Answers to questions in response to letter of January 19, 2017

1. How would a 30 plus percent cut to federal financial participation as seen in Chairman Price's fiscal year 2017 budget proposal impact your state Medicaid program?
From our calculations, the increased liability to the state from cutting the federal financial participation by 30 percent in Medicaid would result in a loss of $1.55 billion to the state annually. This is a number that would undermine our overall Medicaid program and would cause many seniors to get fewer needed long-term care services for long-term care and undermine the economy of most of our rural communities by severely underpaying for the high rate of low-income people living in those communities. Most of our rural hospitals would be forced to severely downscale, limit access and potentially go out of business. Without a rural hospital, the economy of rural communities is severely affected and no new businesses will move into a community with limited health services. Other impacts related to severe cuts or if growth is limited below real-cost growth through block grants are listed below.

2. How would repeal of the Medicaid expansion affect health coverage rates in your state?
Cutting Medicaid expansion would result in large increases to the ranks of the uninsured in the state. Our estimates are that an additional 528,000 people would become uninsured. This would be an increase in the rate of uninsured of about 8 percent. This is a net impact as some people who were excluded would be able to get insurance in other ways.

However, the people who did enter the individual market would be a higher risk and more-costly population. We have real world experience in Washington; in the 1990s, shortsighted legislators cut coverage and a mandate resulted in our insurance market imploding so no one in the state could buy individual insurance for almost two years until we put a stabilizing fix in place. This partial fix excluded about a third of all people with pre-existing conditions. These people remained uninsured – a very inadequate result that was damaging to tens of thousands of working families who were applying for insurance and willing to pay average prices.

3. How would repeal of the Medicaid expansion impact your state Medicaid Budgets? What would be the impact on other state priorities such as education? Would your state be able to raise revenues or further compensate for this loss in federal funding?
Based on our 2016 Medicaid forecast, the state will lose $2.6 billion in FY18 and $2.8 billion in FY19 if the ACA is repealed and Medicaid Expansion is repealed. The state would lose and additional $400 million per fiscal year for exchange subsidies.

Washington State is facing a $4 billion biennial budget shortfall. This is due to ongoing operational costs, court-mandated educational funding and CMS-mandated – and needed – improvements to our mental health system. Adding $6 billion – the replacement cost for the ACA funding – to that deficit would be impossible and unsustainable.

4. How would these levels of cuts impact your ability to meet the needs of an aging baby boomer population?
There are a number of impacts of these cuts for the aging population. Early retirees or older adults working without health insurance through their employer are a large proportion of our state. Over 90,000 people in the 50-64 age range depend on Medicaid and the subsidized

products through the exchange. This is a population that has more medical problems than younger beneficiaries and removing their insurance puts their health, employment, and their families at risk of bankruptcy more than any other group.

Many of the elderly on Medicare depend on the ACA to pay for medications. They depend on the 1:3 rate banding that makes health insurance affordable. And they depend on the ACA and Medicaid for long-term care services.

The elderly and disabled people we care for are a very vulnerable population and require long-term support services. National data show that 70 percent of the people who reach 65 will need these services. By 2035, the population age 75 and above will have risen by roughly 150 percent. The number of Medicaid beneficiaries with complex cognitive challenges will also increase dramatically by 2040 relative to 2010: a 181 percent increase in Medicaid beneficiaries over age 65 with Alzheimer's, a 152 percent increase in Medicaid beneficiaries over age 70 with dementia, and a 152 percent increase in the number of Medicaid beneficiaries over age 75 with serious cognitive difficulties. These are the most expensive patients we care for and a majority of them are on Medicaid. Limiting the growth of the Medicaid program shifts all of these increased costs directly onto the back of the state. A rough calculation is that our long-term care costs would increase by about 50 percent above normal inflation, resulting in new state expenditures of $600 million (in 2017 dollars) for the state share. If there were a decrease in the federal match rate or a block grant, the cost to the state would potentially be $1.2 billion that would be borne by the state annually above current expenditures.

