How the Pandemic Continues to Shape Medicaid Priorities

Results from an Annual Medicaid Budget Survey for State Fiscal Years 2022 and 2023

EXECUTIVE SUMMARY

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Executive Summary

The COVID-19 pandemic has profoundly affected Medicaid program spending, enrollment, and policy, challenging state Medicaid agencies, providers, and enrollees in a variety of ways. Serving nearly 90 million low-income Americans and accounting for one-sixth of health care spending (and half of long-term care spending) and a large share of state budgets, Medicaid is a key part of the overall health care system and has had a significant role in COVID-19 response efforts. While the end date of the federal public health emergency (PHE) is currently unknown, state Medicaid programs are preparing for the unwinding of policies in place during the PHE. The PHE is currently set to end in mid-January, and the Biden Administration has indicated it will provide states with 60-day notice before it ends (i.e., in mid-November if the PHE is not extended again). The duration of the PHE will affect a range of emergency policy options in place as well as a 6.2 percentage point increase in the federal match rate (“FMAP”) available if states meet certain “maintenance of eligibility” requirements included in the Families First Coronavirus Response Act (FFCRA).

This report highlights certain policies in place in state Medicaid programs in state fiscal year (FY) 2022 and policy changes implemented or planned for FY 2023, which began on July 1, 2022 for most states. The findings are drawn from the 22nd annual budget survey of Medicaid officials in all 50 states and the District of Columbia conducted by the Kaiser Family Foundation (KFF) and Health Management Associates (HMA), in collaboration with the National Association of Medicaid Directors (NAMD). Overall, 49 states responded to this year’s survey, although response rates for specific questions varied. States completed this survey in mid-summer of 2022, as COVID-19 deaths started to rise after a low in April 2022, due to the highly transmissible Omicron variant, waning vaccine immunity, and relatively low booster uptake.

KEY TAKE-AWAYS

- States are focusing on both longstanding issues and new priorities, including new and expanded initiatives to improve equity and reduce health disparities, maintain access to telehealth, improve behavioral health access and supports, and address workforce challenges. States also continue to respond to pandemic-related health concerns such as increasing vaccination and booster rates and the utilization of preventive care services.

- States continue to manage and advance complex delivery system and information system procurements to drive improved quality and health outcomes.

- At the same time, states are also preparing for the unwinding of the federal public health emergency and the return to normal operations.

Heading into FY 2023, most states were in a strong fiscal position, but many identified uncertainty in their longer term fiscal outlook due to economic factors including slowing revenue growth, rising inflation, and wage pressures driven by workforce shortages. Also, the outcomes of gubernatorial elections in nearly three-quarters of states (36 states) in November 2022 could have implications for state Medicaid policies and for Medicaid enrollees.
### Key Findings From KFF's 2022 Medicaid Budget Survey

| Delivery Systems | • More than 3/4 of states that contract with MCOs enroll ≥75% of all beneficiaries in MCOs  
|                  | • Some states reported newly implementing or expanding MCO programs  
|                  | • States also report continued use of other service delivery and payment system reforms |
| Health Equity    | • Two-thirds of states are using strategies to improve race, ethnicity, and language data  
|                  | • About one-quarter of states are tying MCO financial incentives to health equity  
|                  | • States are also leveraging MCO contracts in other ways to promote equity-related goals |
| Benefits         | • States report far more benefit expansions than benefit cuts  
|                  | • States are most frequently expanding behavioral health and pregnancy/postpartum services  
|                  | • Most states allow MCOs to cover "in lieu of" services, especially BH and SDOH services |
| Telehealth       | • States have seen high telehealth utilization across Medicaid enrollees  
|                  | • States are addressing telehealth quality and other challenges  
|                  | • Most states are adopting permanent telehealth expansions, though some are considering limits |
| Provider Rates & Taxes | • Fee-for-service rate increases outnumber rate restrictions  
|                  | • States most frequently are increasing rates for nursing facilities and HCBS providers  
|                  | • Very few states reported making changes to their provider tax structure |
| Pharmacy         | • Most states carve in Medicaid Rx benefits to MCO contracts, with some targeted carve-outs  
|                  | • Recently there has been some movement to fully carve out Rx benefits from MCO contracts  
|                  | • Most states are implementing or expanding initiatives to contain Rx costs |
| Future Opportunities, Challenges, & Priorities | • Pandemic opportunities include expanded telehealth and improved stakeholder relationships  
|                  | • States are facing challenges associated with entering "endemic reality" phase of the pandemic  
|                  | • Future priorities include equity, workforce, SDOH, and payment and delivery system initiatives |

