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December 3, 2009

Ms. Anne W. Murphy
Secretary
State of Indiana
Family and Social Services Administration
402 W. Washington Street
Indianapolis, IN 46204

RE: PATIENT PROTECTION AND AFFORDABLE CARE ACT – FISCAL ANALYSIS

Dear Secretary Murphy:

Milliman, Inc. (Milliman) has been retained by the State of Indiana, Family and Social Services Administration to provide consulting services related to the financial review of the Patient Protection and Affordable Care Act (Act) as it relates to the provisions impacting the State's Medicaid program and budget. This letter documents the results of our fiscal impact review of the Act and the underlying assumptions to our analysis.

SUMMARY OF RESULTS

Milliman has developed an estimate of the enrollment and fiscal impact associated with the Medicaid expansion and other related provisions of the Patient Protection and Affordable Care Act. Enclosure 1 provides the fiscal impact results of the Medicaid Assistance expansion. The total fiscal impact to the State of Indiana budget during the next 10 years would be estimated to be in excess of \$2.3 billion. The following table illustrates the anticipated expenditure impacts to the State of Indiana budget for the period of FFY 2010 through FFY 2019.

**State of Indiana
Family and Social Services Administration
Patient Protection and Affordable Care Act
State Budget Fiscal Impact – FFY 2010 through FFY 2019**

Item	Estimate
Medicaid Assistance Expansion	\$200 million
Administrative Costs	265 million
Medicaid Fee Schedule Increases	1,000 million
Pharmacy Rebate Loss (Fee-for-service)	275 million
Pharmacy Rebate Loss (Managed Care)	480 million
Medicare Part D Clawback	100 million
Total	\$2,320 million

The results of our analysis are highlighted below, as well as additional detail information regarding enrollment and other key assumptions.

Current Medicaid and CHIP Enrollment – Projected SFY 2010 Average Monthly Enrollment

- Medicaid 930,000
- CHIP 79,000
- Healthy Indiana Plan 56,000
- Total 1,065,000

Estimated Medicaid Enrollment under Patient Protection and Affordable Care Act

- Increase in Medicaid enrollment would be:
 - 392,000 Adults
 - 103,000 Children
- The Act would maintain CHIP program while receiving enhanced funding
- Move 50,000 Healthy Indiana Plan to Medicaid (included in 392,000 additional Adults identified above)
- Total Medicaid enrollment would increase to 1,560,000

Percentage increase in Medicaid in relation to the total number of Hoosiers

- Calendar Year 2008 Indiana Census Estimate 6,377,000
- Increase would be approximately 7.8% more Hoosiers on Medicaid
- Increase from 16.7% to 24.5% or nearly 1 in 4 Hoosiers

Percent of Indiana State Budget

Under the current programs, the Medicaid, CHIP and Healthy Indiana Plan programs would grow to 20.9% of projected revenue in FFY 2019. With the expansion, Medicaid would be 21.7% of projected revenue in FFY 2019. This is based on current Indiana revenue projections through SFY 2010 and a 3.0% annual growth rate in state revenue.

Cost of Medicaid Expansion to the State of Indiana

The following illustrates the estimated fiscal impact of the Medicaid expansion for the State of Indiana. Enclosure 1 provides additional details on a year-by-year basis.

Patient Protection and Affordable Care Act Fiscal Impact of Medicaid Expansion FFY 2010 through FFY 2019

	Estimate in billions		
	Current Programs	After Expansion	Impact
State Share	\$30.2	\$30.4	\$0.2
Federal Share	60.4	73.6	13.2
State and Federal	\$90.6	\$104.0	\$13.4

Administrative Expenditures

In addition to the expenditures associated with providing medical services, the State of Indiana will incur additional administrative expenditures. The expenditures for the initial modifications to the current administrative systems, as well as establishment of an Exchange, are estimated to be \$80 million (State and Federal) or \$40 million (State only). On-going costs for the coverage of the additional 500,000 enrollees are estimated to be \$75 million per year (State and Federal) or \$37.5 million per year (State only). The administrative expenses would be anticipated to be incurred in 2012 and 2013 for the initial administrative expenditures and in 2014 through 2019 for the on-going expenditures. The additional administrative expenditures have not been included in the financial projections shown in Enclosure 1.

