Budget Overview for the Department for Medicaid Services
Prepared for the Budget Review Subcommittee on Human Resources

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September 20, 2023
Kentucky Medicaid at a Glance

➢ Approximately 1,665,114 Eligibles (as of July 31, 2023)
  • 129,100 children covered under Kentucky Children’s Health Insurance Program (KCHIP)
  • 615,846 covered under Medicaid Expansion (ACA)
  • 920,168 covered under Traditional (Non-ACA)

➢ Over 69,000 enrolled providers

➢ $16.8 billion in total SFY 2023 expenditures (Administrative and Benefits combined)
# Medicaid Benefits Budget

Benefits w/KCHIP (Dept 748)

<table>
<thead>
<tr>
<th></th>
<th>SFY 2021 ACTUAL</th>
<th>SFY 2022 ACTUAL</th>
<th>SFY 2023 ACTUAL</th>
<th>SFY 2024 Budgeted</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$2,018,893,700</td>
<td>$1,934,395,200</td>
<td>$1,962,892,300</td>
<td>$2,402,688,700</td>
</tr>
<tr>
<td>Restricted Agency Funds</td>
<td>$662,841,900</td>
<td>$599,576,300</td>
<td>$1,042,272,300</td>
<td>$1,705,580,100</td>
</tr>
<tr>
<td>Federal Funds</td>
<td>$11,703,230,300</td>
<td>$12,358,299,200</td>
<td>$13,570,941,900</td>
<td>$13,204,648,600</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$14,384,965,900</td>
<td>$14,892,270,700</td>
<td>$16,576,106,500</td>
<td>$17,312,917,400</td>
</tr>
</tbody>
</table>
Medicaid Benefits
(Actual SFY 2023)

Managed Care
$13,001,486,400

Total FFS: $3,574,620,200 21.56%
Total MCO: $13,001,486,400 78.44%
Grand Total: $16,576,106,600

Nursing Facilities
$1,316,085,400
Hospitals
$422,465,800
Pharmacy
$129,505,200
Dental
$2,979,500
ICF/IID
$168,380,100
Transportation
$163,161,700
Physicians & Clinics
$422,050,290
Alternative Community Care
$1,496,717,300
All Other
$547,124,500
Medicaid Benefits Budget

➢ SFY 2023 expenditures increased by $1.68B (11.31%) over SFY 2022 expenditures.

➢ Approximately 59% of the increase in FFS spending was due to increase expenditures in waiver and nursing facility.

➢ The 10.21% increase in managed care payments were mainly due to the following:
  • $581.5M (48.3%) increase due to increased enrollment
  • $344.0M (28.5%) increased spending on services
  • $217.3M (18.0%) increase in Hospital Reimbursement Improvement Plan (HRIP)
  • $ 57.3M (4.8%) increase in University Directed Payments
  • $ 5.2M (0.4%) increase in Ambulance Provider Assessment Program (APAP)
Approximately 22.75% of the managed care payments are related to directed payments. The following are the SFY 2023 Directed Payments that totaled $2,957,751,400 paid in SFY 2023:

- University Directed Payments - $1,548,118,300
- Hospital Rate Improvement Program (HRIP) - $1,362,928,400
- Ambulance Provider Assessment Program (APAP) - $46,704,700
## Medicaid Benefits Budget

Below are the top 5 increase in managed care claims:

<table>
<thead>
<tr>
<th></th>
<th>SFY2021</th>
<th>SFY2022</th>
<th>Year-to-Year Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Pharmacy</td>
<td>$1,854,803,500</td>
<td>$2,382,925,400</td>
<td>$528,121,900</td>
</tr>
<tr>
<td>Outpatient Hospital</td>
<td>$1,360,864,100</td>
<td>$1,534,826,500</td>
<td>$173,962,400</td>
</tr>
<tr>
<td>Professional</td>
<td>$1,648,907,500</td>
<td>$1,813,123,000</td>
<td>$164,215,500</td>
</tr>
<tr>
<td>Inpatient Hospital</td>
<td>$1,671,556,200</td>
<td>$1,794,844,900</td>
<td>$123,288,700</td>
</tr>
<tr>
<td>FQHC/RHC</td>
<td>$136,254,000</td>
<td>$174,624,500</td>
<td>$38,370,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>SFY2022</th>
<th>SFY2023 (Annualized)*</th>
<th>Year-to-Year Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Pharmacy</td>
<td>$2,382,925,400</td>
<td>$2,727,501,700</td>
<td>$344,576,300</td>
</tr>
<tr>
<td>Outpatient Hospital</td>
<td>$1,534,826,500</td>
<td>$1,608,503,000</td>
<td>$73,676,500</td>
</tr>
<tr>
<td>Professional</td>
<td>$1,813,123,000</td>
<td>$1,868,436,300</td>
<td>$55,313,300</td>
</tr>
<tr>
<td>FQHC/RHC</td>
<td>$174,624,500</td>
<td>$187,276,200</td>
<td>$12,651,700</td>
</tr>
<tr>
<td>Inpatient Hospital</td>
<td>$1,794,844,900</td>
<td>$1,671,551,600</td>
<td>$(123,293,300)</td>
</tr>
</tbody>
</table>

*2023 data is incomplete due to claim runout so this is annualized data
Medicaid Benefits Budget

- In aggregate, the six Medicaid Waiver programs experienced a $339m (31.16%) increase in total expenditures in SFY 2023 when compared to SFY 2022.

