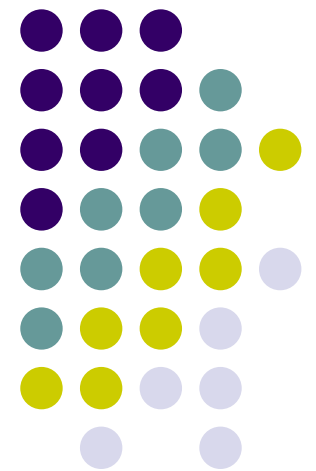
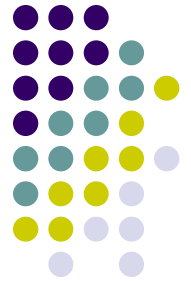


AHCCCS Update



Arizona Health Care Cost Containment System (AHCCCS) Summary



- AHCCCS model has been documented to provide higher quality coverage at lower cost
- AHCCCS has had to administer significant reductions in response to ongoing fiscal crisis
- Arizona has implemented or is pursuing all suggestions from Secretary to Governors
- Waiver proposal promotes the objectives of Title XIX by maintaining core program for members and providers
- Waiver proposal is term limited until January 1, 2014

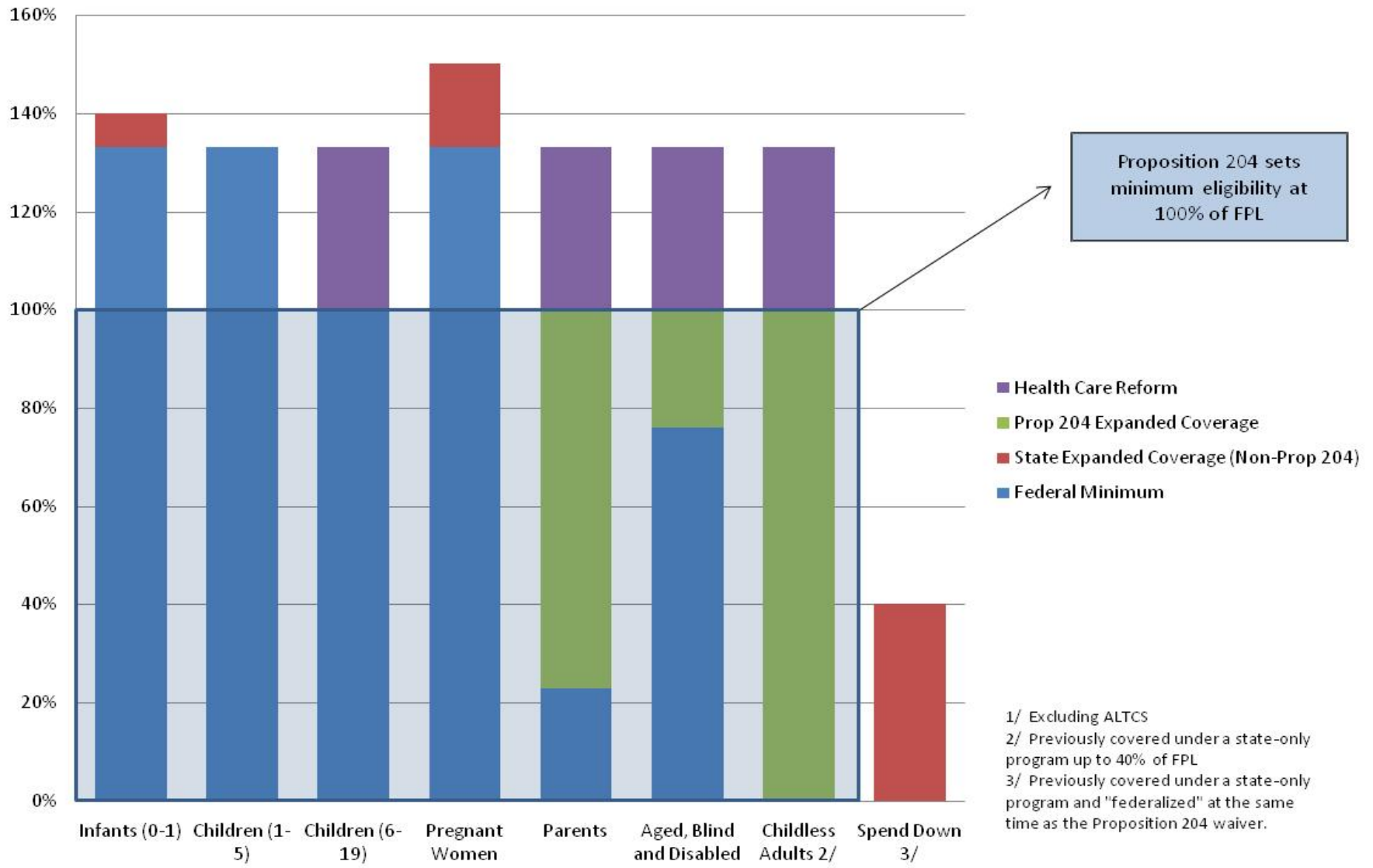


AHCCCS Milestones

- 1965 – Congress enacts Medicaid
- 1982 - Arizona was the last state to join Medicaid –
 - Created Arizona Health Care Cost Containment System (AHCCCS)
 - Established Mandatory Managed Care through 1115 waiver
- 2000 Voters approve Proposition 204 providing coverage up to 100% of the federal poverty limit
- 2010 – Federal Health Care Reform is enacted



