COMMONWEALTH of VIRGINIA

Department of Medical Assistance Services

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December 16, 2021

MEMORANDUM

TO: The Honorable Janet D. Howell
Chair, Senate Finance and Appropriations Committee

The Honorable Luke E. Torian
Chair, House Appropriations Committee

FROM: Karen Kimsey
Director, Virginia Department of Medical Assistance Services

SUBJECT: Analysis of the Impact of Merging the Medicaid and Family Access to Medical Insurance Security (FAMIS) Children's Medical Assistance Programs

This report is submitted in compliance with Item 313.EE.2. of the 2021 Appropriation Act, which states:

> *The Department of Medical Assistance Services shall conduct an analysis of the impact of merging the separate Family Access to Medical Insurance Security (FAMIS) population into a single Children's Health Insurance Program children's eligibility group under Medicaid. Such analysis shall include the fiscal impact on medical and administrative costs to the agency, including any savings, the federal and state authorities that would need to be modified and processes needed to make such change, and a timeline for such process to occur. The department shall report the results of the analysis to the Chairs of the House Appropriations and Senate Finance and Appropriations Committees by November 1, 2021.*

Should you have any questions or need additional information, please feel free to contact me at (804) 786-8099.

KK/hjr
Enclosure
Pc: The Honorable Daniel Carey, M.D., Secretary of Health and Human Resources

Analysis of the Impact of Merging the Children's Medical Assistance Programs

A Report to the Virginia General Assembly

November 1, 2021

Report Mandate

Chapter 552 (HB 1800) Item 313.EE.2*: "The Department of Medical Assistance Services shall conduct an analysis of the impact of merging the separate Family Access to Medical Insurance Security (FAMIS) population into a single Children's Health Insurance Program children's eligibility group under Medicaid. Such analysis shall include the fiscal impact on medical and administrative costs to the agency, including any savings, the federal and state authorities that would need to be modified and processes needed to make such change, and a timeline for such process to occur. The department shall report the results of the analysis to the Chairs of the House Appropriations and Senate Finance and Appropriations Committees by November 1, 2021."*

Summary

In addition to the state's Medicaid program for children, Virginia also operates a State Children's Health Insurance Program (S-CHIP) called Family Access to Medical Insurance Security (FAMIS). States have the option to enroll their CHIP populations in the Medicaid children's program while retaining the enhanced CHIP federal reimbursement rate. In FY2003, Virginia moved part of the FAMIS population to CHIP-funded Medicaid—also called M-CHIP. Today, just over half of the state's CHIP children are in the M-CHIP group, while the other half remain in the separate FAMIS program.

As part of the process of merging Virginia's Medicaid managed care programs as directed in the 2021 Appropriations Act, DMAS recommends that the remaining FAMIS population transition into CHIP-funded children's Medicaid to create a unified Virginia Medicaid children's program. This change would create administrative efficiencies and ensure equitable benefits and health care access for all children served in Virginia's medical assistance programs. It would also enable the Commonwealth to collect sizeable federal drug rebates that are available through Medicaid but not CHIP.

Virginia would need to file a CHIP State Plan Amendment (SPA) and take legislative and regulatory steps to make this change. In addition, modifications to managed care contracts would be required. Changes would simplify and streamline the contracts by removing sections unique to FAMIS, allowing for one set of provisions governing a unified children's program. Projecting an effective date of July 1, 2023, DMAS estimates the budget impact of this change at $806,351 GF ($1.8 million NGF) in FY23; $5.6 million GF ($10.4 million NGF) in FY24, and $3.8 million GF ($7.1 million NGF) in FY25 and beyond.

About DMAS and Medicaid

DMAS's mission is to improve the health and well-being of Virginians through access to high-quality health care coverage.

DMAS administers Virginia's Medicaid and CHIP programs for more than 1.6 million Virginians. Members have access to primary and specialty health services, inpatient care, behavioral health as well as addiction and recovery treatment services. In addition, Medicaid long-term services and supports enable thousands of Virginians to remain in their homes or to access residential and nursing home care.

