CMCS Informational bulletin

DATE: May 17, 2017

FROM: Brian Neale, Director
Center for Medicaid & CHIP Services (CMCS)

SUBJECT: Basic Health Program; Federal Funding Methodology for Program Year 2018

The Centers for Medicare & Medicaid Services (CMS) is responsible for developing the formula to calculate the amount of federal funding available for a state’s Basic Health Program (BHP). This bulletin specifies the final values for the factors needed to calculate the federal BHP payment rates for 2018 that were not included in the 2017 and 2018 BHP Payment Notice. It does not alter the payment methodology or definitions of any of the factors. In addition, this bulletin reminds states operating a BHP for 2018 of the need to make two decisions: (1) whether or not to develop a retrospective population health factor (PHF) adjustment methodology; and (2) whether to use the 2017 or 2018 qualified health plan (QHP) premiums as the basis for calculating the 2018 BHP federal payments.

Background

Federal funding for a state BHP is based on the amount of the premium tax credit (PTC) and cost sharing reductions (CSR) that would be provided on behalf of each BHP enrollee if he or she instead were enrolled in a Qualified Health Plan (QHP) through Affordable Insurance Exchanges (Exchange). States are initially paid based on the state’s projected BHP enrollment for the upcoming quarter and this payment is reconciled with actual enrollment data from the state in a subsequent quarterly payment.

The CMS is responsible for developing the formula to calculate the amount of federal funding available for a state’s BHP. CMS published the Basic Health Program; Federal Funding Methodology for Program Years 2017 and 2018 in the Federal Register on February 29, 2016 (81 FR 10091) (hereinafter referred to as 2017 and 2018 BHP Payment Notice). The 2017 and 2018 Payment Notice described the data sources and methodologies used to develop the 2017 and 2018 factors included in the funding formula and the final values for each of the factors for 2017. The 2017 and 2018 Payment Notice also noted that at the time of publication, the final values of three factors (the income reconciliation factor, the premium tax credit formula, and the premium trend factor) were not available for 2018 and would be updated later.

Additional information on the funding formula, including the specific methodology and the full explanation of each factor that goes into the methodology, can be found in the 2017 and 2018 BHP Payment Notice (81 FR 10091).
Updated Values for Variables Used in Payment Equations

This section briefly describes the income reconciliation factor, the premium tax credit formula, and the premium trend factor, which are the 2018 values that were not available at the time of publication of 2017 and 2018 Payment Notice. The final values for these variables are included below. All other factors remain the same as previously published in the 2017 and 2018 Payment Notice.

1. Income Reconciliation Factor (IRF)

As described in section III.D.5 of the 2017 and 2018 BHP Payment Notice, the income reconciliation factor (IRF) accounts for (a) the difference between calculating estimated PTC (which is based on income relative to FPL as determined at initial application for enrollment in a QHP and potentially revised mid-year) and (b) actual income relative to FPL received during the plan year, as reflected on individual federal income tax returns following the end of the plan year. States may not have access to BHP enrollees’ actual income relative to FPL during the plan year. The IRF is used to estimate the reconciliation that otherwise would happen for individuals receiving advanced payments of the premium tax credit (APTC) for enrollment in a QHP through an Exchange.

For 2018, the Office of Tax Analysis (OTA) in the Department of the Treasury has estimated that the IRF for states that have implemented the Medicaid eligibility expansion to cover adults up to 133 percent of the FPL will be 97.37 percent, and for states that have not implemented the Medicaid eligibility expansion and do not cover adults up to 133 percent of the FPL will be 97.45 percent. The value of the IRF for 2018 is 97.41 percent, which is the average of the factors, rounded to the nearest hundredth of one-percent.

2. Premium Tax Credit Formula (PTCF)

As described in section III.D.4 of the 2017 and 2018 BHP Payment Notice we will use the formula described in 26 USC 36B(b) to calculate the estimated premium tax credit (PTC) that would be paid on behalf of a person enrolled in a QHP on an Exchange as part of the BHP payment methodology.

