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Understanding the Issues Surrounding Florida's Low-Income Pool

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The following questions and answers provide basic information on the dispute between state and federal officials on the future of Florida's Low-Income Pool (LIP).

What is the Low-Income Pool?

The LIP is a funding pool to support health care providers that provide uncompensated care to Florida residents who are uninsured or underinsured. It is *not* a health coverage program.

The Centers for Medicare and Medicaid Services (CMS) approved the LIP in 2005 as part of a section 1115 demonstration project (usually referred to as a waiver) allowing Florida to change how it delivers Medicaid benefits in parts of the state, from fee-for-service to managed care. During the transition to the new system, the LIP was created to support safety net hospitals, county health departments, and federally qualified health centers that treat Florida residents who are uninsured or underinsured. This includes care for Medicaid beneficiaries enrolled in managed care when payments to the managed care plans don't cover the full costs of care.

In renewals of its waiver in 2011 and 2014, Florida continued its transition to managed care, achieving statewide implementation in August 2014, while continuing to use the LIP to support safety net providers.

The LIP distributed $1 billion a year from 2005 until the program's 2014 extension, when funding grew to $2.17 billion. This year, about $1.9 billion of that amount is set aside for uncompensated care, with another $204 million going to teaching hospitals to offset costs associated with Graduate Medical Education (GME) programs, which help train physicians.

How is the LIP funded?

The LIP has both state and federal funding sources. The state share is funded almost entirely through contributions by, or on behalf of, providers that receive money from the

LIP. Once the providers have contributed funds to the LIP, Florida's Medicaid agency can draw down federal matching funds (at a matching rate of 60 percent) to fully fund the LIP.

Why does the LIP need to change?

In response to Florida's waiver renewal request in 2014, CMS renewed the state's delivery system changes for three years but extended the LIP for only one year, until June 30, 2015. The one-year extension was intended to give the state time to conduct an independent review of its provider payment systems and funding methods with the goal of developing a sustainable, transparent, accountable, and actuarially sound Medicaid payment system that provides quality health care to Medicaid beneficiaries *without* the LIP.

A key factor in CMS's decision was health reform's creation of an explicit pathway for Medicaid coverage for adults with incomes below 138 percent of the poverty line, which changed CMS's criteria for approving state plans to fund uncompensated care, such as the LIP. Florida providers incur significant uncompensated care costs for treating uninsured people in this income range. Since 2005, the LIP has helped providers offset these costs, allowing them to continue serving uninsured individuals. Expanding Medicaid, however, would provide low-income Floridians with health insurance, so providers would receive payment for the actual services they provide. Moreover, the federal government would pay 100 percent of these costs through 2016, with a gradual reduction to 90 percent in 2020 and thereafter; the state's share would never exceed 10 percent.

In addition, the completion of Florida's statewide transition to managed care in August 2014 means that the LIP's main objective — helping support safety net providers during the transition to managed care — no longer exists. During the transition, the concern was that state payments to managed care plans would not meet the full costs of treating Medicaid beneficiaries. Now, however, those payments should be sufficient.[1] Ensuring that providers receive sufficient payment to cover the total costs of care for Medicaid beneficiaries not only encourages providers to participate in Medicaid but also ensures access to care for Medicaid beneficiaries and allows managed care plans to better coordinate their health care services.

In short, expanding Medicaid, which would provide payment to safety net providers that treat newly eligible beneficiaries, and guaranteeing providers sufficient rates for treating Medicaid beneficiaries would reduce providers' need for payments from the LIP.

What is CMS' position on the LIP?

CMS stated in an April 14, 2015 letter to Florida officials that it will apply three key principles when considering the LIP's future:

[1] States must ensure payments to their managed care plans meet the requirements in 42 CFR Part 438.6(c) that payments be actuarially sound and appropriate for the populations enrolled in managed care and for the services that the plans provide.

- Uncompensated care pool funding cannot be used to pay for health care for people whom the state could have covered through a Medicaid expansion.
- Medicaid payments should be used to support services provided to Medicaid beneficiaries and low-income uninsured individuals.
- Provider payment rates should be sufficient to ensure adequate provider participation in Medicaid, access to care for beneficiaries, and care coordination by managed care plans.

CMS also noted that a transition period may be necessary to ease the impact on providers of the reduction in LIP payments as the state transitions to broader Medicaid coverage and implements sustainable provider payment rates.[2]

How is Florida proposing to change the LIP?

On April 20, Florida released an amendment to its waiver for public comment. While the amendment would modify the LIP, it doesn't align with the three principles CMS articulated. It doesn't expand Medicaid and continues to use LIP funding for uncompensated care costs that Florida could cover under a Medicaid expansion. It also maintains total LIP funding (state plus federal) at $2.17 billion.