Medicaid members historically have included children, pregnant women, parents and caretakers, older adults, and individuals with disabilities. In 2019, Virginia expanded the Medicaid eligibility rules to make health care coverage available to more than 400,000 newly eligible, low-income adults.

Medicaid and CHIP (known in Virginia as Family Access to Medical Insurance Security, or FAMIS) are jointly funded by Virginia and the federal government under Title XIX and Title XXI of the Social Security Act. Virginia generally receives a dollar-for-dollar federal spending match in the Medicaid program. Medicaid expansion qualifies the Commonwealth for a federal funding match of no less than 90 percent for newly eligible adults, generating cost savings that benefit the overall state budget.

Background

DMAS administers Virginia's separate CHIP program, FAMIS, in addition to the Medicaid program for children. FAMIS provides vital health care coverage for uninsured children in households with income too high to qualify for Medicaid but too low to otherwise afford health insurance. States can choose to cover CHIP-eligible children in a separate CHIP program; in a "CHIP-Medicaid expansion" (M-CHIP) which enrolls CHIP-eligible children into the state's child Medicaid program using CHIP/Title XXI dollars at the enhanced CHIP federal matching rate; or using a combination of the two approaches. Virginia currently operates a combination program. In FY2003, a group of FAMIS children were moved into the Medicaid program in order to standardize the Medicaid income eligibility range for all children under 19 and align eligibility criteria for participating families. Since then, part of the Commonwealth's CHIP-eligible population has been enrolled in Medicaid at the CHIP match—children ages 6 through 18 between 109 and 143% of the federal poverty limit (FPL). The rest of Virginia's CHIP population is enrolled in FAMIS—children age 18 and younger with household income between 143 and 200 percent of the federal poverty level (FPL). The table below summarizes the income eligibility ranges, funding sources, and authorities for each population.

<table>
<tr><td></td><td colspan="2">Children's Medicaid
Title XIX / Medicaid State Plan</td><td>FAMIS Program (CHIP)
Title XXI / CHIP State Plan</td></tr>
<tr><td></td><td>Below 109% FPL</td><td>109% - 143% FPL</td><td>143% - 200% FPL</td></tr>
<tr><td>Age 0-5</td><td colspan="2">Title XIX funding / FMAP</td><td rowspan="2">FAMIS
Title XXI funding / enhanced FMAP
CHIP State Plan</td></tr>
<tr><td>Age 6+</td><td>Title XIX funding / FMAP</td><td>M-CHIP
Title XXI funding / enhanced FMAP</td></tr>
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Currently, monthly enrollment is approximately 80,000 for FAMIS and 85,000 for M-CHIP. Before the COVID-19 public health emergency (PHE), average monthly enrollment was about 75,000 for FAMIS and about 72,000 for M-CHIP. In comparison, monthly enrollment for the Medicaid child population, not including M-CHIP, is much higher: approximately 620,000 today and about 520,000 prior to the PHE.

Merging the Children's Medical Assistance Programs

Should it be the desire of the General Assembly, DMAS proposes to move the remaining FAMIS population into CHIP-funded Medicaid. This change would create a unified children's program under the single managed care contract, federally authorized through a 1915(b) waiver, supporting the aim of full alignment of Virginia's Medicaid managed care programs. This change would streamline DMAS and the MCOs' operation of the children's programs by aligning benefits and program features while eliminating additional tasks associated with continuing to operate the relatively small, standalone FAMIS program.

The 2021 Appropriation Act directed DMAS to seek federal authority to merge the Commonwealth Coordinated Care Plus (CCC Plus) and Medallion 4.0 managed care programs, effective July 1, 2022. The goal of the new streamlined managed care program, called Cardinal Care, is to promote a population-based, rather than a program-based approach to care, in order to improve the experience of care for members, add value for providers, and reduce system inefficiencies. Merging the children's programs would support this goal. This change would alleviate compliance challenges presented by strict federal guardrails on enrollee cost-sharing for CHIP, including tracking annual maximum out-of-pocket limits and ensuring compliance with cost-related provisions of federal mental health parity law. It would also phase out FAMIS Select, a small premium assistance program (enrollment of approximately 50 children) authorized through a federal CHIP 1115 waiver with extensive federal reporting requirements, including a formal evaluation, periodic renewal applications, and semi-annual, annual, and interim monitoring reports.