Arizona Medicaid Income Eligibility¹

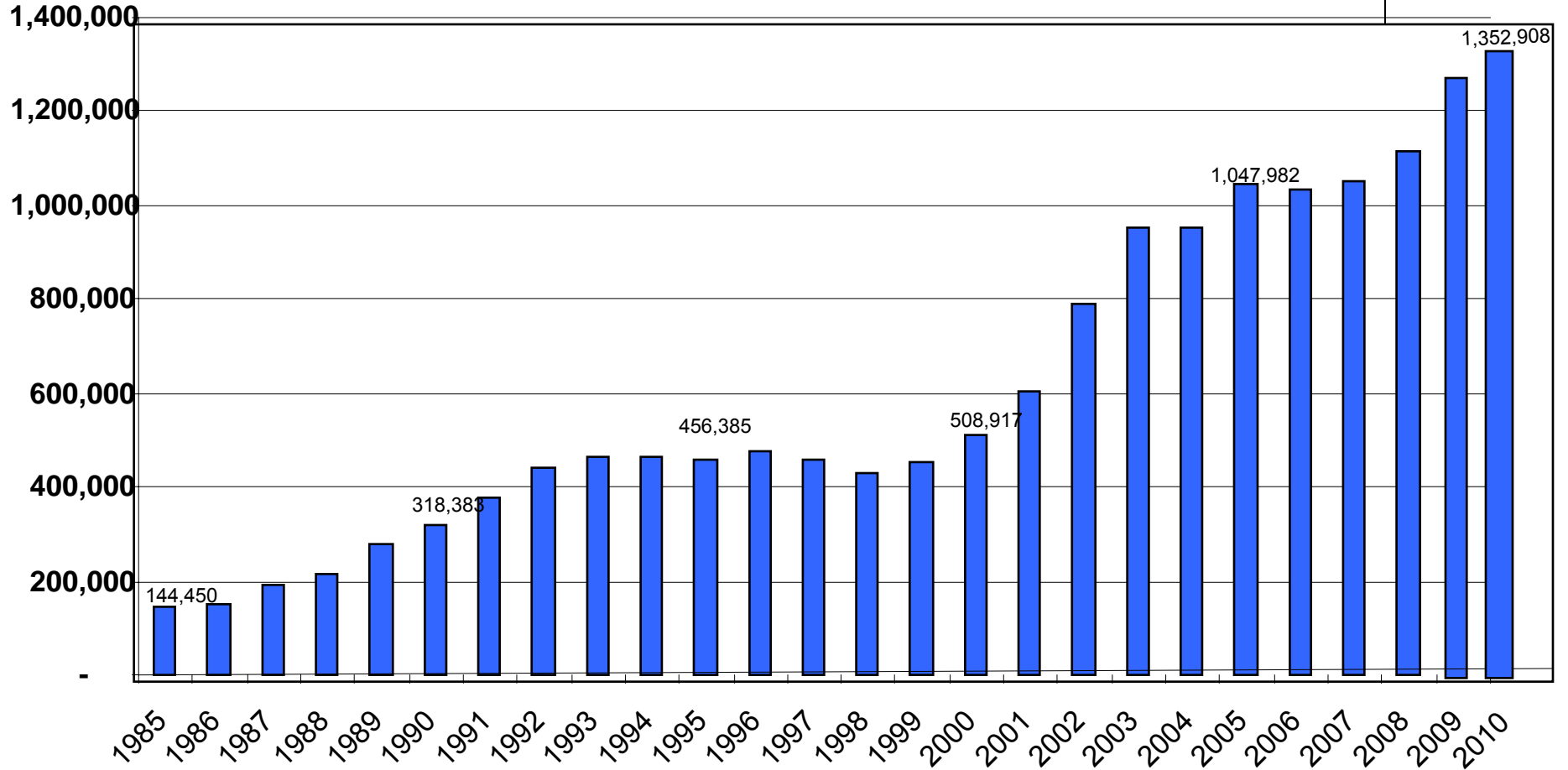




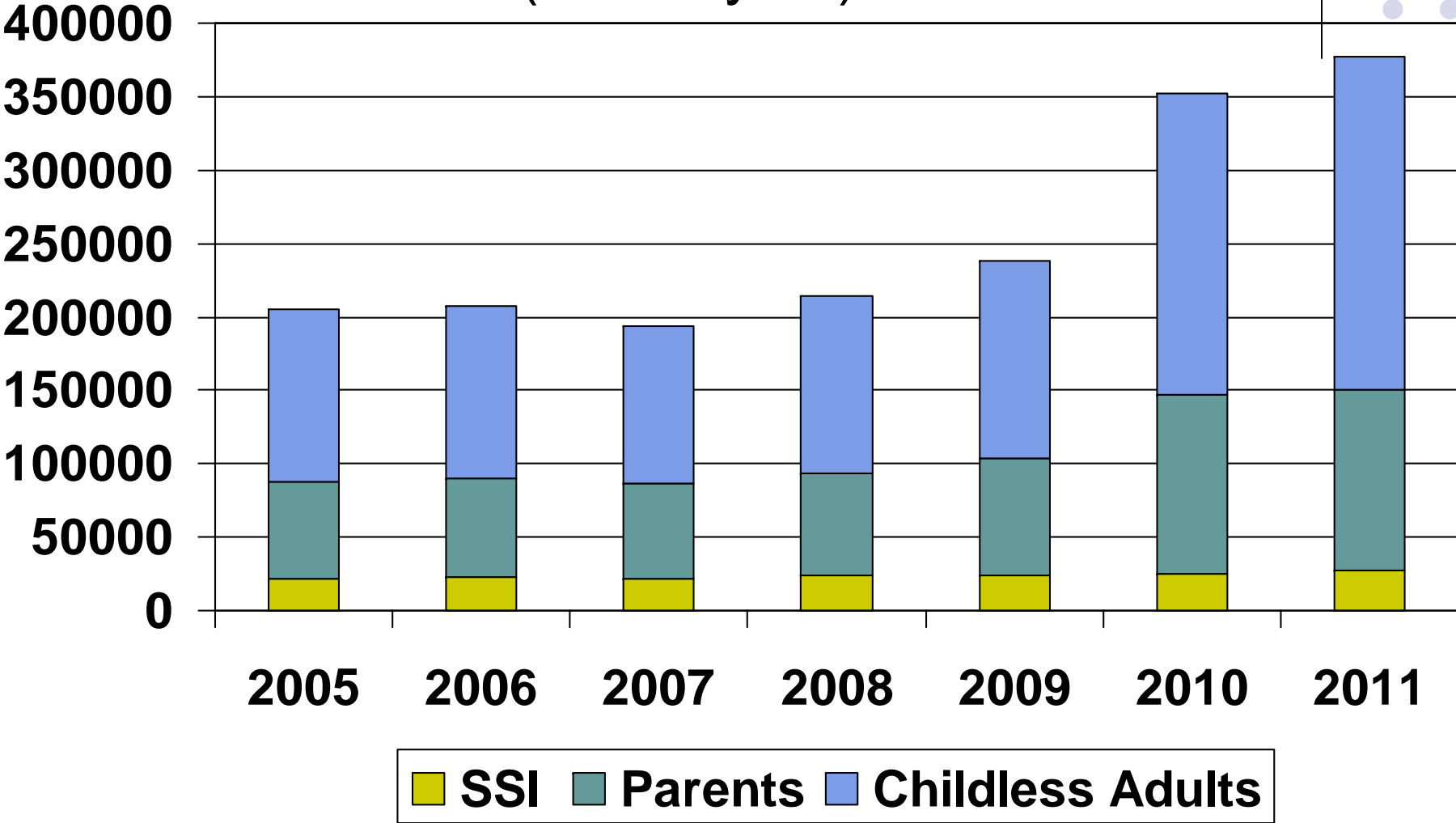
AHCCCS Population as of July 1, 2010



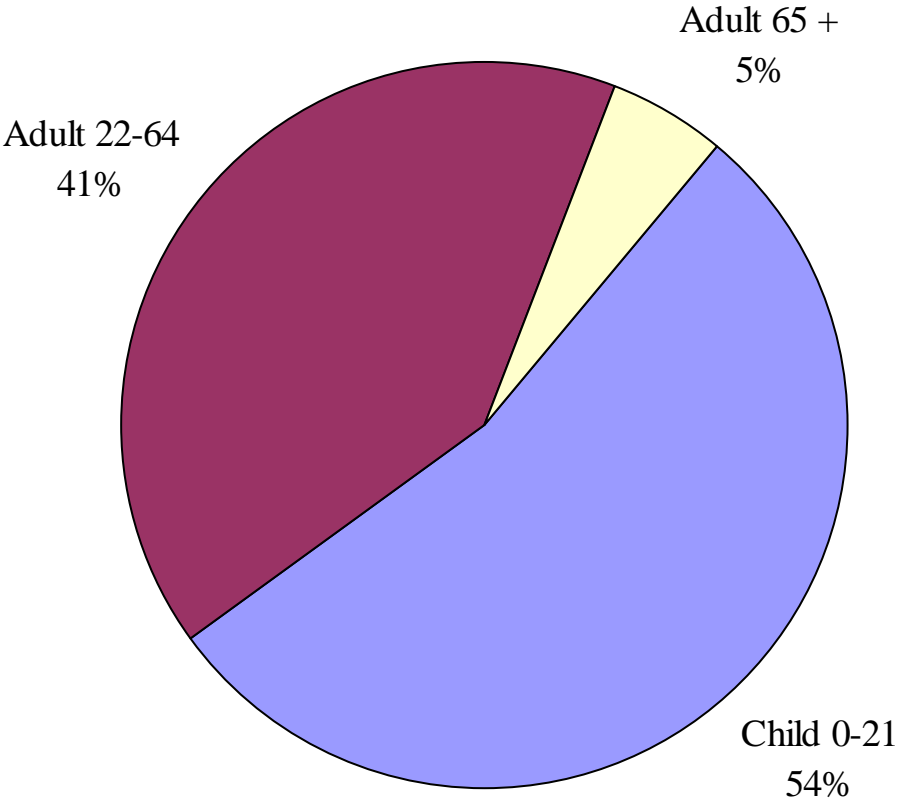
1985 – 2010



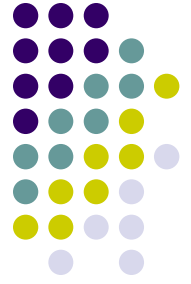
Prop 204 Expansion Population (January 1st)



AHCCCS Total Population



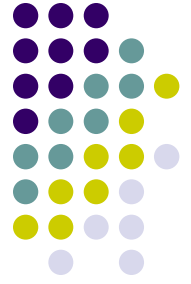
■ Child 0-21 ■ Adult 22-64 ■ Adult 65 +



Arizona/AHCCCS Overview

- 6.5 million people in state - 14th largest
- 80% of Population in Maricopa (Phoenix) and Pima (Tucson) counties
- Arizona 6th largest State in size
- All members enrolled in mandatory managed care except American Indians and Federal Emergency Services
- AHCCCS contracts with 10 plans for Acute – geographically based