- House Bill 1 requires another 10% increase in rates in SFY 2024 for all waivers except Model Waiver.

<table>
<thead>
<tr>
<th>Supports for Community Living Waiver</th>
<th>SFY 2022</th>
<th>SFY 2023</th>
<th>Increase/Decrease</th>
<th>% change from 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>$395,915,100</td>
<td>$482,832,100</td>
<td>$86,917,000</td>
<td>21.95%</td>
<td></td>
</tr>
<tr>
<td>Michelle P Waiver</td>
<td>$346,373,800</td>
<td>$378,348,000</td>
<td>$31,974,200</td>
<td>9.23%</td>
</tr>
<tr>
<td>HCB Waiver</td>
<td>$284,960,900</td>
<td>$491,749,300</td>
<td>$206,788,400</td>
<td>72.57%</td>
</tr>
<tr>
<td>Model Waiver</td>
<td>$1,691,700</td>
<td>$1,737,700</td>
<td>$46,000</td>
<td>2.72%</td>
</tr>
<tr>
<td>Brain Injury Waiver</td>
<td>$26,760,500</td>
<td>$30,477,500</td>
<td>$3,717,000</td>
<td>13.89%</td>
</tr>
<tr>
<td>ABI LTC Waiver</td>
<td>$31,168,500</td>
<td>$40,428,500</td>
<td>$9,260,000</td>
<td>29.71%</td>
</tr>
</tbody>
</table>

| Total                                | $1,086,870,500 | $1,425,573,100 | $338,702,600 | 31.16%           |
Key dates to remember:
- March 18, 2020: SB 50 passed by the Kentucky General Assembly
- January 1, 2021: Single Preferred Drug List (PDL) implemented by the MCOs
- July 1, 2021: Implemented single PBM and pharmacy reimbursement changes

Methodology of analysis:
- Analyzed time periods before (CY 2018-2020) and after (CY 2021-2022) provisions of Senate Bill 50 were implemented.
- Evaluated the total managed care pharmacy costs defined as:
  \[ \text{Total pharmacy cost} = \text{MCO claim expenditures} + \text{MCO report non-benefit expenses} - \text{estimated rebates} \]
  - All amounts (including rebates) are on an incurred date of service basis.
  - Claims plus non-benefit expenses underlie the future capitation rates paid to the MCOs.
  - 340B, Title XXI CHIP, and zero paid claims are not eligible for rebates.
- Per member per month (PMPM) amounts were adjusted to normalize for enrollment mix changes that have occurred, particularly during the COVID-19 public health emergency.
Annual total PMPM trends were above 10% prior to SB 50
- Claim PMPMs increased 5.7% on average between CY 2018 and CY 2020 under MCO management.
- Rebate PMPMs declined 6.9% in that same period primarily due increased 340B utilization and MCOs switching to newly launched generics with lower rebates.

The 8.6% reduction in CY 2021 is due to rebates outpacing the increase in MCO claim expenditures.
- This is due to maximization of rebates after implementation of the single Preferred Drug List (PDL).
- This reduction could have been larger if not for the continued increase in 340B utilization.

The 15.9% increase in CY 2022 is due to MCO claim expenditures outpacing the increase in rebates.

<table>
<thead>
<tr>
<th>CY</th>
<th>Average MCO Enrollment</th>
<th>Total Pharmacy PMPM</th>
<th>PMPM Percentage Change vs. prior year</th>
</tr>
</thead>
<tbody>
<tr>
<td>CY2018</td>
<td>1,228,000</td>
<td>$52.23</td>
<td></td>
</tr>
<tr>
<td>CY2019</td>
<td>1,197,000</td>
<td>$59.42</td>
<td>13.8%</td>
</tr>
<tr>
<td>CY2020</td>
<td>1,231,000</td>
<td>$65.74</td>
<td>10.6%</td>
</tr>
<tr>
<td>CY2021</td>
<td>1,357,000</td>
<td>$60.07</td>
<td>-8.6%</td>
</tr>
<tr>
<td>CY2022</td>
<td>1,434,000</td>
<td>$69.60</td>
<td>15.9%</td>
</tr>
</tbody>
</table>
This illustrates that had the provisions of SB 50 not gone into effect the total pharmacy expenditures would have been higher by the following estimates:

- $172.5M in CY2021 ($138M federal funds and $34.5M state funds)
- $110.2M in CY2022 ($88.2M federal funds and $22.0M state funds)

Rebates have increased year over year but so has the overall pharmacy cost

- This is primarily due to brand drugs being preferred over generic due to maximizing rebates to have a lower net cost.
- A significant increase in high-cost brand drugs.
  - Some of these high-cost drugs are relatively new to the market and we have observed significant increases in utilizations for these drugs.
QUESTIONS and/or Comments?