In addition to supporting the goals of Cardinal Care and providing administrative simplification, merging the children's programs would promote health equity by providing Medicaid's more robust benefit package to all low-income children

receiving medical assistance. FAMIS children currently do not have access to all of the benefits Medicaid children receive, most notably the Early and Periodic Screening, Diagnostic and Treatment (EPSDT) benefit. EPSDT, widely considered the gold standard in comprehensive pediatric care, ensures that children enrolled in Medicaid receive age-appropriate screening, preventive, and treatment services. Under the treatment component of the benefit, states are required to provide any additional health care services that are coverable under the federal Medicaid program and found to be medically necessary to correct or ameliorate identified conditions, regardless of whether the service is covered under the state's Medicaid plan.

A cornerstone of Medicaid children's coverage since the program's inception in 1967, EPSDT is designed to provide early detection of health conditions and ensure that children are connected early with the treatment they need to address health concerns, when timely intervention can have the greatest impact on a child's development and long-term health. EPSDT is considered particularly important for low-income children, who are at greater risk of developmental, behavioral, and social delays. While families of FAMIS children have income above the range for Medicaid eligibility, their incomes are typically still too low to afford other forms of health insurance. Currently the upper income limit for FAMIS is $45,018 for a family of three. For low-income families of children with complex physical and/or behavioral health needs, EPSDT offers a level of financial protection that most commercial health insurance lacks, enabling access to comprehensive and ongoing treatment without high out-of-pocket costs.

Merging the children's programs would also fully eliminate cost-sharing for FAMIS members. Although cost-sharing is suspended for all populations during the PHE, ordinarily FAMIS children of all ages are subject to co-payments, while Medicaid children are not. Virginia's managed care plans, providers, and DMAS receive very limited financial benefit from imposing member cost-sharing in the FAMIS program. At the same time, even minimal cost-sharing has been shown to limit children's access to health care during a time in life when this access is critical. This effect is especially pronounced for low-income children and their families. Federal law limits the amount of cost-sharing allowed in Medicaid and CHIP, and states must ensure that annual out-of-pocket maximums are not exceeded. Tracking out-of-pocket costs presents administrative and systems challenges for DMAS and managed care organizations.

Continuing to operate a small-scale, separate program with different federal requirements, benefits, cost sharing, and other features limits administrative efficiency for DMAS, its MCOs and other contractors, and providers. In contrast, a full transition to CHIP-funded Medicaid would create operational efficiencies by streamlining two separate programs with different benefits and policies into a single program for children. This transition would reduce federal reporting requirements and other operational tasks. Seventeen states including the District of Columbia have made this transition. Other states report that consolidating children's populations under CHIP-funded Medicaid achieves efficiencies by streamlining programs and policies.

Federal and State Authority, Contract Changes, and Implementation Timeline

Virginia would need to file a CHIP State Plan Amendment and take legislative and regulatory steps to make this transition. Systems changes and modifications to the managed care contract and other vendor contracts would also be needed. DMAS anticipates that an effective date of July 1, 2023, would allow for the completion of all steps to implement this change.

Managed Care and Vendor Contract Changes

Over 99 percent of the FAMIS population is in managed care. All FAMIS members are enrolled in the Medallion 4.0 managed care program—members are in fee-for-service only during the initial period when they are first enrolled and awaiting assignment to a plan. The merged managed care contract combining CCC Plus and Medallion 4.0 under Cardinal Care will be effective July 1, 2022. Contract changes to reflect a unified children's program could occur during the next contract cycle effective July 1, 2023.