- AHCCCS contracts with 9 Long Term Care plans – geographically based
- AHCCCS contracts with Department of Health Service for Behavioral Health carve-out – In turn contract out with 4 entities – geographically based

American Indians in AZ & AHCCCS



Arizona Residents

- Arizona population: 6,343,952
- 285,183 AI Arizona residents

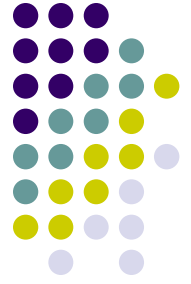
AHCCCS Members

- AHCCCS members: 1,344,173
- 140,442 AI AHCCCS members

Arizona has 22 different tribes located throughout the State

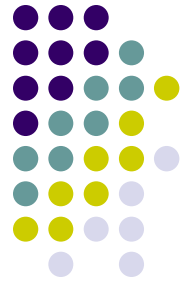
State conducted 12 consultations in 2010 – 2 on tribal lands

AHCCCS Model for Medicaid Managed Care



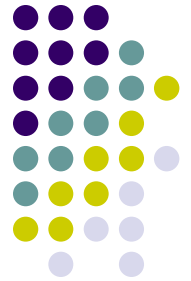
- Member choice & Competitive Plans
 - 6 plan options in Phoenix metro (Maricopa)
 - 5 plan options in Pima County
 - 3 Long Term Care plan options (Maricopa)
 - Acute care choice statewide
- Cost Containment –
 - Overall lowest cost – *Kaiser*
 - Overall lowest pharmacy PMPM – *Part D Implementation – Lewin Report*
 - Gold Standard for Managed Care Purchasing – *Rockefeller Institute*
 - Arizona employs “best practice” for date of death records – *HHS OIG*

AHCCCS Model for Medicaid Managed Care



- Quality Measures – 17 of 25 quality measures are above HEDIS Medicaid Mean
- Member Satisfaction – less than 3% of members change plans annually
- Provider Participation – remains high with little change even after rate reductions
- Plan Oversight – 2 plans with membership caps in past 18 months – transparent actions on WEB – System CYE 2009 profitability <2%