OTHER ISSUES

The following outlines additional financial issues that may result under the current provisions of the Act. The issues highlighted below have not been included in the financial projections shown in Enclosure 1.

- **Physician Fee Schedule.** The current Indiana Medicaid fee schedule reimburses at approximately 60% of the Medicare fee schedule. It would be anticipated that we would need to increase the physician fee schedule to assure access to physician care. I would anticipate that the minimum increase for physicians would be to 80% of the Medicare fee

schedule. *The increased cost would be an additional \$200 million per year for the current Medicaid program and an additional \$125 million per year for the expansion populations. The increased cost would be estimated at \$2.75 billion (State and Federal) or \$1.00 billion (State only) for the period of FY 2010 through FY 2019.*

- **Pharmacy Rebate Modifications.** The Senate bill includes increasing the brand name and generic rebates. The bill indicates that the impact will be accrued 100% to the Federal government. The State of Indiana has estimated that this could reduce the State's rebates by up to 25% beginning on January 1, 2010. *The loss in pharmacy rebates on the current program would be estimated at \$275 million (State only) on the current fee-for-service program. If the reduction in rebates also applies to rebates that are expanded to the managed care population, the loss in pharmacy rebates would be estimated at an additional \$120 million (State only). These values are for the period of January 1, 2010 through 2019. If the pharmacy rebate modification is further expanded to transfer 100% of the pharmacy rebates for the managed care population to the Federal government, the \$120 million (State only) impact would increase to \$480 million (State only).*
- **Change in Medicare Part D Benefit and Impact on Claw-back.** The State of Indiana currently pays a "claw-back" payment to the federal government for the dual eligible population. The claw-back payment increases on an annual basis at the rate of the increase in the Medicare Part D program. If the rate of growth is impacted due to the closing of the Medicare Part D coverage gap (i.e., "doughnut hole"), then the claw-back payment may be adversely impacted and increase at a faster rate than normal inflation. Currently, the claw-back payment increases at a rate of 3% to 5% per year. The closure of the coverage gap may increase Part D expenditures by 10% to 20% in a single year, which may impact the claw-back payment. *Currently, Indiana pays approximately \$90 million (State only) in claw-back payments. If the claw-back payment is adversely impacted by the higher rate of growth due to the benefit change, the impact may be \$9 million to \$18 million per year (State only).*
- **Pent-up Demand.** We could anticipate that during the first one to two years of the program, the new enrollees would have higher costs due to pent-up demand. This was observed in the Healthy Indiana Plan. While the cost will be the responsibility of the Federal government, we could expect during the first two years of the program an increase in cost of 10% to 20%. *The additional cost for the first two years of the program could be an additional \$500 million to \$1.0 billion. With the Federal FMAP rate at 100% for the first three years, this cost will be the responsibility of the Federal government.*

KEY ASSUMPTIONS

- Medicaid Expansion up to 133% FPL including Adults, Parents, Children, and Disabled.
- The 133% Federal Poverty Level for a family of four is \$29,400.

- Implementation of expansion on January 1, 2014.
- Federal Share for expansion population to be 100% in CY 2014, CY 2015 and CY 2016 and an enhanced match of 34.3% in CY 2017 and 33.3% thereafter. Assumed that expansion children will be covered at the current Medicaid federal match rate. Assumed that expansion adults would be covered at the current Medicaid federal match rate for the HIP population and the newly eligible at the expansion rate shown in the legislation.
- CHIP programs would continue at the higher match rate with an enhanced match of an additional 23%.
- Assumed that Indiana would cover all individuals eligible for SSI disability.
- Healthy Indiana Plan would be discontinued.
- Assumed that the current spend-down population for the Aged, Blind and Disabled eligibility categories below 133% FPL would be converted to full benefit Medicaid. Assumed that the spend-down population above 133% FPL would be transferred to the insurance exchange.
- Starting enrollment and expenditures based on data and information through May 31, 2009.
- Legislation would not prevent crowd-out and will include all individuals below 133% FPL.

