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January 25, 2011

Ms. Pat Casanova
Director of Medicaid and Health Policy
State of Indiana
Office of Medicaid Policy and Planning
402 W. Washington Street
Indianapolis, IN 46204

RE: HEALTHY INDIANA PLAN STATE PLAN AMENDMENT FINANCIAL PROJECTION

Dear Pat:

Milliman, Inc. (Milliman) has been retained by the State of Indiana, Office of Medicaid Policy and Planning (OMPP) to provide consulting services related to projections of the cost of amending the State Plan to include the Healthy Indiana Plan (HIP) as the benefit option for the Medicaid expansion population under ACA. This correspondence includes Federal and State financial projections and associated documentation.

LIMITATIONS

The information contained in this correspondence, including any enclosures, has been prepared for the State of Indiana, Office of Medicaid Policy and Planning (OMPP) and their advisors. Milliman anticipates the results of this analysis will be shared with CMS. These results may not be distributed to any other party without the prior consent of Milliman. To the extent that the information contained in this correspondence is provided to any approved third parties, the correspondence should be distributed in its entirety. Any user of the data must possess a certain level of expertise in actuarial science and health care modeling that will allow appropriate use of the data presented.

Milliman makes no representations or warranties regarding the contents of this correspondence to third parties. Likewise, third parties are instructed that they are to place no reliance upon this correspondence prepared for FSSA by Milliman that would result in the creation of any duty or liability under any theory of law by Milliman or its employees to third parties.

Milliman has relied upon certain data and information provided by FSSA and its vendors. The values presented in this correspondence are dependent upon this reliance. To the extent that the data was not complete or was inaccurate, the values presented will need to be reviewed for consistency and revised to meet any revised data. The data and information included in the report has been developed to provide the State with information on the financial implications of amending the State Plan to include the Healthy Indiana Plan (HIP). The data and information presented may not be appropriate for any other purpose.



It should be emphasized that actual results will differ from those presented here if experience does not emerge consistent with the assumptions contained in this correspondence.

SUMMARY OF RESULTS

The State has proposed to amend the State Plan to designate HIP as the coverage vehicle for most adults effective January 1, 2014. To support the State Plan Amendment, we have developed a fiscal impact of the benefit for the newly eligible population in FFY 2014 and FFY 2015.

Table 1 illustrates projected expenditures for the HIP program during FFY 2014 and FFY 2015. Expenditures for FFY 2014 represent the time period from January 1, 2014 through September 30, 2014, or nine months to correspond with the effective date of the expansion. Illustrated expenditures for FFY 2015 represent one full year.

Table 1
State of Indiana
Family and Social Services Administration
Projected HIP Expenditures (in \$ millions)

FFY 2014 (9 months) and FFY 2015

| | FFY 2014 (Jan 2014 – Sep 2014) | FFY 2015 (Oct 2014 – Sep 2015) |
|-------------------------------------|---|---|
| Projected Enrollment | 330,000 | 336,500 |
| Per Member Per Month Cost | \$440.29 | \$457.90 |
| Total Projected Expenditures | \$1,307.7 | \$1,849.0 |
| Assumed FMAP | 100.00% | 100.00% |
| Federal Share | \$1,307.7 | \$1,849.0 |
| State Share | \$0 | \$0 |

Expenditures in Table 1 were developed assuming reimbursement at HIP reimbursement rates. HIP reimbursement is at Medicare rates, or at 130% of Medicaid rates for services not reimbursed by Medicare. Additional exhibits comparing projected expenditures at HIP and Medicaid reimbursement rates are provided in Enclosure 1.

Projections assume that HIP benefits are enhanced in order to meet updated Affordable Care Act (ACA) benchmark equivalent requirements. Benefit enhancements included in this projection are described in the next section.

The State share was calculated assuming the enhanced FMAP of 100% for the newly eligible, as authorized by ACA.

Table 2 illustrates average monthly enrollment assumed for purposes of the projections in Table 1. For comparison, average monthly enrollment during SFY 2010 has also been illustrated. Medicaid expansion estimates are consistent with the Alternate Participation Scenario described in previous correspondence related to the Financial Impact of the Affordable Care Act (ACA), most recently dated October 18, 2010. Under the Full Participation Scenario, an additional 120,000 newly eligible adults are expected to enroll.

Table 2
State of Indiana
Family and Social Services Administration
Projected HIP Enrollment (Average Monthly)

| | SFY 2010 | FFY 2014 | FFY 2015 |
|-------------------------|---------------|----------------|----------------|
| HIP Caretakers | 24,000 | 164,000 | 167,500 |
| HIP Non-Caretakers | 22,000 | 166,000 | 169,000 |
| Total Enrollment | 46,000 | 330,000 | 336,500 |

PROPOSED MODIFICATIONS TO HIP BENEFITS

Under health care reform legislation, Medicaid enrollees will need to receive a comprehensive medical benefits package known as Benchmark Equivalent coverage. To qualify, the benefits package must include certain mandatory benefits and also have an aggregate actuarial value at least as high as one of the benchmark plans. The benchmark plans include the Federal Employees Health Benefit Plan (FEHBP), Indiana State employee medical coverage, and the HMO plan with the largest insured commercial enrollment in the state.

Milliman provided updated HIP benchmark benefit analysis in correspondence provided January 25, 2011. This analysis compared the actuarial value of benefits provided to Indiana State employees to the actuarial value of HIP benefits, both current and with proposed enhancements. This study concluded that with proposed enhancements, and after consideration of cost sharing, HIP benefits will be slightly richer than those provided to Indiana State employees.