Arizona Model and Health Care Reform

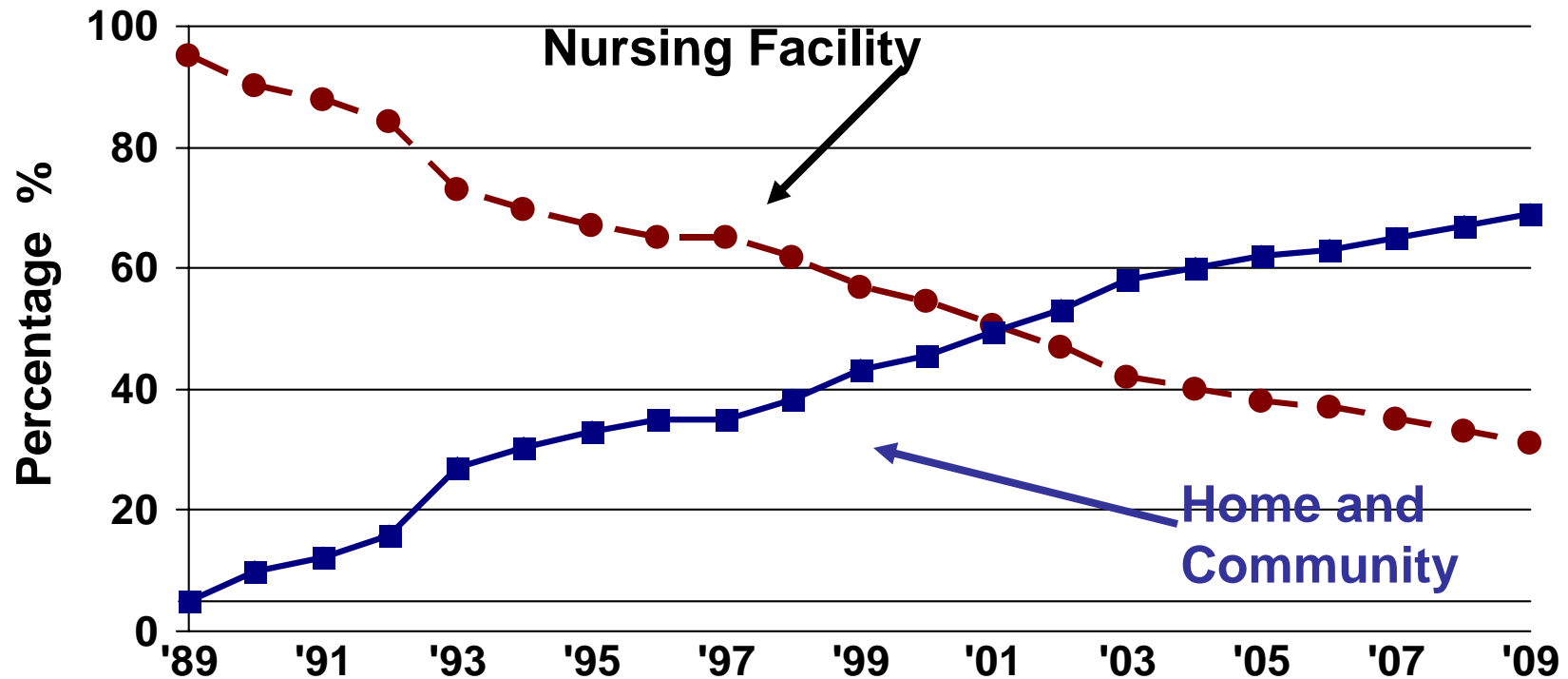


- Population Expansion – Childless adults – Only limited number of states cover this population to 100%
- Appropriate Payment to ensure access – Professionals 95% of Medicare – outpatient at Medicare
- Emphasize home and community services
 - Over 70% EPD – over 98% DD
- Dual Eligible Population – National leader – Members in managed care - one third members aligned in SNP – application submitted for CMMI contract
- Streamlined Eligibility – Web based Application – 30-40% of applications submitted using Health E – Arizona – Great community response

