

Rhode Island Medicaid Reform Global Consumer Choice Compact Waiver

Rhode Island Global Consumer Choice Compact Medicaid Waiver *A National Model for MEDICAID REFORM*

“Government should cost the least and do the most.” Thomas Paine, *Common Sense*

Entitlement Reform – *The Rhode Island Experience*

The United States is on a long-term unsustainable budgetary path. Entitlements are one of the largest spending categories in the federal budget and without real reform the nation will be forced to deplete resources from other programs like education and the environment. Medicaid, the largest spending category in state budgets, is one such entitlement in desperate need of reform and redesign. Its present growth rate and accompanying business model is unsustainable and archaic and it is driving states to reduce spending in areas that thwart economic growth and business development.

The leadership in Congress is promising to cut spending, reform entitlements, curb the size and influence of the federal establishment and demand recognition of the distinction between the powers granted to the federal government and those reserved to the states or to the people. The Medicaid Program is one such entitlement desperately needing reform. As President Reagan said in his first inaugural address:

..... great as our tax burden is, it has not kept pace with public spending. For decades we have piled deficit upon deficit, mortgaging our future and our children's future for the temporary convenience of the present. To continue this long trend is to guarantee tremendous social, cultural, political, and economic upheavals. You and I, as individuals, can, by borrowing, live beyond our means, but for only a limited period of time. Why, then, should we think that collectively, as a nation, we're not bound by that same limitation? We must act today in order to preserve tomorrow.

Unfortunately, we have not acted. Over the past 15 years, Medicaid has grown from about an average of 15% of state budgets to 25% today. Projections in most states say that without serious reform, it will make up approximately 35% to 40% of all state budgets in the next 5 years. One time fixes and federal government bailouts exacerbate the crisis and push states further into debt. A real solution to the Medicaid crisis is needed.

Rhode Island has already paved the way to reforming entitlements by crafting and implementing the most sweeping entitlement reform in the nation called the *Global Consumer Choice Compact [Medicaid] Waiver*. Rhode Island is the only state in the nation that crafted a waiver to address both federal and state fiscal calamity and reform a major entitlement. Here is a snapshot:

1. Rhode Island asked for a Block Grant with risk share and after lengthy negotiation and with the clock running out on the end of the Bush Administration, settled for a **capped** or aggregate allotment with traditional FMAP and FFP. The first capped Medicaid program in the nation.

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2. The Rhode Island Waiver provides both the federal and state budgets with budgetary certainty because of the fixed allotment of funds over the 5 year period.
3. Provides a private sector approach to making changes to the waiver by putting a time limit on answers from the federal government and infuses private sector principles like competitive contracting and pay for performance.
4. Gives the state more flexibility to add, delete or modify benefits and waives certain provisions that up until this waiver were seen as sacred like “any willing provider”.
5. Provides for an HSA type program with wellness and prevention incentives.
6. Creates **one** waiver across the lifespan [program] instead of 10 or 12 different and confusing waiver programs, which possess different rules and different federal bureaucrats to work with.
7. Focuses on the most costly populations, the elderly and disabled and provides innovative solutions to drive down the cost.
8. It uses tax-payer dollars for the neediest only as originally intended.
9. It provides freedom and independence to the consumer/person by placing people in the least restrictive settings and focuses on the person rather than the provider.
10. It provides the state with greater freedom to design and redesign programs with a new process to seek federal approval [reduction of red tape].
11. Focuses on Information Technology solutions and rooting out fraud and waste.

ORIGIN – *Impetus for Reform*

In 1965, the Medicaid program was created to provide health coverage to a limited number of low-income and disabled people. Distinct from the similarly-named Medicare program, Medicaid is funded jointly by the federal government and the individual states. Over the next four decades, the desire to supply health insurance to the needy blossomed into one of the nation’s costliest programs, and without systemic reform, may bankrupt the nation.¹

Like many social welfare programs, Rhode Island’s Medicaid system has evolved over the years, expanding beyond the traditional role of a safety net to become the principal source of health coverage and services for approximately 250,000 Rhode Islanders, or one-fourth of the state’s population. Medicaid has become an integral part of the State’s health care system and the chief financier of the long-term care industry. By SFY2007, Rhode Island’s Medicaid system ranked #2 in the nation for spending per capita, at \$1,600 per citizen enrolled, had been growing at over 8% per year [with state revenues barely growing at 2.5%], and comprised close to 30% of the state’s budget.