5. How would these levels of cuts impact your ability to combat the opioid epidemic and mental health crisis and meet the needs of those with mental health and substance use disorder needs?

The opioid epidemic is a crisis in most states, as it is in Washington. We have instituted support for better treatment in the community, better training for our front-line providers, and have expanded our medically-assisted treatment programs. We now spend over $10 million per year in the latter, financed through the Medicaid system. Medicaid expansion has enabled us to better treat and actively manage the thousands of patients affected. Capping Medicaid limits our ability to flex our programs and meet the escalating need.

We have also begun a large effort to improve our mental health and substance use treatment system – a change that is needed and encouraged by all parties. Before we began this process, only 40 percent of people with known mental health problems were getting care. Also, only 20 percent of substance users were getting any care. Because of the expansion, we can now design integrated systems of care, provide needed services to those previously outside the system, develop active management for all low-income people with these problems, and intervene earlier, preventing people from progressing into disability. This is a work in progress. Our effectiveness in addressing these problems will be muted with repeal.

6. How would this level of cuts impact your ability to invest in innovative changes to your health care delivery system?

There are major impacts to innovation in our health care system based on the ACA. The first is that having all people potentially covered allows us to more aggressively innovate in our

management through quality improvement, performance incentives and behavioral integration. We are able to align our payment system with the delivery system as needed to better manage. We now have almost all lower-income people within the health care system and providers can develop effective front-line innovative services for all patients not worrying if a service for a patient will be paid for or if a patient will buy a medication. Also, we have the ability to innovate in our health payment system developing performance measures, collecting usable information that can aid in choice and structuring payments that incentivize improved quality and better outcomes for patients.

Eliminating the expansion population moves the state back to the traditional Medicaid population with no chance to identify and intervene early in opioid addiction and mental health problems and no chance to identify and prevent many other diseases that are missed when low-income people are uninsured.

7. How would these levels of cuts impact your ability to respond to public health crises such as Zika virus or increases in HIV?
Our essential public health services are not funded to a level that would enable us to handle many types of crises. We are looking to increase our disease monitoring and rapid response this year – an essential now that antibiotics are becoming less effective and diseases like ZIKA can move around the world with rapidity. Removing another 528,000 people from coverage will make the treatment and management of these diseases much harder and more expensive for the state and local health departments.

8. How would these levels of cuts impact your ability to respond to an economic downturn such as a recession?
Our best estimate is our response in the last recession, during which, Washington State made the following changes to Medicaid:

- Maternal Support Services – we reduced the number of hours for low to medium-risk pregnancies
- Adult preventive dental services – cut all dental services except for emergency services (extractions for pain & infection) for all adults except for DD adults who were pregnant, COPES and in a nursing home
- Hearing aid benefit for adults – eliminated benefit for adults
- Breast & Cervical cancer program – reduced because the remainder was rolled into the ACA transition
- School based medical – the schools had to put forward more of the state match for the IGT
- Disproportionate Share Grants – low-income, urban indigent and small rural each reduced by 40 percent
- Prior Authorization for Advanced Imaging and Surgical Procedures – an increase in medical necessity reviews resulted in 20 percent reduction in costs
- ER Utilization – reduction for non-medically necessary ER utilization
- Hospital Rates - cut 8 percent inpatient and 7 percent Outpatient (non-governmental, non-rural hospitals)
- Adult Vision – no longer pay for adult eyeglasses – clients will be able to purchase at discount from Department of Corrections

- DME/Wheelchairs – established limits on diabetic supplies, and discontinued coverage on bath equipment, BP monitors, and enteral nutrition for adults
- Podiatric physician reimbursement – only reimbursed for adult care when medically necessary to treat acute conditions or non-acute for at-risk clients
- Therapies – the benefits was reduced to the 12 visits for either OT, ST or PT
- FQHC Payment methodology – new payment methodology to revert to lower, national measure of medical inflation

These changes were implemented for a reduction not as severe as the one contemplated in the above questions. We would expect many more changes that are not beneficial for the patients involved who do not have incomes high enough to afford any replacement. All people in our expansion population earn less than $15,000 per year. Covering rent, food and bus fare leaves them with no available money for extras.

