistance are attached as Appendix C.

Medicaid costs are shared between the federal and state government. The federal medical assistance percentage (FMAP) determines the federal share of Medicaid costs with the state paying the remaining amount. The FMAP changes each October 1 and is based on the federal fiscal year (October through September). The FMAP is calculated using a three-year average of state per capita personal income compared to the national average per capita personal income. A state with an average per capita personal income has an FMAP of 55 percent. A state's FMAP may not be less than 50 percent nor more than

83 percent. A chart showing North Dakota FMAPs from 1996 to 2007 is attached as Appendix D.

Two programs have an enhanced FMAP--the children's health insurance program and breast and cervical cancer treatment services. The enhanced FMAP is calculated by reducing each state's share by 30 percent of the regular FMAP. North Dakota's enhanced FMAP for each year is listed below:

1998	79.30%	2003	77.85%
1999	78.96%	2004	77.82%
2000	79.29%	2005	77.24%
2001	78.99%	2006	76.10%
2002	78.91%	2007	73.66% projected

A Department of Human Services schedule showing the 2005-07 budget by service type for medical service-related categories is attached as Appendix E.

#### 2005 Legislative Action

The 2005 Legislative Assembly provided funding for 2.65 percent annual inflationary increases for Medicaid providers for the 2005-07 biennium. In addition, the Legislative Assembly added \$170,940, of which \$60,000 is from the general fund for increasing ambulance services payment rates.

#### Medical Assistance Payments as a Percentage of Billed Charges

A schedule prepared by the Department of Human Services for fiscal year 2004 showing total billed charges by provider type, the amount of the billed charges paid by Medicaid, and the percentage of the billed amount paid is attached as Appendix F.

### MEDICAID-RELATED REPORTS

In addition to the study, the committee has been assigned to receive the following reports from the Department of Human Services relating to the medical assistance program:

1. Five-year Medicaid analysis report - North Dakota Century Code Section 50-06-25 (attached as Appendix G) requires the department to present a biennial report to the Legislative Council providing a five-year historical analysis of the number of persons receiving services under the medical assistance program, the cost of the services by program appropriations, the budget requested, the budget appropriated, and actual expenditures for each of the five preceding fiscal

- years. The report is to include a comparison of the state's experience to surrounding states and using actuarial tools, the report must project estimated usage trends and budget estimates for meeting those trends for the succeeding five-year period. The Legislative Council may request from the department the actuarial reports in a format and timeline the Legislative Council determines necessary to monitor program policies and legislative appropriations.
2. Asset disregard for long-term care insurance report - Section 2 of House Bill No. 1217 (attached as Appendix H) requires the department, before November 1, 2005, to report to the Legislative Council regarding the status of an amendment to North Dakota's Medicaid state plan allowing the disregard of assets to the extent that payments are made or because an individual has received or is entitled to receive benefits under a long-term care insurance policy. House Bill No. 1217 allows individuals to own and retain assets and still be eligible for medical assistance benefits if an individual owns a long-term care insurance policy. The section becomes effective on the date the department certifies to the committee that an amendment to the Medicaid state plan has been approved by the federal government allowing these provisions.
  3. Prescription drug monitoring report - Section 3 of House Bill No. 1459 (attached as Appendix A) requires the Department of Human Services and the prescription drug monitoring program working group to provide periodic status reports to the Legislative Council regarding the activities of the working group and implementation of the prescription drug monitoring program. House Bill No. 1459 provides that the working group is to:
    - a. Identify problems relating to the abuse and diversion of controlled substances and how a prescription drug monitoring program may address these problems.
    - b. Identify a strategy and propose a prescription drug monitoring program to address the problems. Factors to be addressed include determination of:
      - (1) The types of prescription drugs that will be monitored.
      - (2) The types of drug dispensers that will be required to participate in the program.
      - (3) What types of data will be required to be reported.
      - (4) The persons that will be allowed to access the data, the types of data that will be accessible, and how the data will be protected.
  - (5) The entity that will implement and maintain the program.
  - c. Establish how the program will be implemented, the fiscal requirements for the program, and the timeline for implementation. The working group is to consider the feasibility and desirability of formal or informal educational outreach to North Dakota communities and interested persons.
  - d. Consider possible performance measures that the state may use to assess the impact of the program and whether special data collection instruments are needed to effectively monitor the impact of the program.
  - e. Provide to the department a draft of proposed administrative rules to implement the program.
- The 2003-04 interim Budget Committee on Health Care studied, pursuant to Section 11 of 2003 House Bill No. 1430, pharmacy assistance programs. As part of the study, the committee reviewed the cost of prescription drugs paid for by Medicaid, the role of the Drug Use Review Board, and the prior authorization process for prescription drugs. The committee made no recommendations as a result of its study.
4. Medicaid program - Management report - Section 4 of House Bill No. 1459 (attached as Appendix A) provides that the Legislative Council receive a report from and provide input to the Department of Human Services regarding the development of recommendations relating to management of the medical assistance program. A number of the recommendations resulted from the report provided to the 2005 Legislative Assembly by Muse and Associates, the consultants who conducted a review of the North Dakota Medicaid program during the 2003-04 interim. A copy of the report is attached as Appendix B. House Bill No. 1459, as approved by the 2005 Legislative Assembly, includes requirements for management of the medical assistance program that the department is to implement with input from the Legislative Council. The management initiatives include:
    - a. Provide statewide targeted case management services focusing on the 2000 medical assistance recipients with the highest cost for treatment of chronic diseases and the families of neonates that can benefit from case management

services. The case management services must focus on the recipients in these groups which will result in the most cost-savings considering available resources and may include a primary pharmacy component for the management of medical assistance recipient medication.