**SOURCE:** Annual KFF survey of state Medicaid officials conducted by Health Management Associates, October 2022
SUMMARY OF FINDINGS

Key findings across the six sections of this report include:

- **Delivery Systems.** Capitated managed care remains the predominant delivery system for Medicaid in most states. More than three-quarters of states that contract with MCOs reported that 75% or more of their Medicaid beneficiaries were enrolled in MCOs as of July 1, 2022. In FY 2022, North Carolina implemented its first MCO program. Missouri implemented the ACA Medicaid expansion in October 2021, enrolling all expansion adults in Medicaid MCOs. Although not counted in this year’s report, Oklahoma expects to implement capitated, comprehensive Medicaid managed care in FY 2024. In addition to expanding the use of risk-based, comprehensive managed care, state Medicaid programs have expanded their use of other service delivery and payment system reforms (e.g., patient centered medical homes (PCMHs), accountable care organizations (ACOs), etc.) in recent years.

- **Health Equity.** The COVID-19 pandemic has highlighted and exacerbated longstanding racial and ethnic disparities in health and health care. Over the past few years, the federal government and many states have identified advancing health equity as an important priority for the Medicaid program. High-quality, comprehensive data are essential for identifying and addressing health disparities and measuring progress over time. However, inadequate, incomplete, and inconsistent demographic data, particularly race and ethnicity data, is a longstanding challenge across many areas of health care, including in state Medicaid and CHIP programs (as these data must remain optional for enrollees to report). Two-thirds of states reported using at least one strategy to improve race, ethnicity, and language (REL) data completeness. States also reported MCO financial quality incentives (e.g., performance bonuses, withholds, or value-based state directed payments) tied to health equity-related performance goals and other MCO contract requirements to advance health equity, such as requiring MCOs to achieve the NCQA Distinction in Multicultural Health Care.

- **Benefits.** The number of states reporting new benefits and benefit enhancements greatly outpaced the number of states reporting benefit cuts and limitations in FY 2022 and FY 2023. In particular, states are focused on service expansions across the behavioral health care continuum, including programming for youth, physical and behavioral health care integration, and crisis services. States are also focused on expansions of pregnancy and postpartum services, often alongside eligibility changes to extend the postpartum period to 12 months (as allowed under the American Rescue Plan Act). Other areas of benefit expansion include preventive services; dental services (including the addition of comprehensive adult dental services); and services to address social determinants of health (SDOH), such as housing-related supports. Also, most states that contract with MCOs reported allowing MCOs to use “in lieu of” authority to cover certain services, especially behavioral health services such as coverage for nonelderly adults in “institutions for mental disease” (IMDs). Additionally, nearly one-third of states permitting ILOS reported that allowable ILOS include services to address SDOH, such as food and housing needs.
• **Telehealth.** Many states noted that expanded use of telehealth was a positive outcome of the COVID-19 pandemic that increased access to care. In particular, nearly all responding states added or expanded audio-only telehealth coverage in response to the pandemic. States have seen high utilization of telehealth across populations of Medicaid enrollees (e.g., ACA expansion adults, children, and individuals with disabilities), especially for behavioral health care. Most states have implemented or are planning initiatives to assess telehealth quality, though many states report ongoing considerations and uncertainty over how to effectively evaluate quality. States also report actions to address other telehealth challenges, including access to technology and broadband, program integrity, outreach and education, and equity. Most states have or plan to adopt permanent Medicaid telehealth expansions that will remain in place even after the pandemic, though some are considering guardrails on such policies. Looking ahead, key issues that may influence future Medicaid telehealth policy decisions include analysis of data, state legislation and federal guidance, and cost concerns.

