

Executive Summary to DRAFT Waiver Amendment Childless Adults Continuation

AHCCCS currently covers adults without deprived children (“Childless Adults”) through its 1115 Research and Demonstration Waiver (sometimes referred to as a “Demonstration” or “Waiver”). This special waiver authority was needed because Childless Adults are not otherwise eligible for Medicaid. Arizona is one of only six states in the country to provide Medicaid coverage to Childless Adults.

AHCCCS’ authority to cover Childless Adults under the Waiver expires December 31, 2013, even though the Waiver will remain in effect for nearly three more years through September 30, 2016. The 2013 expiration date for Childless Adult coverage in the AHCCCS Waiver was selected because the Medicaid expansion provisions of the Affordable Care Act (the “ACA”) beginning January 1, 2014, were considered to be mandatory at the time the Demonstration was approved on October 21, 2011. Subsequently, the United States Supreme Court ruled that the ACA Medicaid expansion is optional, creating new coverage opportunities for states.

On September 18, 2012, AHCCCS posted a draft waiver amendment to its website that would allow the State to: (1) extend its current authority to provide Medicaid coverage to Childless Adults for the entire period of its Waiver (through September 30, 2016); and (2) to obtain the enhanced federal medical assistance percentage (FMAP) for Childless Adults beginning January 1, 2014.

As the State evaluates coverage options for the future, Governor Brewer has underscored the need to identify enhanced federal match rate opportunities for the restoration of coverage for Childless Adults in order to ensure the program’s sustainability while honoring the will of the voters. While states that have never covered childless adults can obtain 100% federal funding for this population in 2014, Arizona’s citizens are penalized for having elected to provide AHCCCS coverage to all Arizonans under 100% FPL. The resulting loss in federal funding associated with having provided coverage to Childless Adults since 2000 is enormous. Based on the most recent AHCCCS projections, if Arizona had never expanded coverage to Childless Adults, the cost from State Fiscal Year (“SFY”) 2014 through SFY 2017 of adding coverage for this population would have been only \$57 million. Instead, Arizona’s four-year costs to maintain coverage under the regular FMAP approach \$2.5 billion. However, the ACA does allow an enhanced FMAP for childless adults to the handful of states like Arizona who expanded Medicaid coverage prior to the passage of the ACA. Through this enhancement, the four-year cost of the Childless Adult population is decreased from \$2.5 billion to roughly \$928 million. Although this additional funding does not make Arizona whole compared to most other states, obtaining enhanced FMAP for the State’s Childless Adult population is imperative for the State to consider the sustainability of Prop. 204, and this Waiver amendment recognizes its significant impact.

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This amendment request does not reflect any decision on the part of Governor Brewer about the future of Arizona's Medicaid program. Rather, extending the State's authority to cover Childless Adults under the Demonstration supports the State's thoughtful approach to examining coverage opportunities for its citizens and preserves needed flexibility for the State to manage the cost of coverage for Childless Adults within available resources. The Waiver, and a decision on the enhanced federal match rate opportunity, are critical in assisting Governor Brewer in her decision making. Governor Brewer is still scheduled to make a decision on Medicaid-related issues in light of the Supreme Court ruling by December or January.

This Waiver amendment is open for public comment for 30 days; the comment period closes October 19, 2012. AHCCCS will review all public comments as they are received. Once the comment period is closed, AHCCCS will formally submit the waiver amendment request to the Centers for Medicare and Medicaid Services (CMS).

Arizona 1115 Waiver Amendment Request

Continuing Coverage for Childless Adults under the Demonstration

I. Summary

The Arizona Health Care Cost Containment System (AHCCCS) is requesting an amendment to the 1115 Research and Demonstration Waiver (the “Demonstration”) with respect to “Childless Adults.” The purpose of the amendment is twofold: 1) to allow the State to extend its current authority to provide coverage to adults without dependent children with incomes between 0% and 100% of the Federal Poverty Level (“Childless Adults”) for the entire period of its Demonstration and 2) to obtain the enhanced federal medical assistance percentage (FMAP) for Childless Adults beginning January 1, 2014.