At issue for the State was the financing of Medicaid and the growing gap between general revenues and Medicaid and remaining health and human services operating expenditures. Fiscal pressures,

¹ The original purpose of the Medicaid Program was to serve the neediest only and to allow states “to furnish rehabilitation and other services to help such families and individuals attain or retain capability for **independence** or self care. 42 U.S.C 1396. See *Myers v. Reagan* 776 F.2d. 241, 243 (8th Cir. 1985)

² Less than 10 years ago, Medicaid represented one-fifth of Rhode Island’s budget. By SFY 2007, it had grown to over a quarter of the state’s budget and, if left to the status quo, Medicaid would eventually take up more than one-third of all state spending in less than 10 years. Like most states, the State of Rhode Island had for a number of years been involved in strategies to improve the quality of services, allow for more choices, rebalance the service delivery system, and manage care. Even with all of the programs, waivers and alleged system re-designs, the state of Rhode Island had not been able to effectively reform its Medicaid program so that the focus would be on competition, prevention, wellness, personal responsibility, choice, consumer empowerment and independence.

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service demand, institutional bias, lack of competition and care management and scant program integrity had colluded to push Rhode Island further down the path toward comprehensive Medicaid reform. Further, with Medicaid growth at an unsustainable rate, other vital programs like education, local aide and the environment would suffer.

Rhode Island and the nation are currently experiencing a full-blown recession. Rhode Island is feeling the pressures of the economic downward spiral, with increasing unemployment [at 12% 3rd highest in the nation] and decreasing general revenues. The single largest piece of the state's budget is health and human services, and simply cutting programs alone does not address the problems that only systemic reform and change can achieve. Governor Donald Carcieri and Health and Human Services Secretary Gary Alexander set out to fix the problem and make the program sustainable for those who need it most with six underlying principles:

1. ***CHOICE***
2. ***INDEPENDENCE and FREEDOM***
3. ***QUALITY***
4. ***COMPETITION***
5. ***PERSONAL RESPONSIBILITY***
6. ***EMPOWERMENT***

In addition, the traditional Medicaid Program, which operates under multiple waivers and amendments with different and cumbersome administrative rules and procedures, was inefficient, costly and broken. Efforts to make programmatic changes piecemeal were hamstrung by onerous federal approval requirements. Medicaid was unsustainable and antiquated. The need for reform was real.

REAL REFORM – Global Waiver

On August 8, 2008, Governor Carcieri and Secretary Alexander took bold action to address the Medicaid issue by applying for the ***Global Consumer Choice Compact Waiver*** under Section 1115 (a) of Title XIX. In fact, this was the most comprehensive attempt to fundamentally change the Medicaid system and end the current entitlement.

Rhode Island's initial application requested an aggregate allotment [block grant], similar to the TANF Block Grant created in 1996.³ A fixed amount of funding was requested from the Centers for Medicare and Medicaid Services [CMS] to cover Medicaid services over the five-year demonstration with a maintenance of effort by the state. The state also requested to keep a portion of the federal savings incurred in order to incentivize an emphasis on cost containment and quality. The state requested complete freedom to define mandatory and optional populations and customize mandatory and optional benefits and services.

³ This block grant request would have terminated the Federal Financial Participation formula and given the state a straight TANF-like block grant.

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During the process, a few members of Congress put intense pressure to squash the proposal because of the cap and flexibility provided to the state.⁴ Rhode Island resisted these pressures knowing that there was enough money in the system to support the population without asking the federal government for more money and that the added flexibility would allow the state to sustain the program and improve quality. In the end, although CMS rejected the full scope of the state's initial request, it did allow an unprecedented amount of flexibility and some relief from onerous federal rules; this gave Rhode Island the most comprehensive entitlement reform in the nation's history.

