

## COVID-19 Impact on Iowa Medicaid

### Purpose

This brief addresses the impact of COVID-19 on the Iowa Health Link program and discusses considerations to inform the evaluation of the financial impact of COVID-19 on Medicaid spending for state fiscal years (SFY) 2020 and 2021. Additionally, preliminary information is presented for 2022.

### Background

To understand the financial impact of COVID-19 on the Iowa Health Link program, it is important to highlight the timing associated with the COVID-19 outbreak, actions implemented by the federal government and IME, and that the managed care program capitation rates paid by IME represent the majority of Medicaid spending.

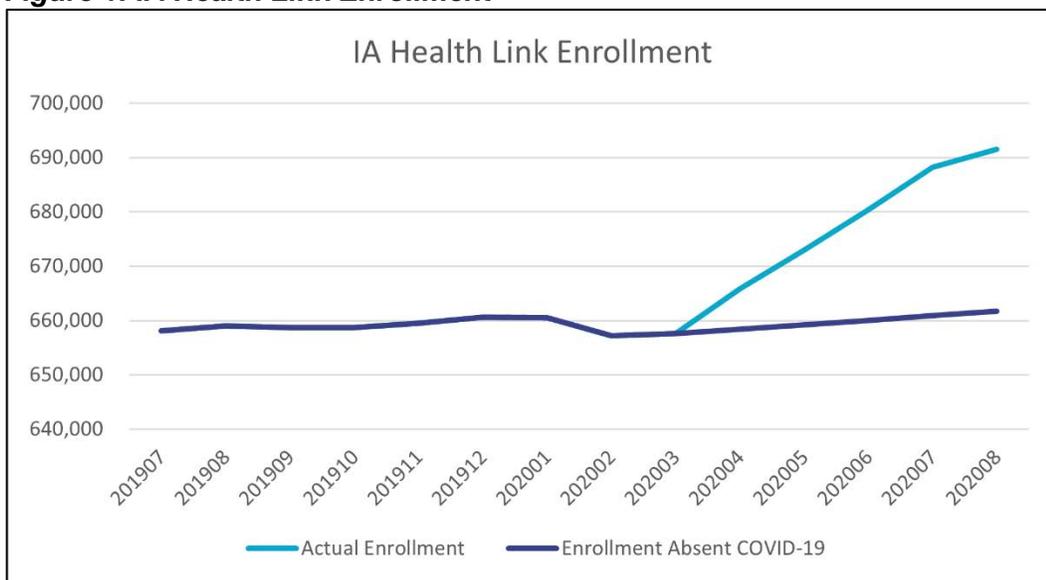
The COVID-19 health emergency impacted many typical processes and operations of IME and introduced higher levels of uncertainty regarding future program cost projections. Much of the uncertainty beginning in March 2020 was driven by rapidly evolving federal and state policy in response to COVID-19, lack of precedent for the crisis, and the evolution of the COVID-19 crisis.

The impact of COVID-19 has had a significant impact on Iowa's health care system including:

- Reduced utilization of routine, preventative, and elective health care services that in the spring of 2020 resulted in financial strain for many Iowa health care providers.
- Emergency actions implemented by CMS and the state to address emerging circumstances including:
  - Expansion of services (e.g., telehealth, home delivered meals, etc.)
  - Provider retainer payments to ease financial burden on health care providers and maintain access for Medicaid members
  - Nursing facility directed payments
  - COVID-19 testing
  - Emerging vaccine administration
- Families First Coronavirus Response Act (FFCRA) and CARES Act provided additional funds to states through increased federal financial participation but were conditioned, in part, on a freeze on Medicaid disenrollment processes.
- Disrupted managed care processes, including annual capitation rate setting for Medicaid programs in Iowa and across the country.

Beginning in March 2020, IME, like all other state Medicaid programs, has experienced and continues to experience sustained enrollment growth. The primary source of this growth is associated with the moratorium on disenrollment as part of the FFCRA and CARES Act. Figure 1 below illustrates actual Health Link enrollment and enrollment absent COVID-19 through August 2020.

**Figure 1: IA Health Link Enrollment**

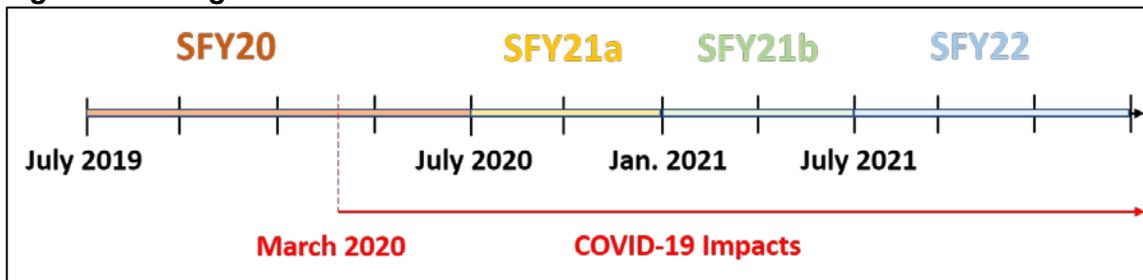


The MCOs cover most Iowa Medicaid beneficiaries through Health Link and receive payment from IME on a per-member-per-month (PMPM) basis. Each MCO receives a monthly amount for each enrolled member commensurate with a member’s demographic risk and estimated acuity. **Total Medicaid spending is influenced by the PMPM amounts multiplied by the number of members covered each month.**