Although the State’s authority to provide coverage to Childless Adults under the Demonstration expires December 31, 2013 as stated in the Costs Not Otherwise Matchable (“CNOMs”) section (18 and 19), the Demonstration remains in effect for nearly three more years through September 30, 2016. The 2013 expiration date for “Childless Adults” in the new AHCCCS Demonstration was included because the Medicaid expansion provisions of the Affordable Care Act (the “ACA”) beginning January 1, 2014 were considered to be mandatory elements of each State’s Medicaid Program at the time the Demonstration was approved on October 21, 2011. Subsequent to the approval of the AHCCCS Demonstration, the United States Supreme Court held that States are not required to adopt the Medicaid expansion provisions. Instead, the Supreme Court ruled that the Medicaid expansion provisions are optional, creating new coverage opportunities for states.

This amendment request is intended to allow the State to:

- Fulfill the objectives of Proposition 204 and maximize AHCCCS coverage of Childless Adults with incomes up to 100% FPL *within available resources*.
- Continue the State’s authority to offer Medicaid coverage to Childless Adults between 0% and 100% FPL within available resources as a Demonstration population.
- Maintain the State’s flexibility to manage coverage of Childless Adults within available resources.
- Retain personal responsibility components for Childless Adult coverage, such as cost sharing and missed appointment penalties.
- Obtain the enhanced FMAP described in Section 1905(z) of the Social Security Act for the Childless Adult population beginning January 1, 2014.

II. Overview

Background on Coverage of Childless Adults in AHCCCS

Arizona voters enacted Proposition 204 in 2000, which extended AHCCCS coverage to all Arizonans between 0% and 100% of the Federal Poverty Level (FPL). In 2001, Arizona applied for an 1115 Demonstration waiver to enable the State to extend Medicaid coverage to the Childless Adult population not otherwise eligible for

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Medicaid. With federal approval, Arizona became one of only six states in the Nation to provide Medicaid coverage for the Childless Adult population. Eligibility for this population was open-ended, and members received the full Medicaid benefit package. State funding was provided through tobacco litigation settlement dollars, tobacco tax dollars, and the State General Fund. No enrollment caps or waiting lists were included.

The prolonged and damaging recession was particularly severe in Arizona, and the fiscal crisis presented the State with unique challenges. Among these challenges was a 30% decrease in State revenues compounded by a 30% increase in AHCCCS enrollment. These events highlighted the near exclusive role assumed by the State General Fund in subsidizing AHCCCS members covered under Prop. 204. The annual cost of coverage for the Prop. 204 population is approximately one billion dollars. Tobacco dollars fund only about \$150 million of this sum, a miniscule contribution to the overall costs for this population. The severity of the budget crisis and the magnitude of reductions implemented by the AHCCCS Program, as well as throughout state government, required a change to the Demonstration in order to provide the State with the flexibility critical to manage these unprecedented challenges.

As part of the new Demonstration that was approved October 21, 2011, the State phased out the original Childless Adult program. It was restructured from an open-ended program to one that operated under an enrollment freeze with the flexibility to re-open enrollment should funds become available. The new Demonstration also permitted the State to transition certain vulnerable populations (e.g., children aging out of Medicaid) to the Childless Adult population and to maintain coverage for all childless adults who were enrolled in the AHCCCS Demonstration as of July 8, 2011, as long as they continued to meet eligibility criteria and redetermination requirements.

The Path Forward for Arizona

The provisions within the current Demonstration that authorize the State to provide coverage to Childless Adults end on December 31, 2013. This termination date was established at a time when the ACA Medicaid expansion, which would extend coverage to the Prop 204 population on January 1, 2014, was considered mandatory. Because the United States Supreme Court determined that the Medicaid expansion provisions of the ACA are optional, individuals who currently qualify as Childless Adults will not be mandatorily eligible for Medicaid on January 1, 2014. Without this affirmative act by the State, Childless Adults will no longer have access to coverage in Medicaid. Therefore, it is critical for the State to submit this amendment seeking an extension of its authority to offer coverage to Childless Adults.

Under the leadership of Governor Brewer, Arizona has pursued a deliberative approach to examine the options and coverage solutions available to AHCCCS in light of the Supreme Court's decision. As part of this approach, Governor Brewer has

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initiated an extensive stakeholder engagement process that began July 31, 2012. The State has conferred with representatives of many key communities and organizations, including: hospitals, physicians, behavioral health providers, tribes, health plans, business leaders, community groups, and advocates. The State has also scheduled numerous community forums in Phoenix, Tucson, Flagstaff and Yuma, which are open to the public. Another session is currently being scheduled in Benson. These sessions are designed to both educate the public about the options available to the State as well as to receive their input regarding the path forward for Arizona.