The State received approval of the waiver in January 2009 and entered into an agreement to begin full implementation of the waiver on July 1, 2009. The Goal was straightforward: Relieve the onerous programmatic and administrative burdens on the State by allowing Rhode Island to adapt the program to meet the changing needs of its state, recipients and fiscal realities. Simply put: Give the state relief from federal mandates and greater freedom and independence to tailor its program to meet the needs of its population.

The centerpiece of Rhode Island's innovative Global Waiver is a new State-federal compact that provides both federal and state governments with greater budget certainty and the State with substantially greater flexibility and freedom than is typically available under federal program guidelines.⁵ In exchange for the flexibility, Rhode Island is operating the Medicaid program under an aggregate budget ceiling of \$12.075 billion dollars through to 2013.⁶ Even with an aggregate budget cap, Rhode Island was confident that with greater flexibility and relief to operate its program with less onerous federal rules, Rhode Island would not exceed the cap. Rhode Island became the first state in the nation to cap its entire Medicaid program.

As a result of this historic agreement, the Waiver establishes a new streamlined and expedited 45 day approval process for any changes to benefits or program during the 5 year demonstration period; establishes new levels of care for the determination of long term care eligibility that will serve to place priority on high quality and less expensive community based placements over costly institutionalized care, and give consumers meaningful choice; allow for benefits in any optional and mandatory program to be "customized" to fit the needs of the person⁷; allow for priority to be placed on preventative services, wellness and personal responsibility; establish a healthy choice account that will reward healthy behaviors with appropriate incentives; allow new purchasing

⁴A few members of Congress urged CMS to reject Rhode Island's proposal because they refused to accept anything outside of the traditional Medicaid program. The Democratic leadership in the Rhode Island General Assembly however, showed great courage by supporting the proposal because of its innovative design. The Democratic leadership in the General Assembly was an equal partner with the executive branch in the approval process and but for their support, the waiver would not have been approved.

⁵ Title XIX of the Social Security Act is the law governing the Medicaid Program. Federal law sets minimum standards for states to run the Medicaid program, though states have some flexibility to design their programs within these limits. States may ask the Secretary of the U.S. Department of Health and Human Services (DHHS) to put aside or "waive" certain provisions of the law. A "waiver" refers to an agreement between the federal government and the state that defines the circumstances under which the state is exempt from the specific provisions of the federal Medicaid law waived. The federal waiver authority in this section of the Social Security Act allows the Secretary of the U.S. DHHS to approve research and demonstration projects that give the states the latitude to pursue the innovative, and comprehensive reform Rhode Island needed.

Term "Global" Refers to: Scope of the Demonstration Project. The State proposed to demonstrate that by operating the RI Medicaid program under a single Section 1115 waiver, the State would be able to implement reforms program wide.

Waiver's Unique Financial Arrangement. The "global" waiver financing mechanism sets a fixed or aggregate sum of dollars for program operations for a set period in exchange for the flexibility to determine how the dollars are spent.

⁶ Essentially, Medicaid is capped at \$12.075Billion over the 5-year period of the waiver. Originally, the state sought approval to operate a block grant much like the TANF program. CMS did not allow the state to proceed with a block grant and insisted that the state operate under the traditional federal-state matching arrangement. Rhode Island is the first state in history to request a block grant for its Medicaid program.

⁷ Authority to **target and tailor services** in the right place, time and setting. This is not allowed in any other state's Medicaid program to the extent that Rhode Island has received.