9. How would these levels of cuts impact your ability to respond to new high-cost medical breakthroughs such as Solvaldi and other blockbuster drugs?
These cuts would severely impact the state's ability to respond to new needed and medically-helpful specialty drugs like Solvaldi. Our cost for the few drugs in this category was $112 million in CY16, which is about 14 percent of our total Medicaid Rx budget. These costs have not been predictable due to timing of releases and court cases that have required us to use the medication with no limits. If we had a cut in our Medicaid budget, or worse a block grant/per capita cap that limited our total funds, the state would have to pay all the costs for these medications if they bumped us over our cap. Also, since many of the people now being treated would no longer be covered, screening would be delayed and treatment would be less successful. Eventually these people would be eligible for Medicaid, but we would lose our ability to intervene early, cure as many and eradicate this as a disease. From a budget perspective, in a block grant scenario we would potentially pay 100 percent of the cost and in a repeal situation; we would pay 50 percent of the cost.

10. How would these levels of cuts impact your ability to respond to natural and other disasters such as Hurricane Katrina, Superstorm Sandy, and the Flint water crisis?
Our responses to past natural disasters have cost the state significant funds. Given our budget limits as listed above, in a disaster situation, we will be limited in our ability to respond. Most specifically, if there are health-related emergencies – e.g., injuries or exposures – treating the injured will result in the state and providers having significant unfunded liabilities. Also, the extent of a highly likely event – a Cascade Subduction earthquake and tsunami – would destroy local health facilities in western Washington and would wipe out most health facilities and providers in the inundation zone. The health impact, both immediate and long-term, would be devastating to the communities affected and without a strong health services system, coverage for the people in the region and the infrastructure that can support their care. We would expect a large immediate loss of life in the short-run and a need for ongoing health services available to all people in the region. Experience in the recent Japanese earthquake and tsunami of 2011 found that this ongoing care is critical for the population's health moving forward. Our system relies on coverage to finance prevention and care – both acute and chronic. Without this coverage, this population will suffer long after a major event. In the region potentially affected, more than 20 percent of the adult population has gotten affordable insurance through the Affordable Care Act.

Below is a summary of the costs incurred in our 2001 earthquake to give you a taste of the problems and costs of these disasters. Having a partial and underfunded health system will increase our financial liability and remove the needed infrastructure in these communities to meet at the immediate and long-term effects.

In 2001, Washington State experienced the natural disaster with the largest economic impact to date – the Nisqually Earthquake. Estimates put the cost of the damages at $2 billion. In addition, numerous seismic upgrades were implemented after the quake, including a 300 percent increase in seismic monitoring stations, 400 stations installed with global positioning equipment to monitor quakes and assess potential hazards, seismic upgrades and repairs on the Capitol campus, and the retrofitting of approximately 500 of the 880 highway bridges in the Puget Sound region.[1] Notwithstanding these damages and costs, the Pacific Northwest faces an even greater threat from a long anticipated magnitude 9.0 earthquake. Estimates from the Cascadia Region Earthquake Workgroup put the estimated economic impact of a 9.0 earthquake at $49 billion for Washington State.[2]

11. How would these levels of cuts impact your ability to provide affordable family planning services, including contraceptive coverage to low-income women and families?
Family planning is crucial to the well-being of families throughout the state. Families are more stable, economically more successful and better able to educate the next generation if they can choose when to have children. Cutting the expansion of Medicaid would mean that 274,000 women of childbearing age would not have access to affordable contraception. Women who have good coverage for contraceptives or have the funds to pay for them control their fertility so abortions are decreased and their families are more stable. These expansion-population women do not have the funds to buy very expensive contraceptives (LARC) that have proven efficacy. We would expect more economic hardship and significantly more abortions in the state.