The amendment's primary change is to better target LIP funds on hospitals that primarily serve low-income uninsured populations. This is a positive step, but the LIP would still compensate hospitals for the costs of providing care to people whom the state could cover by expanding Medicaid and for undercompensated care for current Medicaid beneficiaries.

What should the LIP look like in the future?

In the short term, the LIP could be similar to what it is now. Even if the state expands Medicaid, finalizing the expansion and enrolling eligible individuals into Medicaid would take several months. During this period, providers will continue to incur uncompensated care costs.

That said, the transition phase shouldn't last too long, as providers should quickly begin to see the positive effects of a Medicaid expansion and a drop in uncompensated care costs. For example, hospitals across Colorado saw a $2.9 million reduction in uncompensated care costs in the first three months after expanding Medicaid (January to March 2014), according to a survey by the Colorado Hospital Association.[3]

The LIP could also continue to support delivery system reforms to enhance quality of care and beneficiaries' health. Payments for physician training under GME programs could

[2] Letter from Vikki Wachino, Acting Director of CMS, to Justin Senior, Deputy Secretary for Medicaid, April 14, 2015.

[3] Colorado Hospital Association, "Impact of Medicaid Expansion on Hospital Volumes," June 2014, http://www.cha.com/Documents/Press-Releases/CHA-Medicaid-Expansion-Study-June-2014.aspx.

continue as well, since fully trained physicians will deliver better and more effective care to Medicaid beneficiaries.

Even if Florida expands Medicaid and establishes sustainable and sufficient provider rates, providers will continue to incur costs (albeit smaller ones) for treating uninsured individuals and for treatment that health insurance, including Medicaid, doesn't fully pay for. LIP funding could help cover these costs. Florida claims, based on a 2012 Urban Institute report, that providers in the state would experience about $1.6 billion in uncompensated care costs if all the changes made by health reform, including the Medicaid expansion, were implemented. But that same report showed that Florida's uncompensated care costs *without* health reform were *$4.9 billion* a year, meaning that health reform (including the Medicaid expansion) would cut those costs by 68 percent, to $1.6 billion.[4]

In addition, an author of the Urban Institute study clarified that the $1.6 billion figure shouldn't be used as the basis for future LIP funding for hospitals because it includes uncompensated care experienced by *all* providers, not just by hospitals, which are the primary beneficiaries of LIP funding. Moreover, in Florida (as in all states), there are multiple funding sources *other than* the LIP to help defray the costs of uncompensated care, including Medicare and Medicaid Disproportionate Share Hospital funding, the Veterans Health Administration, and local governments. [5]

Do other states have uncompensated care pools?

Yes, and CMS has informed these states that requests to extend their pools will be subject to the same principles that CMS is applying in Florida.[6] These states are Kansas, Tennessee, and Texas, which have not expanded Medicaid; and Arizona, California, Hawaii, Massachusetts, and New Mexico, which have expanded.

Does the CMS position conflict with the Supreme Court decision making Medicaid expansion optional for states?

No. In *NFIB v. Sebelius*, the Supreme Court held that the Department of Health and Human Services could not penalize states that didn't expand Medicaid to childless adults by withholding federal funds for the state's *existing Medicaid program* for children, pregnant women, low-income parents, seniors, and people with disabilities. Regardless of the outcome on the LIP, federal funds for health care services for current Medicaid beneficiaries in Florida will continue in their current form.

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[4] Fredric Blavin, Matthew Buettgens, and Jeremy Roth, "State Progress Toward Health Reform Implementation: Slower Moving States Have Much to Gain," The Robert Wood Johnson Foundation and Urban Institute, January 2012, http://www.urban.org/sites/default/files/alfresco/publication-pdfs/412485-State-Progress-Toward-Health-Reform-Implementation-Slower-Moving-States-Have-Much-to-Gain.PDF.

[5] Matthew Buettgens, "Clarification of Urban Institute Estimates of Uncompensated Care in Florida," Urban Institute, April 21, 2015, http://www.urban.org/sites/default/files/alfresco/publication-pdfs/2000198-Clarification-of-Urban-Institute-Estimates-Of-Uncompensated-Care-in-Florida.pdf.

[6] Phil Galewitz, "Tennessee, Kansas Also Get Warning: Expand Medicaid Or Risk Hospital Funds," Kaiser Health News, April 21, 2015, http://kaiserhealthnews.org/news/tennessee-and-kansas-also-get-warning-expand-medicaid-or-risk-losing-hospital-funds/.

CMS is simply informing Florida that if it wants federal funds to help pay for health care services for childless adults who could be covered by Medicaid, funding is available through the Medicaid expansion, not through direct payments to hospitals. Florida has no entitlement to LIP payments beyond June 30, when the demonstration authority under which LIP was created expires.