LIMITATIONS

The information contained in this correspondence, including any enclosures, has been prepared for the State of Indiana, Family and Social Services Administration, related Divisions, and their advisors. 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 assist in the analysis of the financial impact of Indiana Medicaid Assistance expenditures. The data and information



Ms. Anne Murphy
December 3, 2009
Page 6

presented may not be appropriate for any other purpose. It should be emphasized that the results presented in this correspondence are a projection of future costs based on a set of assumptions. Results will differ if actual experience is different from the assumptions contained in this letter.



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

Sincerely,

A handwritten signature in cursive that reads "Robert M. Damler". The signature is overlaid with a semi-transparent watermark that says "ELECTRONIC SIGNATURE".

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

RMD/sds
Enclosures



ENCLOSURE 1

STATE OF INDIANA
 Family and Social Services Administration
 Health Care Reform Projection
 Patient Protection and Affordable Care Act
 (Values in Millions)

12/4/2009
 8:30 AM

EXPENDITURES	<u>FFY 2010</u>	<u>FFY 2011</u>	<u>FFY 2012</u>	<u>FFY 2013</u>	<u>FFY 2014</u>	<u>FFY 2015</u>	<u>FFY 2016</u>	<u>FFY 2017</u>	<u>FFY 2018</u>	<u>FFY 2019</u>	<u>FFY 2010 - FFY 2019</u>
Current Programs											
Medicaid											
Total (State and Federal)	\$6,775.8	\$7,015.1	\$7,425.7	\$7,763.5	\$8,119.3	\$8,493.9	\$8,888.4	\$9,304.2	\$9,742.4	\$10,204.3	\$83,732.7
Federal Funds	\$4,453.9	\$4,659.4	\$4,940.3	\$5,165.1	\$5,401.7	\$5,651.0	\$5,913.5	\$6,190.1	\$6,481.6	\$6,788.9	\$55,645.5
State Funds	\$2,322.0	\$2,355.7	\$2,485.4	\$2,598.5	\$2,717.5	\$2,842.9	\$2,975.0	\$3,114.1	\$3,260.8	\$3,415.4	\$28,087.2
CHIP											
Total (State and Federal)	\$131.2	\$147.2	\$158.7	\$168.3	\$178.3	\$189.0	\$200.4	\$212.4	\$225.2	\$238.7	\$1,849.4
Federal Funds	\$99.8	\$112.6	\$121.5	\$128.8	\$136.6	\$144.8	\$153.4	\$162.6	\$172.4	\$182.7	\$1,415.3
State Funds	\$31.5	\$34.6	\$37.2	\$39.4	\$41.8	\$44.3	\$47.0	\$49.8	\$52.8	\$55.9	\$434.1
Healthy Indiana Plan											
Total (State and Federal)	\$347.7	\$435.8	\$505.8	\$548.9	\$560.5	\$552.5	\$534.4	\$533.9	\$520.6	\$507.5	\$5,047.5
Federal Funds	\$228.7	\$289.4	\$336.5	\$365.2	\$372.9	\$367.5	\$355.6	\$355.2	\$346.3	\$337.7	\$3,355.0
State Funds	\$119.0	\$146.3	\$169.3	\$183.7	\$187.6	\$184.9	\$178.9	\$178.7	\$174.2	\$169.9	\$1,692.5
All Programs											
Total (State and Federal)	\$7,254.7	\$7,598.0	\$8,090.2	\$8,480.7	\$8,858.1	\$9,235.4	\$9,623.3	\$10,050.5	\$10,488.1	\$10,950.6	\$90,629.6
Federal Funds	\$4,782.3	\$5,061.4	\$5,398.3	\$5,659.1	\$5,911.2	\$6,163.3	\$6,422.5	\$6,707.9	\$7,000.4	\$7,309.4	\$60,415.8
State Funds	\$2,472.4	\$2,536.6	\$2,691.8	\$2,821.6	\$2,946.9	\$3,072.1	\$3,200.8	\$3,342.6	\$3,487.8	\$3,641.2	\$30,213.8

STATE OF INDIANA
 Family and Social Services Administration
 Health Care Reform Projection
 Patient Protection and Affordable Care Act
 (Values in Millions)