12. How would these levels of cuts impact hospital and provider payments? What types of increases in uncompensated care would you expect to see in your state given such cuts?
Hospitals would be hard hit. Cutting the expansion population would result in a $1.0 billion cut in payments to hospitals. Rural hospitals alone would lose $89 million. This would undermine some very fragile hospitals.

Costs for people who are uninsured would dramatically increase. Uncompensated care (charity plus bad debt) fell from $2.0 billion in 2013 to $0.9 billion in 2015. During that same time period, charity care fell from $1.4 billion to $0.5 billion, and bad debt fell from $0.9 billion to $0.4 billion.[3] Eliminating the expansion would result in more people foregoing needed care because of costs.

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[1] http://www.theolympian.com/news/state/washington/article25286947.html
[2] http://file.dnr.wa.gov/publications/ger_ic116_csz_scenario_update.pdf. See page 9.
[3] Charity Care in Washington Hospitals, DOH, email correspondence

13. How would these levels of cuts impact localities in your state, such as counties and local jails?
Health departments large enough to have Behavioral Risk Factor Surveillance System (BRFSS) data available are reporting significant increases in routine preventative checkups and decreases in adults foregoing care due to costs. This would be expected to reverse if Medicaid were reduced.

The problem of incarcerating people with mental health and substance use problems is widespread in Washington as it is in the rest of the country. We have been able to enroll people who are in the justice system in Medicaid due to expansion, which allows us to divert them from jail to treatment and ensure that, if incarcerated, they are able to transition out into needed care and not fall through the cracks. Within jails, enrollment in Medicaid increased from 31 percent in 2013 to 58 percent in 2014, and this trend is expected to continue if the ACA is retained.[4] Among those released from the state prisons in 2015, 6,066 of the 7,888 releasees (77%) were enrolled in Medicaid coverage. Almost all of these releasees were enrolled under the Medicaid expansion program (5,634 of the 7,888, or 71% of the total releases).[5]

14. What kinds of cuts would states have to contemplate under these levels of cuts in federal financing for state Medicaid programs?
Washington State is facing a $4 billion biennial budget shortfall. We are **$1.5 billion** short due to ongoing operational costs, court-mandated educational funding and CMS-mandated – and needed – improvements to our mental health system make up the rest. Adding $6 billion – the replacement cost for the ACA funding – to that deficit would be impossible and unsustainable.

15. How else would these levels of cuts impact your state?
Cutting Medicaid expansion in our state would be bad for our economy, employment, the stability of the private insurance market, medical insurance premium inflation, pharmaceutical costs for our most vulnerable seniors, not to speak of the hundreds of people who would literally die (estimated at about 400/year) due to being uninsured. Our economy would contract. Currently, we are adding about $3 billion to the economy from the ACA. Removing those funds would have a significant effect. We have gained 51,000 jobs that would probably be lost. Health insurance premiums for all lines of insurance (like employer-based insurance) have declined from an average of 8.1 percent per year for the decade before the ACA to 3.2 percent since passage. Changes in the individual insurance rates have been more dramatic.

The average premium change for the three years before the ACA was 18.5 percent. In the three years after implementation, the inflation rate was 6.7 percent per year. Clearly, repealing the ACA will have an impact on many working people and employers if we revert to the previous situation and the higher inflation rate. Of interest, states that did not fully embrace the ACA did not have our experience and saw continued high inflation. There are good reasons for this difference that should not be underestimated.

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[4] Joplin L., Sihler A, "Jail Diversion for People with Mental Illness in Washington State – A study conducted for the state of Washington Office of Financial Management", November 2018
[5] DSHS Research and Data Analysis, personal correspondence