COMMONWEALTH OF PENNSYLVANIA

DEPARTMENT OF PUBLIC WELFARE

May 17, 2013

Mr. Matthew Knittel, Director
Independent Fiscal Office
2nd Floor Rachel Carson State Office Building
400 Market Street
Harrisburg, Pennsylvania 17105

Dear Mr. Knittel:

The purpose of this letter is to continue the open dialogue between the Department of Public Welfare (DPW) and the Independent Fiscal Office (IFO) on the fiscal impacts surrounding the optional expansion of Medicaid under the Affordable Care Act (ACA). DPW appreciated the recent opportunities to meet with IFO staff to discuss the issue as it prepared its analysis on this important topic.

I will start by reiterating Governor Corbett's goal that all Pennsylvanians have access to affordable, quality healthcare. Regardless of the path we choose to increase access, we must not only ensure that the current Medicaid program is sustainable moving forward, but also any changes to Pennsylvania's health system is sustainable as well. We must work together at this important juncture to enact common sense reforms that provides real health coverage options for our vulnerable citizens while protecting our taxpayers. Making fully informed and factual decisions is an important step in this process.

We must be diligent, efficient and compassionate in this matter; however, it is important to understand that there is no legal or technical deadline to make this collective decision. We must do what is right for Pennsylvania and not rush to a decision because of pressure from Washington. It is in everyone's best interest that we deliberate using accurate information reflective of the realities of Pennsylvania's Medicaid program and the Commonwealth. With that in mind, DPW has been and will continue to work to reform the current Medicaid program and will continue discussions with the U.S. Department of Health and Human Services (HHS) to get the best results for Pennsylvania.

It is important to note that, to our knowledge, not one single state has a finalized agreement with HHS concerning Medicaid expansion. Thus, it is problematic to suggest we make a decision now and then negotiate with HHS. As Medicaid is over 25% of our state budget, and growing, we must have all the specifics about this issue correct or risk making a decision that could have a negative impact on all other programs throughout the Commonwealth and place additional tax burdens on all Pennsylvanians.

The IFO report on Medicaid expansion should not be considered a budgetary estimate on the impact of Medicaid expansion. The report creates a baseline estimate for Calendar Year 2014 and then projects savings against that baseline. It must be noted that this baseline should not be construed as a proxy for the Governor's Executive Budget for Fiscal Year 2013-14. Overall, the Department has serious concerns regarding several assumptions included in the report and the possible misinterpretation of this report as a budgetary estimate for the impact of Medicaid expansion. The numbers provided by DPW are on an annual fiscal year basis.

We at DPW have a unique understanding and appreciation for the difficulty faced by the IFO in putting forth a thorough and accurate analysis of the fiscal impacts of the optional Medicaid expansion. However, the IFO report contains what we believe to be several material problems that merit further review and analysis before the report's conclusions could be relied upon. These material problems are as follows:

TIMING:

As you are aware, the IFO's May 1, 2013, Preliminary Revenue Estimate report is projecting a revenue shortfall for both the current fiscal year and fiscal year 2013-2014. The IFO report on Medicaid expansion assumes that the Commonwealth can begin to realize savings starting on January 1, 2014, as a result of opting to expand Medicaid. However, that is not accurate. On an operational level and due to how DPW's budget is designed, an expansion of Medicaid would not see the impact proffered by the IFO in fiscal year 2013-2014. Additionally, we believe contrary to the IFO estimates, there will be upfront costs -- and not savings -- in the aggregate to the Commonwealth as a result of Medicaid expansion. For example, implementing such a monumental increase in eligibility without having sufficient staff on board (your report indicates a need of 1,396 additional staff) and trained prior to implementation would only result in chaos, a disruption of critical services to vulnerable Pennsylvanians and a potential disallowance of federal funding. DPW estimates that more than 2,000 additional staff will be need to be hired and trained in the next seven months, a virtual impossibility. By ignoring the numerous cost and operational constraints faced by DPW, the IFO report skews the financial impact of a decision to expand Medicaid, producing a more favorable result in the short-term. The actual result under expansion when these purported savings do not materialize would compound the revenue shortfall the Commonwealth is already facing.

GENERAL ASSISTANCE:

The IFO report calculates $533 million in state general fund savings as a result of transferring state-only General Assistance (GA) recipients in calendar year 2014 to a 100 percent federally funded category. However, DPW only estimates state expenditures for these recipients to be approximately $411 million. **Therefore, the IFO assumes more savings than the Commonwealth will actually spend by approximately $122 million**. This is material and necessitates the need to re-evaluate the IFO results.

Although the IFO's calculation does account for the fact that DPW currently federalizes a portion of the cost associated with the GA program, the IFO incorrectly assigns the projected amount of federally eligible expenditures as costs directly incurred by the Commonwealth, which is not the case. **This error by the IFO is valued at approximately $ 98 million.**

Failing to properly account for the above two factors (GA spend and inflated costs based on federal match) by the IFO, results in savings being significantly overstated, potentially by approximately **$220 million.**

ENROLLMENT RATE AND WOODWORK:

In any analysis around the impacts of expanding coverage, assuming a slow initial rate of enrollment could significantly understate the costs while overstating savings. It appears the IFO report assumed a long, gradual enrollment cycle. We believe this is potentially incorrect and skews the statistics. Realistically, with the aggressive education and outreach being conducted, the phase in to full enrollment in Medicaid, if we were to expand, will occur in a much shorter time period than what is assumed in the IFO report. These activities may include programs by the Commonwealth, the Federal government, the launching of health insurance exchanges, employment of "Navigators" and other related activities.