Under the state plan amendment, the current HIP benefits would be modified to meet the Benchmark Equivalent coverage requirements:

- **Maternity Benefits:** Under the current structure, HIP members who become pregnant are reenrolled in Package B coverage. Under the proposed benefit enhancement, pregnant members would have full maternity benefits available under HIP and would have no need to change plans.
- **Non-Emergency Transportation Benefits:** Benefits provided would be the same as those available to Package A Medicaid enrollees in Indiana. Provider reimbursement would be at Medicare rates or 130% of Medicaid rates, consistent with reimbursement for other HIP services.

- **Vision Benefits:** Vision benefits would be provided to all HIP enrollees. Benefits provided would be the same as those available to Package A Medicaid enrollees in Indiana. Provider reimbursement would be at Medicare rates or 130% of Medicaid rates, consistent with reimbursement for other HIP services.
- **Dental Benefits:** Dental benefits would be provided to HIP enrollees under the age of 21 in order to meet EPSDT requirements. Benefits provided would be the same as those available to Package A Medicaid enrollees under the age of 21. Provider reimbursement was assumed to be at 130% of Medicaid rates, since Medicare does not provide dental coverage.
- **Annual Benefit Maximum and Lifetime Maximum:** Currently, HIP has an annual benefit maximum of \$300,000 and a lifetime maximum of \$1,000,000. These would be removed.

The enhanced benefit package described above has been used in financial projections illustrated in this correspondence.

ASSUMPTIONS AND METHODOLOGY

Enrollment

Adults who would be enrolled in HIP would include both the newly eligible and those currently enrolled in HIP. HIP would cover all adults who do not meet current Medicaid eligibility but are expected to be eligible for Medicaid as of January 1, 2014.

Medicaid expansion estimates are consistent with the Alternate Participation Scenario described in previous correspondence related to the Financial Impact of the Affordable Care Act (ACA), most recently dated October 18, 2010. Under the Full Participation Scenario, an additional 120,000 newly eligible adults are expected to enroll.

Medicaid expansion estimates were developed based on 2008 Current Population Survey (CPS) data from the U.S. Census Bureau, which uses 2007 income data. This is the most recent pre-recession census data. The total eligible adult population under 138% of FPL was assumed to grow at 2% per year.

Per Member Per Month Costs

Current Caretaker and Non-Caretaker per member per month costs, stratified by age and gender, formed the starting point for projections. Adjustments were made for enhanced benefits, lower projected morbidity, age/gender mix, and trend.

Enhanced Benefits

Non-Emergency Transportation, Vision, and Dental benefits were assumed to be similar to benefits provided to Medicaid enrollees. For these categories of service, per member per month costs for adult managed care Medicaid enrollees were adjusted for Medicare rates, improved morbidity, and trend. In the case of Dental benefits, per member per month dental costs for 19-20 year old Medicaid managed care enrollees were used as the starting point, adjusted to 130% of Medicaid rates, and only applied to projected costs for newly eligible 19 and 20 year old individuals.

Elimination of the Annual and Lifetime Maximums was expected to increase overall costs by 3%.

Morbidity

Morbidity is expected to decrease due to reduced selection pressure. Current HIP enrollees tend to be less healthy than those who have not enrolled. Due to the individual mandate, many of those who are not currently enrolled are expected to enroll in 2014. This will decrease the anti-selection and reduce average morbidity of the populations served. Average morbidity for those not currently enrolled was assumed to be similar to the average morbidity of commercial populations of employed individuals, adjusted for age and gender.

Age/Gender Mix

Those currently enrolled in HIP are older and more likely to be female than the newly eligible population as a whole. Costs were developed by gender and ten year age bands, and applied to projected enrollment in each age/gender cell. Projected population shifts reduced the composite per member per month cost by approximately 10%.

Trend

All per member per month costs were trended forward at an annual rate of 4% per year.



Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. I am a member of the American Academy of Actuaries, and I meet the qualification standards for performing the analyses in this report.

If you have any questions or comments regarding the enclosed information, please do not hesitate to contact me at (317) 524-3512.

Sincerely,



Robert M. Damler, FSA, MAAA
Principal and Consulting Actuary

RMD/lrb
Enclosure



ENCLOSURE 1



State of Indiana
Family and Social Services Administration
Projected HIP Expenditures (in \$ millions)
Comparison of HIP and Medicaid Reimbursement

| FFY 2014 (Jan 2014 - Sep 2014) | Reimbursement | | Incremental Cost |
|-----------------------------------|------------------|----------------|---------------------|
| | HIP | Medicaid | |
| Projected Enrollment | 330,000 | 330,000 | 330,000 |
| Per Member Per Month Cost | \$ 440.29 | \$ 306.43 | \$ 133.86 |
| Total Expenditures | \$1,307.7 | \$910.1 | \$397.6 |
| Assumed FMAP - 100% | 100.00% | 100.00% | 100.00% |
| Federal Share | \$1,307.7 | \$910.1 | \$397.6 |
| State Share | \$0.0 | \$0.0 | \$0.0 |

| FFY 2015 (Oct 2014 - Sep 2015) | Reimbursement | | Incremental Cost |
|-----------------------------------|------------------|------------------|---------------------|
| | HIP | Medicaid | |
| Projected Enrollment | 336,500 | 336,500 | 336,500 |
| Per Member Per Month Cost | \$ 457.90 | \$ 318.69 | \$ 139.21 |
| Total Expenditures | \$1,849.0 | \$1,286.9 | \$562.1 |
| Assumed FMAP - 100% | 100.00% | 100.00% | 100.00% |
| Federal Share | \$1,849.0 | \$1,286.9 | \$562.1 |
| State Share | \$0.0 | \$0.0 | \$0.0 |