

AGENCY: Department of Health and Welfare (270)

Decision Unit No: 12.82

Approp Unit: Division of
Medicaid

Title: Medicaid Reduction Options

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Brief Description

The Division of Medicaid is requesting an ongoing reduction of \$22,000,000 General Fund and \$45,000,000 federal fund spending authority to achieve necessary savings to balance the Medicaid budget. The service reductions needed to reach this amount are beyond the current authority of the department and require legislative action. A selection of proposed service reductions is provided with this request.

None of these proposed reductions account for any potential new costs within the Medicaid program or other state agencies resulting from reduced access to services and providers, leading to selection of alternative services (emergency department, institutionalized care in skilled nursing facilities or intermediate care facilities) or engagement with other systems (e.g. courts or correctional system).

Explain the request and provide justification for the need.

The Division of Medicaid is requesting this reduction to achieve needed savings to stabilize the Medicaid budget. While 4 percent provider rate reductions and service cuts were implemented in late 2025, the Division of Medicaid was unable to effectuate all proposed reductions following review from federal regulators. Further, current budget forecasts indicate additional budget need in SFY2027, necessitating this reduction to ensure a sustainable Medicaid program ongoing. Without a reduction in services through legislative action the department will need an additional \$22,000,000 General Fund to sustain current services and utilization in Medicaid.

The following outlines all available options and associated dollar amounts to achieve this reduction. Single items may be selected or a combination of options.

Additional Reduction to Hospital Rates (\$2,076,500 GF per percentage point)

Additional rate reductions may be considered for Idaho hospitals above the current 4 percent reduction. The Division of Medicaid anticipates additional scrutiny from federal regulators for rate reductions above 4 percent and access to care will need to be assessed. The estimate above is for each additional percentage point decrease to hospital payment rates.

Additional Reduction to Residential Habilitation Rates (\$21,858,900 GF)

Residential Habilitation, also known as Supported Living, serves adults with intellectual and developmental disabilities. During the 2022 legislative session, \$66,663,200 in American Rescue Plan Act funds were requested as an enhancement item to support changes to how this service would be reimbursed and new services to be provided with a resource allocation model to be implemented in June 2022 as required by the KW lawsuit settlement agreement. The implementation of the settlement agreement was delayed during the summer of 2022 as the plaintiff's made new court filings arguing against the planned implementation approach. Given this delay, providers requested that the department utilize these funds as an additional rate increase, in anticipation that the department would soon be fully implementing the KW settlement agreement. This was agreed to as a transitional rate on a temporary basis only, as outlined in the provider Medicaid Information Release from November 2022. This request would remove the funding associated with the \$66,663,200 tied to changes to reimbursement and additional services to be rendered by Residential Habilitation providers going forward. The department is no longer

Attachment 2

implementing a new resource allocation model that ties to these changes. The federal court has ordered the department to identify a new resource allocation model and implementation plan; this work is currently underway. Providers would continue to receive the separate rate increase request for \$70,393,100 approved during the 2022 legislative session, minus the 4% rate decrease imposed across Medicaid services and provider types.

Removal of Administrative Costs for Managed Care Contracts (\$37,437,500 GF)

Current managed care contracts could be terminated with at least 6 months for transition to fee-for-service, pending final approval from federal regulators. Savings would be realized from no longer paying administrative expenses associated with current managed care contracts; removing the actuarial services contract; removing the federally required External Quality Review Contract; and ending the third-party consulting contract for comprehensive managed care. The Division would also not come forward with any potential budget request for increased administrative costs from comprehensive managed care when implemented in FY 2029.

The Division of Medicaid anticipates increased funding need for current contractors performing utilization management, case management, and claims processing functions in the fee-for-service environment. Detailed estimates are needed to fully understand this need if current managed care contracts are ended and services are transitioned to fee-for-service.

Removal of Non-Expansion Adult Pharmacy (\$40,051,300 GF)

All Idaho Medicaid members are currently eligible for the pharmacy benefit, which covers medically necessary prescription drugs. The Department recently received guidance from CMS that we are unable to eliminate the pharmacy benefit as a Medicaid expansion state. If the state eliminated Medicaid expansion, the pharmacy cost reductions for expansion members would be included in the above estimate. The Legislature could also then direct the elimination of the pharmacy benefit for non-expansion adults on Medicaid. Currently 46,300 non-expansion adults use the benefit at least once on an annual basis. Children and youth under 21 would continue to receive coverage for medically necessary pharmacy costs due to the federal requirement for states to furnish all Medicaid coverable, appropriate, and medically necessary services needed to correct and ameliorate health conditions, also known as Early and Periodic Screening, Diagnostic, and Treatment (EPSDT) under 1905(a) of the Social Security Act. Removal of the children's benefit and savings is not projected for many services below due to federal EPSDT requirements.

Removal of Adult Dental Services (\$5,512,100 GF)

All Idaho Medicaid members are currently eligible for the dental benefit, which covers preventative services and others such as tooth extractions. Currently 231,000 adults (expansion and non-expansion traditional) receive this service at least once on an annual basis.

Removal of Home and Community Bases Services (\$176,564,100 GF)

People with disabilities who want to receive services in their own home or community rather than institutions. Eligible members must demonstrate the need for a level of care that would meet the state's eligibility requirements for services in an institutional setting. Currently 16,438 Idahoans with disabilities use home and community-based services at least once on an annual basis. Should this option be selected, the Department anticipates need for additional institutional providers as current capacity would not be sufficient to transition all Idahoans with disabilities who are served in the community today.