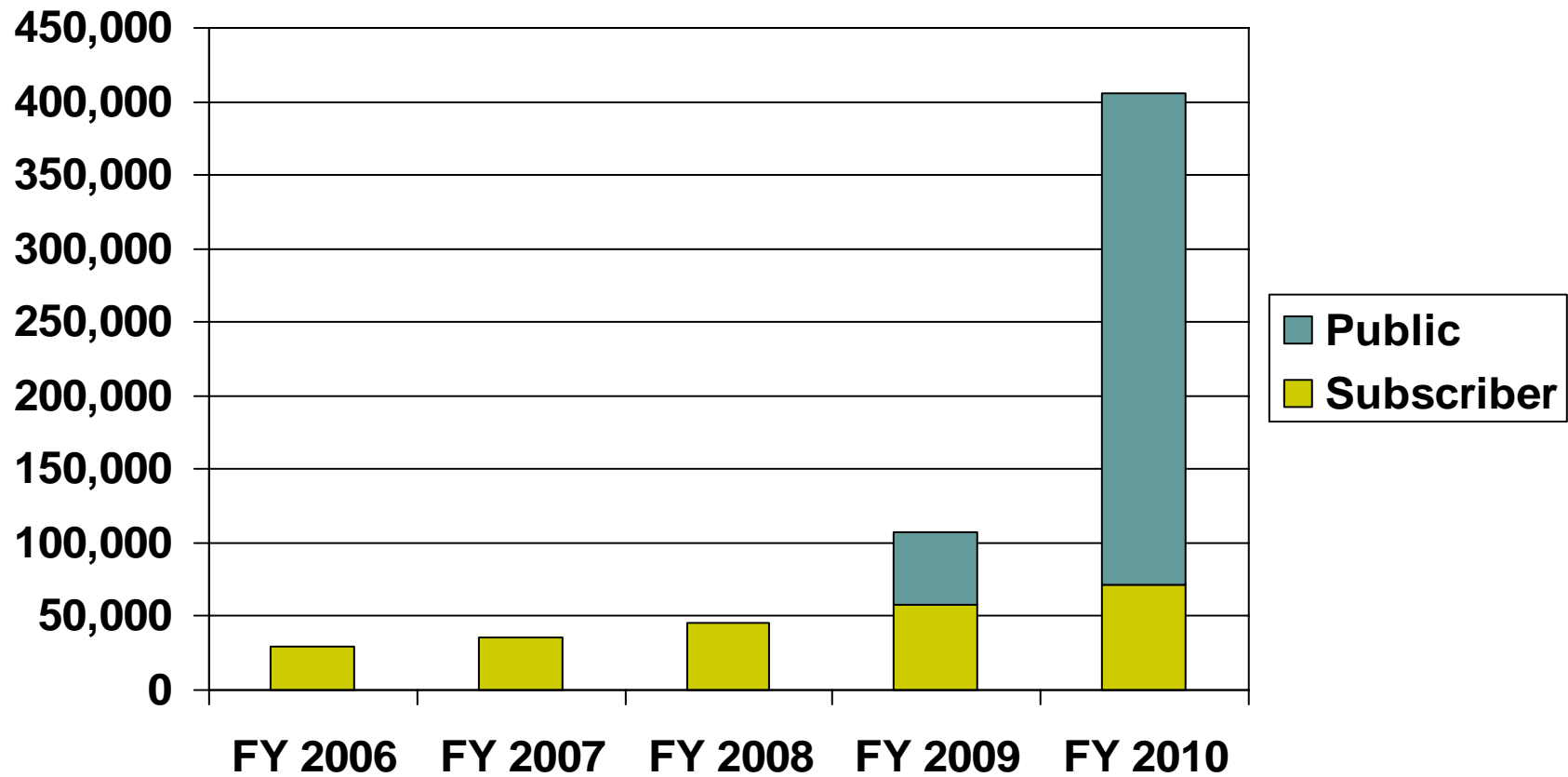
Effective Use of Home and Community Based Care