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strategies that focus on quality and competition; waive the “any willing provider” Medicaid provisions; and consolidate all 11 waivers with their different rules and policies into one waiver with streamlined regulations that focuses on the consumer over the lifespan.⁸ *With the Waiver – State has latitude to preserve coverage and services for those with the greatest need or re-tool benefit packages to ensure coverage for the maximum number of beneficiaries with in established budget constraints.*

Further, the state is allowed to access federal financial participation [FFP] for state only funded programs covering low-income populations at-risk for institutional care. These are called Costs Not Otherwise Matchable [CNOM] and are designed to delay the need for high costly institutional settings. Secretary Alexander and his team successfully negotiated inclusion of these populations in the Wavier, resulting in approximately \$100 million in additional federal funds over the 5-year period. The state also negotiated a \$3.6Million dollar planning grant to reengineer the state’s antiquated eligibility system to comport with its MMIS system and upgrade program integrity efforts, enhance its health care data warehouse, initiate telemedicine for home care and track recipient health utilization and nutrition to comport with the healthy rewards program.

Global Waiver Fundamentals

Basis of the Compact: Programmatic and Administrative Flexibility and Fiscal Certainty.

Administrative Flexibility Waiver: Global Waiver establishes a new and unique review process in which level of federal scrutiny is commensurate with proposed scope of change in the Medicaid program.

<p>Category I Change: State required to report nature of the change. No prior approval necessary.</p>	<p>Change that is administrative in nature: -changes to prior authorization process; -additional HCBS benefits.</p>
<p>Category II Change: State initiatives an expedited 45 day review process. Federal approval of change required to obtain federal matching funds for proposed. Decision on day 45.⁹</p>	<p>Programmatic change not requiring review of budget neutrality agreement: -changes to payment methodologies; -addition, change or elimination of optional benefits.</p>
<p>Category III Change: State request to change waiver scope, purpose or component that has an impact on the financial agreement. Requires federal review and approval of the an amendment to the Global Waiver under Section 1115 of the federal Medicaid law (Title XIX).</p>	<p>Requires review of budget neutrality agreement: -eligibility changes; -elimination of a mandatory service.</p>

⁸ The Global Waiver also offers the state great opportunity to streamline its bureaucracy by consolidating all of the old waivers into one global waiver. Under the old system, the state operated many waivers with different reporting requirements, timelines, goals and scant oversight that were managed and operated across five [5] health and human services agencies. Each department coveted their own waiver[s] leaving little room for coordination and oversight. Currently the Executive Office of Health and Human Services [EOHHS] is utilizing this new compact to functionally reorganize divisions and programs, streamline operating procedures, reduce redundancies, combine units and create efficiencies that never would have been possible under the old system. Through the waiver the state also created an Assessment and Coordination Unit to review all placements to ensure that that all recipients receive care in the most appropriate and least restrictive setting.

⁹ Up until the Global Waiver, states often had to wait three, six, nine or sometimes twelve months just to receive an answer from the Federal Government. Unlike the Federal Government, states must have a balanced budget. These long delays in obtaining answers greatly contributed to state deficits and created unnecessary burdens for state staff trying to operate in an antiquated system.

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Federal Fiscal Certainty Under the Waiver

Global Waiver creates a new financial arrangement between the State and the federal government establishing a maximum federal contribution toward Medicaid program costs during the five-year Global Waiver Demonstration. The State and the federal government agree to an aggregate spending ceiling over the five years of the waiver demonstration of \$12.075 billion and the State is at risk for any increases in enrollment and per participant per month cost trends that drive Medicaid expenditures above the aggregate spending ceiling. The federal contribution continues to be determined by State Medicaid expenditures – that is, the State only receives federal matching funds for what it actually spends on the program.

Waiver Proposal Incorporated Reform Goals Into Five Component Areas:

1. **Rebalancing the System** to reduce the institutional bias and promote home and community based alternatives, and create new choices and settings. Strategies and policies focused on making it easier to access home and community based alternatives.
2. **Care Management** – Mandate care coordination to achieve better health outcomes, implement primary care medical home [PCMH] for all recipients, integrate services and systems of care, and encourage and reward personal responsibility, service performance, and wellness.
3. **Smart Purchasing and Payments** -- Institute competitive and value-based purchasing approaches program-wide, refocus program integrity efforts, and ensure all payers and beneficiaries contribute an appropriate and fair share.
4. **CNOM** – Obtain federal matching funds to support the continuation of state-funded programs that serve populations at risk for Medicaid and/or high cost institutional care.¹⁰
5. **Program Integrity** – through the use of technology initiate efforts to combat waste, fraud and abuse.