Removal of Physical, Occupational, and Speech Therapy (\$13,093,700 GF)

Attachment 2

All Idaho Medicaid members are currently eligible for physical, occupational, and speech therapy when medically necessary. Currently 42,400 Idahoans on Medicaid receive these services at least once on an annual basis.

Removal of Case Management (\$6,368,700 GF)

All Idaho Medicaid members are currently eligible for case management, which helps people navigate complex medical systems to access needed care and avoid more costly crisis services. Currently 5,200 Idahoans on Medicaid receive this service at least once on an annual basis with more anticipated starting in January 2026 with the end of the Healthy Connections program.

Removal of Hospice (\$1,479,100 GF)

All terminally ill Idaho Medicaid members are currently eligible for hospice, which includes a range of counseling and medical services and supplies to the terminally ill individual and family members or others caring for the individual. Currently 490 terminally ill Idahoans receive this service on an annual basis.

Removal of Adult Prosthetics and Orthotics (\$398,300 GF)

All Idaho Medicaid members are eligible for medically necessary prosthetic, orthotic and related services, which artificially replace a missing portion of the body or support a weak or deformed portion of the body. Currently 1,280 adults receive this benefit on an annual basis.

Removal of Adult In-Home Nursing Services (\$258,900 GF)

All Idaho Medicaid members are eligible for medically necessary in-home nursing services, which provide skilled medical care and assistance with daily living activities, allowing individuals to receive care in their own homes. Currently 200 adults receive this service on an annual basis.

Removal of Adult Chiropractic Services (\$183,600 GF)

All Idaho Medicaid members are eligible for medically necessary chiropractic services. Currently 7,720 adults receive this service at least once on an annual basis.

Removal of Adult Audiology (\$23,200 GF)

Only participants under the age of 21 are eligible to receive audiometric testing and hearing aid services. Adults 21 and older are only eligible for testing to obtain a differential diagnosis. Currently 2,060 adults receive this service on an annual basis.

Removal of Adult Vision Services (\$463,400 GF)

Only participants under the age of 21 are eligible for examinations and testing once per year, one pair of eyeglasses every 4 years, and contact lenses with prior authorization. Participants 21 and older are not eligible for routine eye exams, eyeglasses, and contact lenses unless otherwise noted. For example, adults are eligible for services to treat acute conditions that, if left untreated, may cause permanent damage to the eye, and one pair of eyeglasses or contact lenses following cataract surgery. Currently 16,239 adults use this service at least once on an annual basis.

If a supplemental, what emergency is being addressed?

n/a

Specify the authority in statute or rule that supports this request.

Idaho Code 56-255

Idaho Code 56-265

Attachment 2

Please identify the performance measure, goal, or priority this request is intended to improve in the strategic plan or performance measurement report.

Strengthening trust in DHW.

What is the anticipated measured outcome if this request is funded?

Savings of \$22,000,000 in state general funds within the Medicaid budget will be achieved.

Indicate existing base of PC, OE, and/or CO by source for this request.

The existing Trustee and Benefits (T&B) base for this request is \$5,038,236,300 based on state fiscal year 2026 appropriation that was approved during the 2025 legislative session. Of the \$5,038,236,300, \$25,297,700 is administrative T&B funds, \$1,292,203,100 is coordinated funds, \$1,439,582,100 is enhanced funds, \$937,453,000 is basic funds, and \$1,343,700,400 is expansion funds. This reflects the entirety of the Trustee and Benefit appropriation for Medicaid and not only the base appropriation for the options outlined in this request.

The existing operating expense (OE) base for the actuarial services contract is \$2,200,000 of which \$1,100,000 is general funds and \$1,100,000 is federal funds spending authority. The existing OE base for the comprehensive managed care third party consultant contract is \$1,500,000 of which \$750,000 is general funds and \$750,000 is federal funds spending authority.

There are no personnel costs (PC), or capital outlay (CO).

What resources are necessary to implement this request?

Existing Medicaid staff resources will be used to implement any reductions selected. Needed staff resources will be contingent upon the options selected. Medicaid anticipates any of the outlined options will require updates to existing Idaho Medicaid federal authorities (e.g. State Plan and Medicaid waivers); updates to provider reimbursement rates; corresponding noticing and systems changes; and additional access to care analysis and ongoing monitoring.

List positions, pay grades, full/part-time status, benefits, terms of service.

This request does not require PC funds.

Will staff be re-directed? If so, describe impact and show changes on org chart.

n/a

Detail any current one-time or ongoing OE or CO and any other future costs.

Spending authority associated with these options is predominantly Trustee and Benefit with the exception of the Actuarial Services contract at \$2,200,000 and the third-party consultant contract for comprehensive managed care at \$1,500,000 both in OE.

Describe method of calculation (RFI, market cost, etc.) and contingencies.

Savings are estimated based on SFY25 Medicaid budget actuals.

Provide detail about the revenue assumptions supporting this request.

There are no revenue assumptions for this request.

Who is being served by this request and what is the impact if not funded?

Idaho taxpayers are being served by this request, in support of a sustainable Idaho Medicaid budget and an overall balanced budget for the state. If savings is not achieved, the Legislature will need to identify alternative savings to sustain projected expenditures for SFY2027.