12/4/2009
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EXPENDITURES	FFY 2010	FFY 2011	FFY 2012	FFY 2013	FFY 2014	FFY 2015	FFY 2016	FFY 2017	FFY 2018	FFY 2019	FFY 2010 - FFY 2019
Health Care Reform											
Parents / Adults Expansion (< 133% FPL)											
Total (State and Federal) - Children					\$189.0	\$265.7	\$281.7	\$298.6	\$316.5	\$335.5	\$1,687.0
Total (State and Federal) - Parents / Adults					\$1,605.0	\$2,257.3	\$2,392.7	\$2,536.3	\$2,688.4	\$2,849.7	\$14,329.3
Federal Funds					\$1,677.0	\$2,358.5	\$2,486.0	\$2,578.1	\$2,688.0	\$2,849.3	\$14,636.9
State Funds					\$117.0	\$164.5	\$188.4	\$256.8	\$316.9	\$335.9	\$1,379.5
Spend-down and SSI Eligible											
Total (State and Federal)					\$148.9	\$210.4	\$224.0	\$238.6	\$254.1	\$270.6	\$1,346.7
Federal Funds					\$99.1	\$140.0	\$149.1	\$158.7	\$169.1	\$180.1	\$896.0
State Funds					\$49.8	\$70.4	\$75.0	\$79.9	\$85.1	\$90.6	\$450.7
Other Saving Offsets - Rebates & HIP											
Total Saving Offsets (State and Federal)					\$521.1	\$694.4	\$684.9	\$693.4	\$689.6	\$686.7	\$3,970.2
Federal Funds					\$346.7	\$462.0	\$455.7	\$461.3	\$458.8	\$456.9	\$2,641.4
State Funds					\$174.4	\$232.4	\$229.2	\$232.1	\$230.8	\$229.9	\$1,328.8
CHIP Program - Enhanced FMAP											
Total (State and Federal)					\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Federal Funds					\$30.9	\$43.5	\$46.1	\$48.9	\$51.8	\$54.9	\$276.0
State Funds					(\$30.9)	(\$43.5)	(\$46.1)	(\$48.9)	(\$51.8)	(\$54.9)	(\$276.0)
All Programs - After Expansion											
Total (State and Federal)	\$7,254.7	\$7,598.0	\$8,090.2	\$8,480.7	\$10,279.8	\$11,274.3	\$11,836.8	\$12,430.6	\$13,057.6	\$13,719.7	\$104,022.5
Federal Funds	\$4,782.3	\$5,061.4	\$5,398.3	\$5,659.1	\$7,371.5	\$8,243.2	\$8,647.9	\$9,032.3	\$9,450.4	\$9,936.7	\$73,583.3
State Funds	\$2,472.4	\$2,536.6	\$2,691.8	\$2,821.6	\$2,908.4	\$3,031.1	\$3,188.9	\$3,398.3	\$3,607.1	\$3,782.9	\$30,439.2
All Programs - Fiscal Impact											
Total (State and Federal)	\$0.0	\$0.0	\$0.0	\$0.0	\$1,421.7	\$2,039.0	\$2,213.5	\$2,380.1	\$2,569.4	\$2,769.1	\$13,392.9
Federal Funds	\$0.0	\$0.0	\$0.0	\$0.0	\$1,460.3	\$2,080.0	\$2,225.5	\$2,324.3	\$2,450.1	\$2,627.4	\$13,167.5
State Funds	\$0.0	\$0.0	\$0.0	\$0.0	(\$38.5)	(\$41.0)	(\$11.9)	\$55.7	\$119.3	\$141.7	\$225.4
State Revenue											
Revenue	\$13,272.7	\$13,762.5	\$14,175.3	\$14,600.6	\$15,038.6	\$15,489.8	\$15,954.5	\$16,433.1	\$16,926.1	\$17,433.9	
All Programs - Before Expansion	18.6%	18.4%	19.0%	19.3%	19.6%	19.8%	20.1%	20.3%	20.6%	20.9%	
All Programs - After Expansion					19.3%	19.6%	20.0%	20.7%	21.3%	21.7%	