**Discussion**

To better understand the impact of COVID-19 on the IA Health Link program, the financial impact for the SFY20, SFY21, and SFY22 contract periods are evaluated separately. Recognizing the uncertainty associated with COVID-19, the twelve-month SFY21 period was split into two six-month periods, SFY21a and SFY21b. Splitting the contract periods allowed IME flexibility to make mid-contract period changes, as necessary, based on emerging data as the health emergency continued to evolve. Figure 2 below illustrates the timing of COVID-19 and the periods of rate setting for the IA Health Link program.

**Figure 2: Rating Periods**



**SFY20 Impact (July 1, 2019 – June 30, 2020)**

During the twelve-month SFY20 period, only four months (March-June 2020) were impacted by the COVID-19 health emergency. During this time, IME pursued various policies to ensure that appropriate funding was maintained for providers during the shutdown beginning in

March. As a result of the reduced health care expenditures incurred by the Health Link MCOs during this period, these policies did not result in material increases in costs to IME. This is a result of IME's decision to not adjust capitation rates. The increase in PMPM expenditures incurred by the MCOs resulting from these new policies were offset by lower MCO spending on other services.

Identified in Figure 1, Medicaid enrollment increased beginning in March 2020 and continued through June 2020. The increase in enrollment, 1.0% to 1.5% per month, resulted in a modest increase in the total expenditures for the IA Health Link program when compared to what would have happened absent the pandemic. Overall, total computable expenditures (federal + state share) during March – June 2020 increased as a result of the higher Medicaid enrollment. However, the enhanced Federal Medical Assistance Percentage (FMAP) resulted in an offset to state share funding for the IA Health Link program during the SFY20 contract period.

### **SFY21 (July 1, 2010 – June 30, 2021) Impact**

The Health Link capitation rates are typically developed on a SFY basis using recent historical information that is adjusted and projected to the future contract period. Capitation rate development for each SFY is typically performed in February through April and submitted to CMS in April through May for approval in advance of the start of the SFY contract period.

The disruption and uncertainty associated with COVID-19 occurring in the middle of a typical capitation rate setting cycle meant significant unknowns and an increase in the variability between projections and actual experience.

**IME continues to incorporate requirements for minimum medical loss ratios (MLR) in their contracts with the MCOs. If MCOs spend less than the projected MLR, IME recoups the amount below the minimum MLR. The SFY21 minimum MLR was increased to 89%, which is an increase from the historical 88% in place prior to SFY21.**

#### **SFY21a Period (July 1, 2020 – December 31, 2020)**

The six-month SFY21a period, (July – December 2020), capitation rates were held flat from the SFY20 period. The financial impact, on a total computable basis (federal + state share), is an increase in total costs. The increased cost is attributed to growth in membership, as illustrated in Figure 1 above, but much of the increase was offset by the enhanced FMAP included in the FFCRA and CARES Act. CMS and IME are currently in the process of finalizing the SFY21a rate approvals.

#### **SFY21b Period (January 1, 2020 – June 30, 2020)**

The SFY21b capitation rates are in process of discussion between IME and the MCOs. Once rate discussions are completed, IME will submit the appropriate certification letters to CMS for approval.

The SFY21b period rate development incorporates more recent data for the period of CY19 (January – December 2019) and emerging CY20 (January – August 2020). This emerging data supports analysis of acuity shifts associated with the moratorium on

Medicaid disenrollment plus any increased enrollment in Medicaid associated with economic conditions. Overall, the SFY21b capitation rates are expected to be flat or within 1% of the SFY21a capitation rates.

The current federal public health emergency declaration will expire in January 2021, unless it is extended. If the federal public health emergency expires, the following will impact the capitation rates and Medicaid spending:

- The Medicaid enrollment moratorium expires, and the increased Medicaid enrollment experienced between March 2020 and January 2021 will begin to decrease.
- The enhanced federal financial participation will also expire.
- If the Medicaid enrollment increase that has taken place during the public health emergency decreases commensurate with the caseload accumulation, there is not expected to be a significant increase in overall IA Health Link funding.

**SFY22 (July 1, 2021 – June 30, 2022) Impact**

COVID-19 is expected to continue to impact the Health Link program and its cost in SFY22. One significant element that remains unknown is the COVID-19 immunization. At this time, IME has not yet finalized the policy surrounding whether the administration of COVID-19 vaccines will be covered via managed care or carved out into FFS, nor the final fee that will be used for the cost of administering the vaccine. These potential costs and their impact on future capitation rates remain unknown. The SFY22 capitation rate development will incorporate data from the periods pre and post COVID-19.