ALTCS Trend in HCBS Utilization



Health E-Arizona Applications

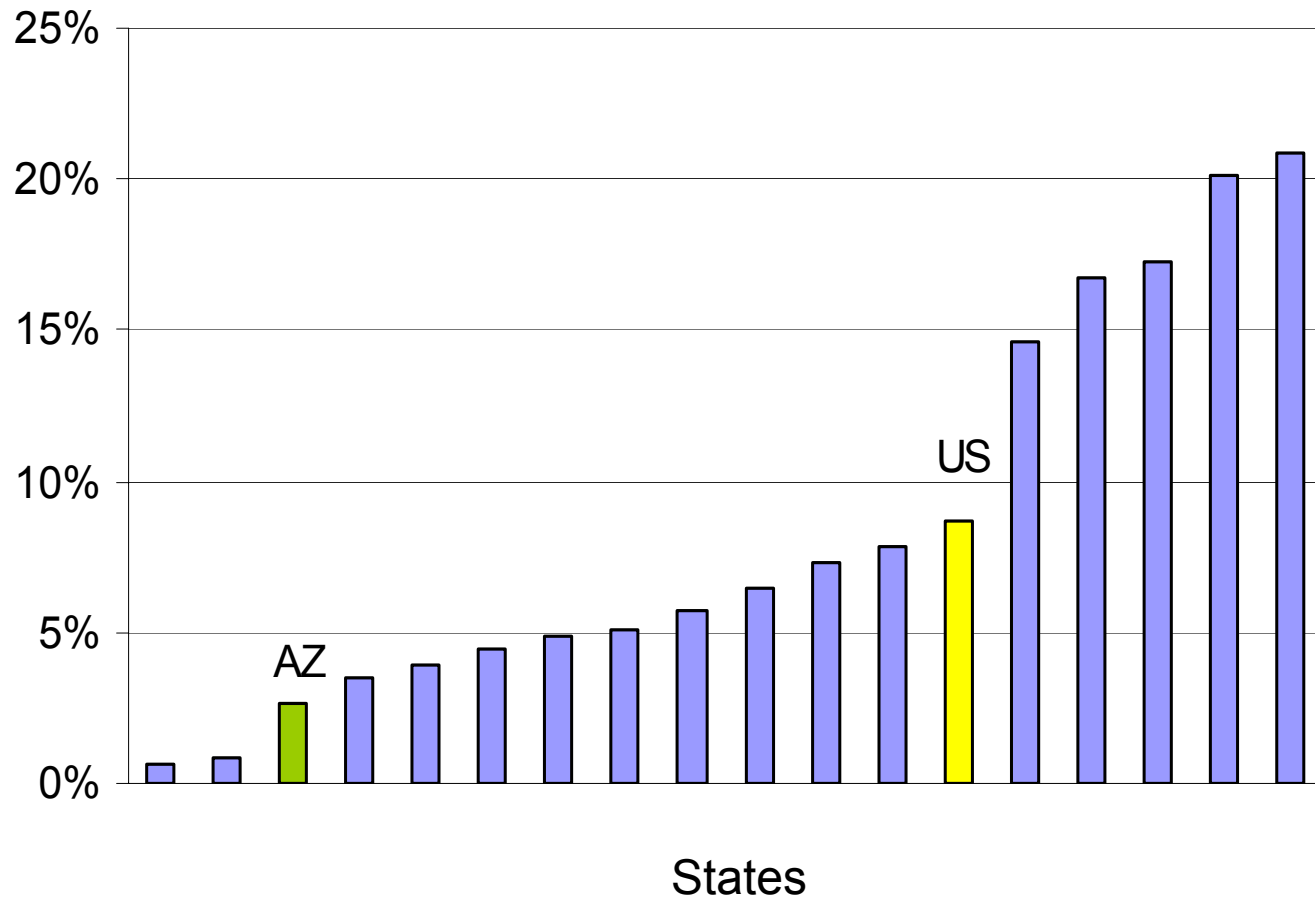


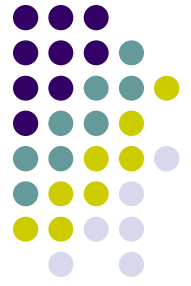


AHCCCS Program Integrity

- Agency created central Office of Inspector General
- IG received Medicaid Integrity Inst. Distinguished Service Award
- Even with 30% reduction in agency staff, resources dedicated to program integrity have increased
- Signed contract with Data analytics vendor
- Had 3rd lowest error rate of 17 states in national study (PERM)
- Conducted two significant date of death comparisons with minimal findings
- Developed and distributed 3 training modules to staff – plans – members and providers
- Applied for OMB Program Integrity Funding Grant
- Program Integrity Results – FY 2010
 - Cases investigated – AHCCCS – 1183
 - Total Convictions – 14
 - Total OIG Fraud Avoidance and Recoveries - \$34.7 m
 - Total Prepayment Coordination of Benefits - \$1,376.4 million

Arizona 2008 PERM results

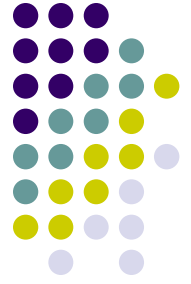




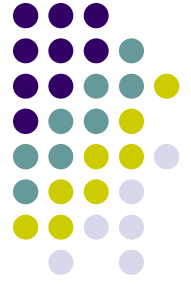
AHCCCS Budget

- 3 Options for Policy Makers when dealing with AHCCCS budget reductions
 - Eligibility – Limit - Health Care Reform
 - Payment Rates – Limit–Network & Access to Care
 - Benefits – several optional services eliminated 10-1-10 –
- Each has limitations but to date all have been utilized

AHCCCS Budget changes to Date



- AHCCCS Program is \$874 million less in FY 2011 as a result of policy changes (total fund)
 - \$413 million in provider rate reductions
 - \$241 m in institutional rate freezes
 - \$121 m in eligibility reductions (KidsCare & KC parents)
 - \$39 m in benefit changes
 - \$29.5 m in admin reductions
 - \$28 m in increased member cost sharing
- Additional 5% reduction scheduled 4-1-11 \$300 m



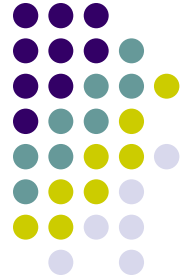
AHCCCS Budget Cont.