The applicable percentage is defined in 26 USC 36B (b)(3)(A) and 26 CFR 1.36B-3(g) as the percentage that applies to a taxpayer’s household income that is within an income tier specified in Table 1, increasing on a sliding scale in a linear manner from an initial premium percentage to a final premium percentage specified in Table 1.
<table>
<thead>
<tr>
<th>In the case of household income (expressed as a percent of poverty line) within the following income tier:</th>
<th>The initial premium percentage is—</th>
<th>The final premium percentage is—</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 133%</td>
<td>2.04%</td>
<td>2.04%</td>
</tr>
<tr>
<td>133% but less than 150%</td>
<td>3.06%</td>
<td>4.08%</td>
</tr>
<tr>
<td>150% but less than 200%</td>
<td>4.08%</td>
<td>6.43%</td>
</tr>
<tr>
<td>200% but less than 250%</td>
<td>6.43%</td>
<td>8.21%</td>
</tr>
</tbody>
</table>

3. Premium Trend Factor

As described in section III.F of the 2017 and 2018 BHP Payment Notice, states have the option to have their final 2018 federal BHP payment rates (based on actual enrollment data) calculated using (1) the projected 2018 adjusted reference premium (ARP) (that is, using 2017 premium data multiplied by the premium trend factor defined below), as described in Equation (3b) of the 2017 and 2018 BHP Payment Notice or (2) the 2018 QHP premiums. This approach and the determination of the premium trend factor is consistent with the current methodology.

For the trend factor we will use the annual growth rate in private health insurance expenditures per enrollee from the National Health Expenditure projections, developed by the Office of the Actuary in CMS ([https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsProjected.html](https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsProjected.html), Table 17). For 2018, the projected increase in private health insurance premiums per enrollee is 5.3 percent.

In previous years, we have adjusted the premium trend factor to account for changes in the traditional reinsurance program for QHPs. The traditional reinsurance program ended in 2017, and thus there is no adjustment between 2017 and 2018. Therefore, the premium trend factor for 2018 is equal to the projected increase in private health insurance premiums per enrollee, which is 5.3 percent.

**State Options Regarding 2018 BHP Funding Methodology**

1. State Option to Use 2017 or 2018 QHP Premiums for BHP Payments

As described above, states have the option to have their final 2018 federal BHP payment rates (based on actual enrollment data) calculated using (1) the projected 2018 ARP (that is, using 2017 premium data multiplied by the premium trend factor which is 5.3 percent as described above), or (2) the 2018 QHP premiums.

**Deadline to elect option:** States operating a BHP have until **May 15, 2017** to notify CMS if it is electing to use the 2017 premiums adjusted by the premium trend factor of 5.3 percent as

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the basis for the 2018 BHP federal payments. If the state does not notify CMS of its intent by that date, the 2018 QHP premiums will be used.

2. State Option to Include Retrospective State-specific Health Risk Adjustment in Certified Methodology

To determine whether the potential difference in health status between BHP enrollees and consumers enrolled in coverage through an Exchange would affect the PTC and CSRs that would have otherwise been made had BHP enrollees been enrolled in coverage on the Exchange, section III.G of the 2017 and 2018 BHP Payment Notice permits states operating a BHP to include, as part of the certified methodology, a retrospective adjustment to the federal BHP payments to reflect the actual value that would be assigned to the population health factor (or risk adjustment) based on data accumulated during program year 2018 for each rate cell. If a state does not elect this option, the PHF defined above as 1.0 for program year 2018 will be used in the payment methodology.

A state electing the option to implement a retrospective population health status adjustment must submit a proposed protocol to CMS as part of the BHP payment methodology, subject to CMS approval and certification by the Chief Actuary of CMS in consultation with the Office of Tax Analysis. For a state to implement the population health status, CMS must approve the state’s protocol no later than December 31, 2017 for the 2018 program year.

Deadline to submit PHF adjustment protocol: The state must submit a proposed protocol to adjust the federal BHP payment based on a population health factor for the 2018 program year by August 1, 2017. If a state does not submit a PHF methodology by that date, no adjustment will be made.

For more information on the Basic Health Program or for questions related to the BHP funding methodology please contact Chris Truffer at Christopher.Truffer@cms.hhs.gov or Meg Barry at Meg.Barry@cms.hhs.gov.