Amending Arizona's 1115 Waiver to Maintain Coverage for Childless Adults

As Governor Brewer reviews the options for the State, one of her guiding principles is to recognize the will of Arizona voters regarding AHCCCS coverage for Childless Adults as expressed through the passage of Prop. 204. One of the prevalent themes expressed by stakeholders is for the State to continue its authority to provide coverage for Childless Adults *after* December 31, 2013. Accordingly, the State of Arizona seeks to extend the December 31, 2013 termination date specified in the approved Demonstration to authorize the State to continue its ability to cover Childless Adults as currently provided through its 1115 Demonstration Waiver through September 30, 2016. This request is submitted to the Centers for Medicare and Medicaid Services (CMS) at this time to allow CMS ample opportunity to review the issues raised by this proposal and to answer key questions as the Governor prepares the State's budget proposal and policy directives that will be released in January of 2013.

Extending the State's authority to cover Childless Adults under the Demonstration preserves needed flexibility for the State and supports the State's thoughtful approach to examining coverage opportunities for its citizens. The most critical component of the State's approach is obtaining the enhanced FMAP for the Childless Adult population.

As the State evaluates coverage options for the future, Governor Brewer has underscored the need to identify enhanced federal match rate opportunities for the restoration of Prop. 204 as a sustainable component of the solution based upon the Demonstration's stated principles of flexibility and state/federal partnership. It is crucial to recognize that more than a decade ago Arizona was at the forefront in providing medical assistance to the hundreds of thousands of members of this vulnerable population. While states that have never covered childless adults can obtain 100% federal funding for this population in 2014, Arizona's citizens are penalized for having elected to provide AHCCCS coverage to all Arizonans under 100% FPL.

The resulting loss in federal funding associated with having provided coverage to Childless Adults since 2000 is enormous. However, this inequity is partially mitigated

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through the ACA's provision authorizing an enhanced FMAP¹ for childless adults to the handful of states in Arizona's position (Section 1905(z) of the Social Security Act). Although the ACA does not make Arizona whole, obtaining enhanced FMAP for the State's Childless Adult population is imperative for the State to consider restoration of Prop. 204. Based on the most recent AHCCCS projections, the State match costs for the childless adult population from State Fiscal Year ("SFY") 2014 through SFY 2017 at the current FMAP would be \$2.5 billion. With the enhanced FMAP, the State's costs drop to roughly \$928 million. If Arizona had never expanded coverage to childless adults like so many other states, the four-year cost for this population would have been \$57 million.

Authorizing Arizona to secure the enhanced FMAP for Childless Adult coverage comports with the spirit of the ACA and builds upon a tradition of partnership between the federal government and Arizona that has allowed the AHCCCS program to flourish as a model of health care delivery for more than 1.2 million members. Accordingly, the State seeks to include in this amendment language that addresses its ability to obtain the enhanced FMAP for coverage of childless adults as outlined in Section 1905(z) of the Social Security Act beginning January 1, 2014.

The State also seeks to continue its ability to apply mandatory cost sharing requirements as stated in the Standard Terms and Conditions ("STC") 17(d) and missed appointment penalties in STC 17(e). The State would also agree to continue its monthly reporting requirements under STC 35.

III. Public Process

The State will post this proposal to its website on Tuesday, September 18, 2012, providing a 30-day public comment period regarding the proposal. In addition, the State will also schedule a community forum to allow for an in-depth review of the proposal and for public comment and questions. Once the date and time are finalized, the State will post the information to its website and circulate it to stakeholders. By October 19, 2012, after the expiration of the public comment period and the consideration of public input, the State will formally submit the final proposal to CMS. The State will also summarize and post comments received to its website.

IV. Data Analysis- "With Waiver" vs. "Without Waiver"

The State does not anticipate any change to budget neutrality at this time since the same services will be provided and the same populations are being served. However, the State will provide an updated budget neutrality analysis once policy decisions are made regarding the future of the AHCCCS program under the ACA. In addition, the

¹ The enhanced FMAP is: 83% in 2014; 86% in 2015; 89% in 2016; 89% in 2017; 91% in 2018, 93% in 2019; and 90% in 2020.

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State seeks to continue to receive a “Without Waiver” budget neutrality per member per month cost for this population.

V. Allotment Neutrality

The State does not anticipate any change to allotment neutrality since the same services will be provided and the same populations are being served.

VI. Details

This amendment request seeks to maintain a current program beyond the stated termination date of December 31, 2013. There are no other anticipated changes at this time.

VII. Evaluation Design

The State proposes to apply the same evaluation criteria to this proposal that it currently applies to this Demonstration population.