- b. Require medical assistance providers to use the appropriate diagnosis or reason and procedure codes when submitting claims for medical assistance reimbursement. Review and develop recommendations to identify instances that a provider of services is not properly reporting diagnosis or reason and procedure codes when submitting claims and review and recommend any specific providers from which a potential benefit might be obtained by requiring additional diagnosis or reason and procedure codes.
- c. Review and develop recommendations for the improvement of mental health treatment and services, including the use of prescription drugs for medical assistance recipients.
- d. Review and develop recommendations regarding whether the number of medical assistance recipients placed in out-of-state nursing homes should be reduced.
- e. Review and develop recommendations regarding whether use of post-office addresses or street addresses are the appropriate mailing addresses for medical assistance recipients.
- f. Review and develop recommendations regarding whether to require medical assistance providers to secure prior authorization for certain high-cost medical procedures.
- g. Review and develop recommendations regarding whether a system for providing and requiring the use of photo identification medical assistance cards for all medical assistance recipients should be implemented.
- h. Review and develop recommendations regarding whether medical assistance providers should be required to use tamper-resistant prescription pads.
- i. Develop a plan to provide information to blind and disabled medical assistance recipients who may be eligible for Medicare Part D benefits.
- j. Review and recommend a plan for implementing the necessary infrastructure to permit risk-sharing arrangements between

the department and medical assistance providers.

The 2005 Legislative Assembly provided \$565,000, of which \$282,500 is from the general fund for costs associated with implementing these initiatives during the 2005-07 biennium and reduced funding for medical assistance grants by \$1,530,000, of which \$537,030 is from the general fund to reflect savings from implementation of these initiatives.

5. Medicare prescription drug implementation plan report - Section 2 of 2005 House Bill No. 1465 (attached as Appendix I) requires the Department of Human Services to report to the Legislative Council regarding the department's progress in developing and implementing a plan for the implementation of the Medicare prescription drug program that becomes effective January 1, 2006. House Bill No. 1465 appropriates \$50,000 from the general fund to the department for costs associated with developing and implementing the plan.

Under current law, individuals who are eligible for both the state Medicaid program and the federal Medicare program receive prescription drug coverage under the state Medicaid program. Beginning January 1, 2006, under the new federal Medicare Modernization Act, these individuals will receive coverage for their prescription drugs under the federal Medicare program. However, state Medicaid programs are required to pay a portion of the Medicaid program "savings" to the federal government each year. This "clawback" provision requires states to pay 90 percent of the estimated state savings each year. This percentage gradually decreases to 75 percent by 2014.

## STUDY PLAN

The committee may wish to proceed with this study and related responsibilities as follows:

1. Receive an updated report showing the percentage of Medicaid payments to billed charges by provider type for fiscal year 2005.
2. Receive testimony from Medicaid service providers regarding the cost of providing services and the appropriateness of the amounts paid by Medicaid.
3. Receive testimony from other interested persons regarding the Medicaid medical reimbursement system, including the costs of providing services, fees schedules, and parity among provider groups.
4. Receive testimony from the Department of Human Services, providers, advocacy groups,

- and other interested persons on the availability and accessibility of services across the state.
5. Receive status reports at each meeting from the Department of Human Services regarding the development of recommendations relating to the management of the medical assistance program.
  6. Receive status reports at each meeting from the Department of Human Services and the prescription drug monitoring program working group regarding the activities of the working group and implementation of the prescription drug monitoring program.
  7. Receive status reports from the Department of Human Services regarding the department's progress in developing and implementing a plan for implementation of the Medicare prescription drug program.
  8. Receive reports from the Department of Human Services before November 1, 2005, regarding the status of the amendment to the Medicaid state plan regarding the disregard of any assets to the extent the payments are made or because an individual has received or is entitled to receive benefits under a long-term care insurance policy.
  9. Receive the biennial report from the Department of Human Services providing a five-year historical analysis of the number of persons receiving services under the medical assistance program, the cost for the services by program appropriations, the budget requested, the budget appropriated, and actual expenditures and projections for the succeeding five-year period.
  10. Receive status reports from the Department of Human Services on Medicaid expenditures during the 2005-07 biennium.
  11. Receive testimony from other interested persons regarding the study, reports, or other areas relating to the medical assistance program.
  12. Develop committee recommendations and any legislation necessary to implement the recommendations.
  13. Prepare the committee's final report for submission to the Legislative Council.

ATTACH:9