Additionally, we believe the Adults Currently Eligible, Not Enrolled, or "woodwork" population used by the IFO is too low. It appears the IFO only estimates about 12,000 currently eligible but uninsured will enroll in Medicaid. An Urban Institute study found that using Pennsylvania eligibility rules, an estimated 8.9% of uninsured adults ages 19-64 are currently eligible to enroll in Medicaid. **We believe this underestimate of the woodwork population understates costs by $91 million.** We understand some woodwork growth will occur regardless of the decision on expansion. However, at least a portion of woodwork costs on its face should be considered a result of Medicaid expansion.

Similarly, the IFO has assumed newly eligible and woodwork child enrollment at lower rates than the department anticipates. The underestimate of newly eligible children and woodwork children **understates the cost to the Commonwealth for these populations by $26 million**. Thus, again we believe assumptions made by the IFO appear to be incorrect and further equate to costs to the Commonwealth.

IMPLEMENTATION AND OPERATIONAL COSTS:

The report also drastically underestimates the operational costs to DPW. For example, the federal government recently informed states that it must take Medicaid applications over the telephone. DPW does not currently take applications over the phone, which means it must acquire the ability and resources to answer phone calls and take down all the information contained on the comprehensive federal application. A significant portion of this intake via Medicaid would be due to Medicaid expansion. Stated another way, having hundreds of thousand additional clients potentially applying telephonically must be accounted for in the costs to the Commonwealth. The IFO report did not account for any of the costs associated with this new and additional administrative function.

The IFO report did recognize the need for increased County Assistance staff but did so at a significantly low level at a salary and operating cost that was also too low. Failure to properly recognize the necessary staffing and associated costs to implement an expansion of Medicaid will produce many undesirable outcomes such as delays in acting upon applications for all DPW programs, increased consumer complaints and restricting DPW's ability to properly monitor programs for quality and cost effectiveness. **We believe staff and salary costs were underestimated by approximately $59 million.**

OTHER PROGRAM IMPACT:

The report assumes an arbitrary 5% reduction in the state costs for Community Mental Health, Behavioral Health Services, or Department of Drug and Alcohol programs, seemingly equating to a corresponding reduction in the county allocations for these programs. At this time, DPW is unaware of any evidence to support such a reduction in funding for those county allocations as a result of increasing enrollment in the Medicaid program; including savings in those county allocations at this time is purely speculative. In fact, most of the services provided through these programs are not currently eligible for a federal match under Medicaid, therefore any arbitrary reduction assumed as a result of expansion could potentially strain the services that our counties are providing to these populations. DPW is not comfortable assuming we can reduce those allocations because of the potential reduced services available at the local level to individuals. **Therefore, the 5% cut proposed by the IFO to county human services valued at $41 million should not be valued as savings to the Commonwealth.**

GROSS RECIEPTS TAX:

Finally, the IFO does footnote the concern around the continuation of the Gross Receipts Tax (GRT) on Medicaid Managed Care Organizations (MCOs), but continues to use it to show considerable revenue to the Commonwealth. The IFO assumes that the GRT will garner "new dollars" to the Commonwealth via Medicaid expansion in the amount of **$78 million in calendar year 2014 and $ 874 over the next eight calendar years. We believe this increase in revenue should not be counted as savings unless verified by CMS due the large and known ambiguity and potential jeopardy.**

As I have previously shared, CMS has indicated to DPW that they will be "addressing the [GRT on MCOs] through national guidance." Due to this ambiguity at the federal level we believe some significant change may be imminent. I would again urge great caution not to be too overly aggressive when developing assumptions around the use of the GRT. I want to reiterate that any change or potential elimination of the GRT on MCOs would not only severely impact the ability of the Commonwealth to finance its current Medicaid program, but it would significantly and negatively impact the assumptions made by the IFO. Stated another way, it is problematic to assume that CMS will provide the Commonwealth 100% of the costs of expansion and then allow the Commonwealth to collect GRT and provide federal match on the payments the GRT funds. The GRT is an important issue and one that cannot and should not be assumed as a given by the Commonwealth. Therefore, we believe the savings the IFO noted by using the GRT for newly eligible recipients should again not be counted by the IFO until verified.

In summation, the various issues illustrated above indicate that material modifications are needed to the IFO estimates and the report on the Medicaid expansion. If decisions were to be made based on the numbers currently reflected in the report, the outcome could be dire on top of the most recent unfavorable revenues estimates for fiscal year 2013-14. **The sum of the material issues outlined above equate to an amount of at least $515 million that is improperly credited as a savings, revenue, or underestimated costs to the Commonwealth.**

I firmly believe it is important for all policymaker to discuss ways to improve access to affordable coverage options. However, the details do matter and decisions cannot be made in isolation. I know you understand and appreciate that this decision will carry with it real fiscal, operational and policy implications that will have a lasting effect on the Commonwealth. We are continuing to have conversations with the Federal government to review all of the options before us relative to Medicaid expansion and other reforms to the Medicaid program.

Again, I look forward to our continued conversations on this important subject. Should you have any questions relative to this letter or DPW's estimates, please feel free to contact me.

Sincerely,

Beverly Mackereth

Beverly D. Mackereth
Acting Secretary

c: Speaker Samuel H. Smith
Leader Mike Turzai
Democratic Leader Frank Dermody
Chairman William Adolph, House Appropriations Committee
Democratic Chairman Joseph Markosek, House Appropriations Committee
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