In addition to these 5 goals, the waiver also provides an improved organizational framework to integrate services across all populations because the state is operating one waiver instead of eleven.¹¹ Silos between programs and administrators are slowly dissipating, services are becoming more consumer-based and rules and regulations are becoming more coherent and less onerous because the waiver focuses on the lifespan of the individual.

¹⁰ RI's Global Waiver Federal Cap Agreement allows for immediate relief for State-only Funded programs. CNOM means Costs Not Otherwise Matchable. These are state only funded programs that the State of Rhode Island now receives a federal match according to the matching formula. The State of Rhode Island advocated to make these programs matchable because they delay the need for institutionalization and provide preventive services. This means Rhode Island will receive approximately 100Million dollars over the 5 year period to accelerate and promote less costly community based alternatives and prevention and wellness initiatives. These federal funds are assisting Rhode Island to improve quality and drive down the cost of health care and costly institutional care.

¹¹ Operating eleven or twelve waivers [programs] with different rules, procedures and processes put a tremendous administrative burden on states. Each waiver has its own sets of regulations and its own federal staff. These federal staff members and waivers are not integrated across the lifespan of the consumer. This provides confusion, scant coordination across populations and costs the states additional administrative expenditures because of the system is not seamless.

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IMPLEMENTATION

The Global Waiver has been a major success in its first 18 months since implementation began on July 1, 2009.

Some Global Waiver **Accomplishments** in the first 18 months:

- ✓ Established Assessment and Coordination Organization and New Office of Community Programs – *address functional need and preventive services and not institutional levels of care.*
- ✓ Consolidated 11 Waivers into 1 with new streamlined policies and regulations
- ✓ Implemented new Levels of Care – Preventive, High and Highest
- ✓ Added new Community Based Alternatives and options [*greater choice*]
- ✓ Over 1200 individuals transitioned out of or diverted from costly institutions, out of state placements etc..*[nursing homes, group homes, etc]*
- ✓ Nursing Home Rate Reform
- ✓ Hospital Payment Rate Reform – *in process*
- ✓ Implemented Patient Centered Medical Home [100% enrollment achieved]
- ✓ Implemented Emergency Room Diversion [utilization reduced 30%]
- ✓ Utilized Smart Purchasing strategies like Selective Contracting [*any willing provider waived*]
- ✓ Implemented Behavioral Health Acute Stabilization Unit
- ✓ Developmental Disability Rate Reform – *in process*
- ✓ Child Welfare Rate and placement reform – *in process*
- ✓ Multi-agency high cost case review - \$4 Million saved
- ✓ Communities of Care implemented – Prevention and Wellness
- ✓ State Maximum Allowable Costs for Pharmacy
- ✓ Implemented Transparency Portal for Medicaid Rates and Payments
- ✓ Human Services/Medical Transportation redesign and reorganization

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- ✓ **\$100 Million estimated saved in 18 months through reform efforts** [no eligibility cuts]. \$146 Million projected by June 2011.¹²
- ✓ Additional \$50 Million saved through Program Integrity Efforts and aggressively eradicating waste, fraud and abuse [Audit, TPL, tax intercept and more]
- ✓ \$25 Million dollars in new federal funds [CNOMs] to delay institutionalization in the first 18 months. Budget relief.
- ✓ Growth in Medicaid has approximately been cut in half from over 8% to 3% in the past 18 months.

Since implementation [in the first 18 months], the Waiver has saved approximately \$110 Million dollars through reform efforts, cost containment strategies and program integrity and is one of the reasons why Rhode Island possessed a state budget surplus in SFY2010. In regards to the aggregate budget cap, at its current expenditure rate, Rhode Island is on track to only spend approximately \$9.3 Billion of the allotted \$12.075 Billion. *SEE Budget Neutrality below*¹³ Rhode Island is successfully showing that more money is not the solution; comprehensive reform and freedom from onerous federal mandates work. The Global Medicaid Waiver is seen as a model for state Medicaid reform and could be replicated by each state.