• **Provider Rates and Taxes.** Reported fee-for-service (FFS) rate increases outnumbered rate restrictions in FY 2022 and FY 2023. States reported rate increases for nursing facilities and home and community-based services (HCBS) providers more often than other provider categories. Several states reported comprehensive rate reform analyses impacting multiple provider types had been completed or were underway. Many states noted that worsening inflation and workforce shortages driving higher labor costs were resulting in growing calls from providers and others for rate increases. Some states noted, however, that their FY 2023 budgets do not account for current inflation levels, as they were introduced in late calendar year 2021 and early 2022 before inflation began to dramatically accelerate, but that inflation remains a concern looking ahead. Provider taxes continue to be an important source of Medicaid financing, with very few states making significant changes to their provider tax structure. Taxes on ambulance providers represent the most common type of “other” taxes implemented by states, and the new taxes planned for FY 2023 will increase the number of states with ambulance taxes to 13.

• **Pharmacy.** The administration of the Medicaid pharmacy benefit has evolved over time to include delivery of these benefits through MCOs and increased reliance on pharmacy benefit managers (PBMs). While most states that contract with MCOs carve in Medicaid pharmacy benefits to MCO contracts, some states “carve out” prescription drug coverage from managed care. As of January 1, 2022, California carved the pharmacy benefit out of managed care, becoming the latest state to implement a full pharmacy carve out. Two states (New York and Ohio) report plans to carve out pharmacy from MCO contracts in state fiscal year FY 2023 or later. Other states are moving to require MCOs to contract with a single PBM designated by the state. Many states are implementing or expanding initiatives to contain prescription drug costs. Seven states reported value-based arrangements (VBAs) in place with one or more drug manufacturers as of July 1, 2022, and 16 additional states are considering opportunities or are developing and executing plans to implement a VBA arrangement in FY 2023 or later. Many states reported reforms aimed at spread pricing and the role of PBMs in administering Medicaid pharmacy benefits.
LOOKING AHEAD

As states anticipate a new “endemic reality” phase of the pandemic, they are considering future operations within the context of the significant pandemic-related impacts on enrollees’ health and wellbeing and on the health care workforce. Many states note that the pandemic has resulted in both opportunities and challenges and has shaped ongoing Medicaid priorities.

- **Opportunities.** The pandemic presented states with opportunities to expand access for enrollees via telehealth, improve relationships with stakeholders, and focus on data collection improvements. One state commented that telehealth was the “silver lining” of the pandemic. States also noted that the pandemic had resulted in improved relationships and engagement with enrollees, providers, plans, and/or other state and federal agencies. States mentioned that the pandemic had highlighted the importance of obtaining better and more timely data, and that improved data collection and stratification would help to identify and address health disparities.

- **Challenges.** States are facing challenges related to planning and preparing for the COVID-19 PHE unwinding and associated with entering an “endemic reality” phase of the pandemic. Many states mentioned the immense administrative challenges of restarting redeterminations, particularly workforce needs, as well as the challenge of making permanent or unwinding other emergency authorities in place. Even after the end of the PHE, states will still face pandemic-generated concerns such as the need to increase utilization of preventive care services in addition to vaccinations and boosters.

- **Priorities.** Looking ahead, states are focused on addressing health inequities that the pandemic had exposed and often exacerbated. States are also prioritizing access and outcomes for specific populations or service categories, including behavioral health, long-term services and supports, and maternal and child health. States are also addressing health care workforce challenges, especially related to behavioral health and HCBS providers. Many states also continue to focus on payment and delivery system initiatives and operations, including value-based purchasing and MCO procurements. Many states are prioritizing IT systems projects, which also support other program objectives. Finally, many states reported a focus on addressing social determinants of health to improve health outcomes.
Endnotes

1 FMAP = Federal Medicaid Assistance Percentage.
2 State fiscal years begin on July 1 except for these states: New York on April 1; Texas on September 1; Alabama, Michigan, and District of Columbia on October 1.
3 Arkansas and Georgia did not respond to the 2022 survey. In some instances, we used publicly available data or prior years’ survey responses to obtain information for these states. However, unless otherwise noted, these states are not included in counts throughout the survey.
The National Association of Medicaid Directors (NAMD) is a bipartisan, nonprofit, professional organization representing leaders of state Medicaid agencies across the country. NAMD supports Medicaid Directors in administering the program in cost-effective, efficient, and visionary ways that enable the millions of Americans served by Medicaid to achieve their best health and to thrive in their communities.

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