- Difficult decisions have been made with the elimination of most optional services – very few left – pharmacy and HCBS
- Approval of sales tax helped program avoid additional 10% rate reduction
- Establishing annual Inpatient limit for adults on Oct 1, 2011
- Cost Sharing has been maximized at federal limits for acute

AHCCCS Staffing Levels

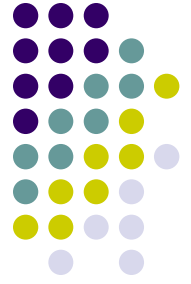


Secretary Sebelius Checklist



- Benefits
 - Eliminate Optional Benefits – Done
 - Limit Benefits – Done – IP 10-1-11
 - Cost Sharing – Done – beyond federal limits through waiver – still awaiting final SPA approval (13 months)
- Manage Care
 - Integrate Acute and Long Term Care – Done
 - Emphasize HCBS – Done
 - Primary Care/Medical Home – Done
 - ACA – 90% Health Home – Community 1st Choice Option - Ready

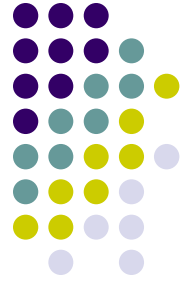
Secretary Sebelius Checklist



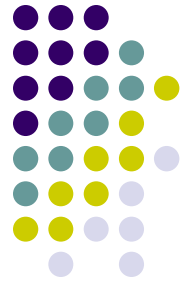
- Pharmacy
 - Reduce Spend – Done - # 1 in Country
- Program Integrity
 - Ongoing – Analytics – Increased resources – PERM results – OIG recognition – date of death – Grant request OMB
- Duals Eligible Members
 - National Leader with aligned managed care model and applied for CMMI contract authority

Executive Budget makes painful reductions throughout State Government but still \$500 million short in FY 2012– Now What??

1115 Waiver Proposal



- In 2000, voters expanded Medicaid coverage to all residents at or below 100 percent of the federal poverty limit – Proposition 204
- FY 2012 General Fund support for the expansion population is estimated to be \$810 million
- The Executive recommends limiting Prop. 204 costs to dedicated tobacco settlement and tobacco tax revenues
- Would be time limited until January 1, 2014



1115 Waiver Proposal

- Arizona requests a waiver from the Maintenance of eligibility requirements
 - Eliminating coverage for childless adults and medical expense deduction category (250,000)
 - Capping TANF parents at a level that can be sustained (30,000 parents lose coverage – approx 90,000 maintain)
 - Continuing coverage for 30,000 Aged, Blind and Disabled
- The State is requesting a waiver from the Transitional Medical Assistance requirements for those categorically eligible that would lose coverage
- FY 2012 General Fund savings are estimated at \$541.5 million (\$1.1 billion in federal match)
- FY 2013 proposal would generate almost \$1.0 billion GF savings

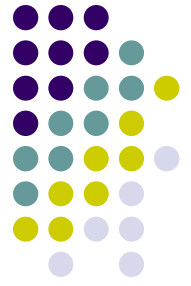


1115 Waiver Proposal

Section 1115 Waiver – Promoting the objectives of Title XIX - focus on maintaining “core” Medicaid Program

- Preserve core provider network – cannot keep reducing provider rates – >25% additional reduction in FY 2012 to generate same dollars as waiver proposal
- Allows Arizona to Preserve coverage for traditional Medicaid groups – children – elderly - disabled
- Preserve remaining benefits
- Preserve core plan and administrative infrastructure
- Maintain federal/state partnership and flexibility that are core principles of Medicaid program
- Establishes Eligibility levels similar to other states

Mitigation Proposal



The Executive recommends two steps to mitigate the impact of the change in eligibility:

- Create a \$151.0 million uncompensated care pool (\$50.0 million GF, \$101.0 million matching funds)
- Allocated to Arizona healthcare providers for uncompensated care. (hospitals – clinics – emergency transportation)
- Funds will be available to reimburse healthcare providers for continuing care for the most seriously ill.
- Majority would be allocated to hospitals but other providers could qualify



Mitigation Proposal

Seriously Mentally Ill

- Provide \$10.3 million state only to DHS to fund prescription drug coverage
- 5,200 SMIs are in childless adult category
- Agency working with DHS and expects to reclassify >80% of SMIs into different category.

Children

- Currently 11,000 kids in adult category due to family unit budgeting
- Looking at a SPA change to have kids made eligible for SOBRA category



Proposition 204 Language

- Ballot language stated
 - “A ‘yes’ vote shall have the effect of providing funding for ...increasing healthcare coverage eligibility...using tobacco litigation settlement money”
 - “A ‘no’ vote shall have the effect of not requiring appropriation of tobacco settlement money to support these programs.
- The ballot language also directed that the Tobacco Settlement monies shall be “supplemented, as necessary, by any other *available* sources and federal monies”
- Legislature has authority based on no available sources and case law is supportive of this position
- Ultimately State Supreme Court would decide if litigated



Provider Tax Status

- Hospitals have been discussing provider tax for 2+ years
- 1% of revenues equals approximately \$100m
- Proposal would be for \$300 m tax
- Would want \$100 m for rate increases
- Requires two-thirds vote from legislature
- Proposal currently insufficient
- Still significant details to work through
- Proposal is for 1 year Assessment



Summary

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- AHCCCS has had to administer significant reductions in response to fiscal crisis
- Arizona has implemented or is pursuing all suggestions from Secretary to Governors
- Waiver proposal promotes the objectives of Title XIX by maintaining core program for members and providers
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