SAVINGS SFY10 and SFY11 enacted

Program Area	ALL FUNDS TOTAL
Rebalancing	\$21,020,447
Care Management	\$34,618,007
Smart Purchasing	\$40,714,293
Program Integrity	\$8,967,022*
CNOMS	\$41,291,800
TOTAL *Not included Audit = \$40M	\$146,611,515

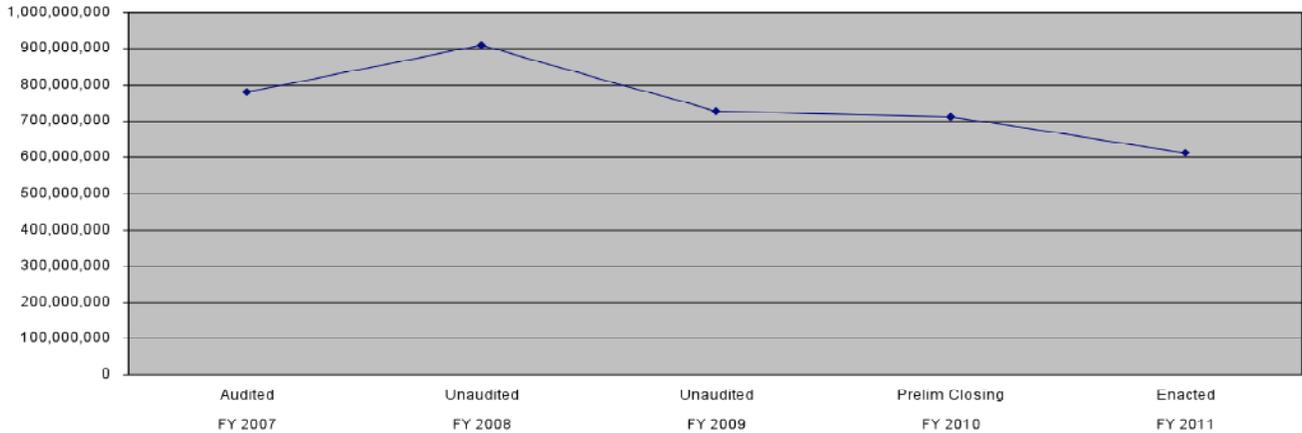
¹² Figures are approximate because the state is in the middle of the fiscal year.

¹³ As of July 2010, Rhode Island had only spent \$2.7Billion of the allotted \$3.8Billion during the time period from January 2009 to July 2010. This is \$1.1Billion dollars under the aggregate cap. This proves that more money is not the solution.

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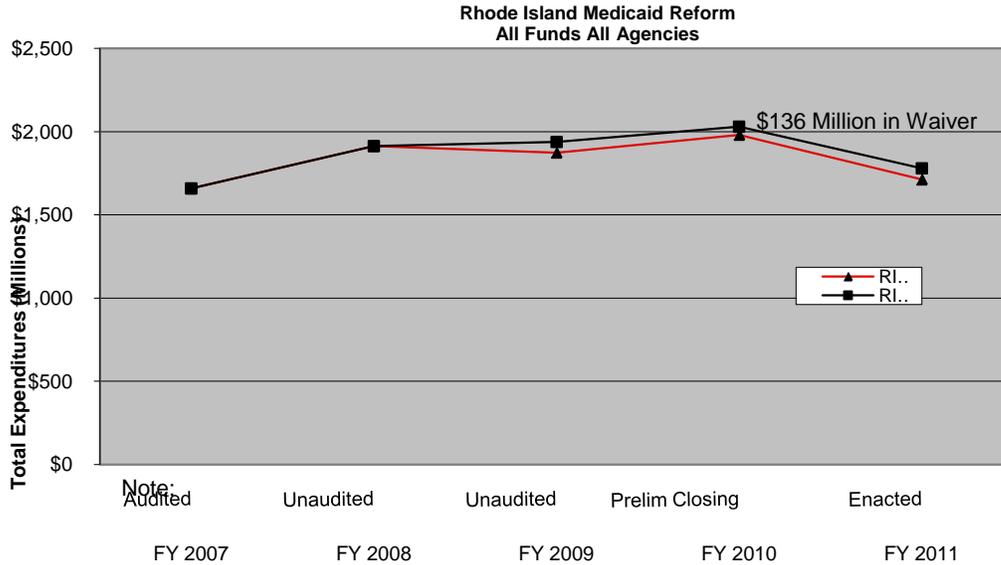
General Revenue Medicaid Expenditures