This timeline for implementation would also allow time for changes to other vendor contracts and processes, most notably the enrollment broker and the External Quality Review Organization (EQRO), as well as systems changes to MMIS and VaCMS. This would also allow time for DMAS to develop an outreach and communications plan to convey updated program information to members, providers, and stakeholders.

Federal Authority

Virginia's 1915(b) waiver serves as the "contract" between the Centers for Medicare and Medicaid Services (CMS) and the state to operate the managed care programs in accordance with all federal and state laws. Since the M-CHIP group is included in the newly combined 1915(b) waiver, this authority would continue when DMAS transitions the rest of its separate FAMIS child population into this group via a CHIP State Plan Amendment (SPA). In short, no significant changes to the 1915(b) waiver would be required to accomplish the transition of FAMIS children into CHIP-funded Medicaid. Having all children's populations included under the 1915(b) waiver will result in greater efficiency for waiver maintenance, renewals, and federal reporting submissions.

For the change to take effect under the CHIP State Plan, DMAS would file an amendment electing the CHIP-Medicaid expansion or M-CHIP option and describing changes in the definition of the population to be included in that group. There are a number of sections of the CHIP State Plan template that are more complex for a separate CHIP program such as FAMIS but are streamlined and simplified for a CHIP-funded Medicaid population. The CHIP SPA would remove portions of the state plan that would no longer apply upon unwinding of the separate FAMIS program. After these changes to the CHIP State Plan, annual federal reporting would be simplified, with fewer reporting requirements specific to CHIP.

DMAS would also amend Virginia's CHIP 1115 waiver to retire the small FAMIS Select premium assistance program. The FAMIS Select program offers a very modest subsidy and participation has dwindled in recent years. The 1115 waiver requires a program evaluation and associated reporting requirements, including periodic renewal applications and semi-annual, annual, and interim monitoring reports. Because Medicaid children, including M-CHIP children, have access to premium assistance through HIPP for Kids, this program could replace FAMIS Select. HIPP for Kids provides more financial assistance for families while remaining cost-effective for the state.

State Authority

Regulatory and Legislative Changes:

As part of the transition to Cardinal Care, DMAS conducted a thorough review of its regulations pertaining to managed care in the Virginia Administrative Code (VAC). DMAS is repealing specific regulations pertaining to Medallion 4.0 and CCC Plus under emergency regulatory authority and replacing them with new regulations for the combined managed care program. If the merger of the children's programs proposed in this report is approved by the General Assembly, DMAS will conduct a similar review of the VAC and make regulatory changes necessary to reflect the transition of the FAMIS program into CHIP-funded Medicaid. Most, if not all, of the regulatory changes would be to Title 12, Agency 30, Chapter 131 of the VAC (*Family Access to Medical Insurance Security Plan*). DMAS would begin to draft new regulations in the summer of 2022. In addition, DMAS would submit a legislative package for the 2023 General Assembly Session to update Title 32.1, Chapter 13 of the *Code of Virginia* to reflect the changes affecting the FAMIS program.

Appropriation Act Language:

DMAS submitted updated Appropriation Act authorizing language and emergency regulatory authority as a budget request for the 2022 General Assembly Session with an effective date of July 1, 2023. The proposed language is as follows:

The Department of Medical Assistance Services shall seek federal authority through the necessary waiver(s) and/or State Plan authorization under Titles XIX and XXI of the Social Security Act to align the Medicaid and Family Access to Medical Insurance Security (FAMIS) children's programs by transitioning the separate FAMIS population to a CHIP-funded Medicaid expansion children's group, effective July 1, 2023. The department shall have authority to implement necessary changes upon federal approval and prior to the completion of any regulatory process undertaken in order to effect such change. The department shall have authority to promulgate emergency regulations to implement this amendment within 280 days or less from the enactment date of this Act.