Note-Includes DSH payments & LEA
-Includes federal stimulus dollars
-Assumes extension of FMAP in FY 11



By the end of SFY2011, Rhode Island will save approximately \$146 Million dollars with CNOMs [\$100+ Million estimated savings through November 2010] even with all of the onerous ARRA [Federal Stimulus] restrictions in place. Without some of the provisions of ARRA, and if Rhode Island had been granted its original proposal, the Global Waiver might have had projected savings of \$220 Million during this same period.

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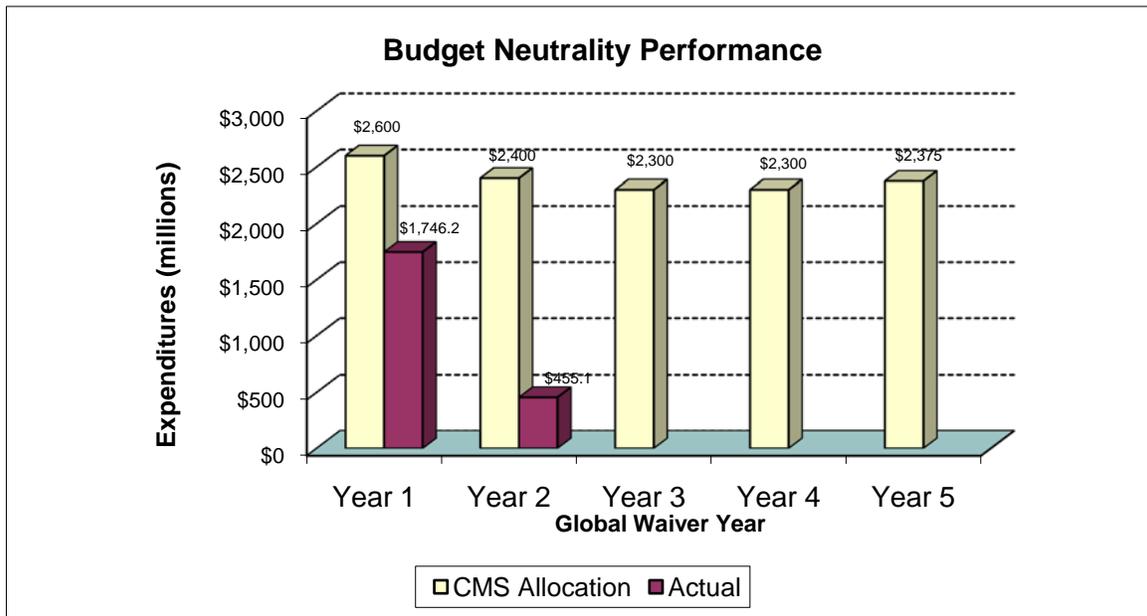
BUDGET NEUTRALITY PERFORMANCE through June 30, 2010

The Budget Neutrality results through the first six quarters of the Global Waiver Demonstration project (1/1/09 thru 6/30/10). Cumulative expenditures for this time period total nearly \$2.7 billion, or \$1.1 billion below the Global Waiver spending cap of \$3.8 billion.

Results through the quarter ending 9/30/10 have not yet been finalized, however, preliminary indications are that Rhode Island's favorable variance under the spending cap will increase to approximately **\$1.2 billion** dollars.

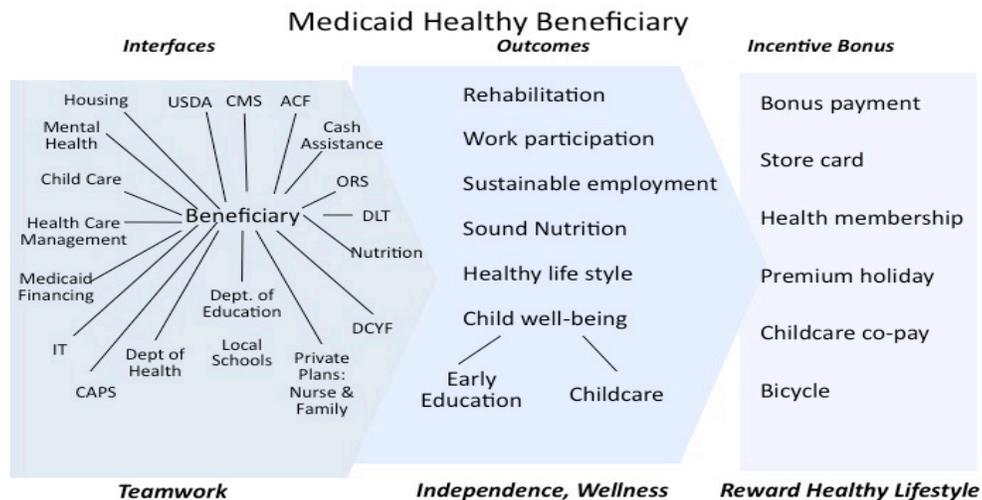
	<u>CMS Allocation</u>		<u>Actual Expenditures</u>		<u>Under/(Over) Spending Cap</u>	
<u>Calendar Year</u>	<u>Annual Spending Cap</u>	<u>Cumulative Spending Cap</u>	<u>Annual</u>	<u>Cumulative</u>	<u>Annual</u>	<u>Cumulative</u>
2009	\$2,600,000,000	\$2,600,000,000	\$1,746,161,860	\$1,746,161,860	\$853,838,140	\$853,838,140
2010	\$2,400,000,000	\$5,000,000,000	\$941,750,181	\$2,687,912,041	\$258,249,819	\$1,112,087,959
2011	\$2,300,000,000	\$7,300,000,000				
2012	\$2,400,000,000	\$9,700,000,000				
2013	<u>\$2,375,000,000</u>	\$12,075,000,000				
Total	\$12,075,000,000					

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Rhode Island’s Waiver changes the paradigm for how a Medicaid recipient is assessed and treated. The goal is to assist individuals to gain independence, foster personal responsibility and freedom from government programs.

Example: Person-Centered, Healthy Choice *Effects: 200,000 individuals*



Conclusion:

The message is clear that the status quo is unacceptable. The Rhode Island experience is living proof that a fixed amount of federal and state funding and relief from federal regulations will encourage states to tailor and design services in the most appropriate settings and place. Rhode Island is the

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only state to act and achieve success, proving that bigger government and more money are not the solution. The Rhode Island experience is quietly being noticed as the mother of innovation and a model for the nation.

This waiver is ground breaking. Why?

1. It provides federal and state budgetary certainty. Something no state has ever been granted.
2. It controls cost and expenditures in the program, provides real reform, establishes greater program integrity and roots out fraud and waste in the system.
3. The Waiver infuses private sector principles like competitive contracting, performance-based contracting and transparency into the Medicaid Program.
4. It uses tax-payer dollars for the neediest only as originally intended.
5. It provides freedom, independence and choice to the consumer/person by placing people in the least restrictive and right settings and focuses on the person.
6. It provides the state with greater freedom to design and redesign programs with a new streamlined process to seek federal approval [reduction of red tape] and to waive onerous federal rules.
7. It provides the state with the freedom to design programs for its citizens on the local level rather than a “federal one size fits all” and it makes the program simple and seamless rather than complex.

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****This paper was crafted and compiled in December 2010 while still RI Secretary****