Fiscal Impact to the Agency

DMAS expects that there would be some increase in medical costs associated with this transition because the new group of children receiving coverage under the Medicaid benefit plan would gain access to additional services including EPSDT and non-emergency medical transportation (NEMT), potentially increasing utilization. The M-CHIP population, ages 6 through 18, has historically experienced medical costs greater than those of FAMIS children of the same age range. DMAS estimated the increase in medical costs by multiplying the member months of FAMIS members by the expected difference in per-member, per-month costs between the two programs. Medical costs were projected to be approximately 15% higher. DMAS anticipates the cost to the state budget associated with removing copayments for the FAMIS population would be very small.

Critically, from a financial perspective, the transition preserves the enhanced CHIP federal matching rate Virginia currently receives for its FAMIS population (69.34% for the duration of the PHE and 65% thereafter) and would also enable the state to access sizeable drug rebates currently available in Medicaid and not under the separate CHIP program. To estimate savings from drug rebates, projected rebates for the current M-CHIP group were taken from the official DMAS forecast and FAMIS was assumed to be 94% of those projections based on the ratio of M-CHIP to FAMIS population. Estimated rebates total $21 million in the first year and $30 million in subsequent years.

DMAS estimates the cost of the transition, including both medical and administrative costs, at $806,351 GF ($1.8 million NGF) in FY23; $5.6 million GF ($10.4 million NGF) in FY24, and $3.8 million GF ($7.1 million NGF) in FY25 and beyond.

Summary of Costs and Positions									
	Prog	Fund	Object Type	FY2023 Request	FY2024 Request	FY2025 Request	FY2026 Request	FY2027 Request	FY2028 Request
1	456	0100	GF Dollars	$ -	$ -	$ -	$ -	$ -	$ -
2	456	1000	NGF Dollars - Federal	$ -	$ -	$ -	$ -	$ -	$ -
3	456	0978	NGF Dollars - Special	$ -	$ -	$ -	$ -	$ -	$ -
4	446	0100	GF Dollars	$ -	$ (83,296,828)	$ (90,869,267)	$ (90,869,267)	$ (90,869,267)	$ (90,869,267)
5	446	1000	NGF Dollars - Federal	$ -	$(154,694,110)	$(168,757,211)	$(168,757,211)	$(168,757,211)	$(168,757,211)
6	466	0100	GF Dollars	$ -	$ 88,747,060	$ 94,524,454	$ 94,524,454	$ 94,524,454	$ 94,524,454
7	466	1000	NGF Dollars - Federal	$ -	$ 164,815,969	$ 175,545,415	$ 175,545,415	$ 175,545,415	$ 175,545,415
8	499	0100	GF Dollars	$ 806,351	$ 175,755	$ 147,034	$ 147,034	$ 147,034	$ 147,034
9	499	1000	NGF Dollars - Federal	$ 1,837,853	$ 326,402	$ 273,064	$ 273,064	$ 273,064	$ 273,064
10	499	0978	NGF Dollars - Special	$ -	$ -	$ -	$ -	$ -	$ -
11	499	0100	GF Positions	0.00	0.00	0.00	0.00	0.00	0.00
12	499	1000	NGF Positions	0.00	0.00	0.00	0.00	0.00	0.00
			Total GF	**$ 806,351**	**$ 5,625,987**	**$ 3,802,221**	**$ 3,802,221**	**$ 3,802,221**	**$ 3,802,221**
			Total NGF - Federal	**$ 1,837,853**	**$ 10,448,262**	**$ 7,061,268**	**$ 7,061,268**	**$ 7,061,268**	**$ 7,061,268**
			Total NGF - Special	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
			Total Funding	**$ 2,644,204**	**$ 16,074,249**	**$ 10,863,489**	**$ 10,863,489**	**$ 10,863,489**	**$ 10,863,489**

Summary

In alignment with efforts currently underway to improve efficiency and member experience by merging the two Medicaid managed care programs under a unified Cardinal Care program, DMAS recommends also combining Virginia's Medicaid

and CHIP programs for children. This change will ensure equitable benefits and lower out of pocket costs for all children served in Virginia's medical assistance programs, and would enable Virginia to collect significant federal drug rebates that are available under Medicaid but not under CHIP.