

## COVID-19 – Potential Medicaid Funding Strategies

**Synopsis:** To help address the severe financial strain imposed on hospitals due to the COVID-19 crisis, IHA and the Department of Healthcare and Family Services (HFS) are discussing several potential Medicaid funding strategies, including options to expedite and increase Medicaid payments in order to maximize the benefit from the enhanced federal Medicaid matching rate enacted by Congress. One initial result is that last week the Comptroller paid over \$200 million in pending hospital Medicaid payments. Further actions are anticipated as discussions continue.

Over the past two weeks, IHA has been engaged in productive discussions with the Department of Healthcare and Family Services (HFS) and other state officials related to how the Medicaid program can provide additional financial support to hospitals during the COVID crisis. This memo describes the potential strategies under discussion.

**Key Objectives:** As the insurer of almost 3 million Illinoisans, the Medicaid program is critical to assuring access to hospital services in both the short and long term, and to that end, whether hospitals will financially survive the immediate COVID-19 crisis. We have emphasized that Medicaid funding assistance should advance three objectives:

- Medicaid payments should be issued on a regular and expedited basis to meet hospital cash flow needs.
- Medicaid payments should continue at the expected levels in the short term to mitigate revenue reductions due to the suspension of elective services; and
- Medicaid payments to hospitals should be increased in the short term, to help cover increased costs due to COVID-19.

**Enhanced Federal Medicaid Matching Rate:** The enhanced Federal Medicaid matching rate is an important tool that the state can use to support hospitals. However, we need to be clear about what the increase in the matching rate means. Importantly, an enhanced matching rate by itself **does not automatically result in new Medicaid spending** by the state. It is simply a way for the federal government to expedite federal financial assistance to the states to help relieve their budget pressures during times of crisis.

In general, the Families First Coronavirus Response Act (FFCRA) (Pub. L. 116-127) provides a temporary 6.2 percentage point increase to the state's Federal Medical Assistance Percentage or "FMAP". This enhanced matching rate is retroactive to January 1, 2020 and will continue to the end of the calendar quarter during which the COVID-19 emergency is in effect.

The enhanced FMAP **temporarily** reduces the State’s cost to operate the Medicaid program. In other words, the enhanced FMAP reduces the State funds or “State share” needed to draw down the federal Medicaid matching funds. For example, instead of the State having to put up \$40 to draw down \$60 in matching funds to make a \$100 Medicaid payment, the State only needs to put up \$33.80. In this example, the State now has about \$6 to spend. It can use it to pay old Medicaid bills or as the State share to increase Medicaid payments. In either case, if it is used to make a Medicaid payment, it then draws down federal Medicaid matching funds. However, the state can also use the \$6 to satisfy other State expenses, e.g., public health, corrections, state police. Given the broad and deep pressures on the State budget due to the COVID-19 crisis, there is intense competition for the any new federal funding.

**Potential Medicaid Funding Strategies:** Specific Medicaid funding strategies under discussion to advance the above objectives (and some of the questions being considered), include:

1. Pay Down the Medicaid Bill Backlog
  - a. The State can use the enhanced FMAP funds to continue to pay down as much of the backlog of Medicaid bills as possible, and work to maintain minimal backlogs. The State should use its existing borrowing authority to raise the funds needed to maximize this benefit.
  - b. The MCOs would also need to expedite payments to hospitals.
  - c. This option would improve cash flow to hospitals.
2. Periodic Interim Payments (PIP) – Fee-for-Service and Managed Care
  - a. HFS (fee-for-service) and the Medicaid MCOs could make Periodic Interim Payments (PIP) to hospitals for a six-month period that are at least equal to the average payments to the hospitals for the six-month period of July – December 2019.
  - b. The PIP payment would be reconciled against future claims for service.
  - c. The PIP program could mirror the Medicare Advance payment program.
  - d. Questions involve whether the MCOs are willing to offer a PIP program, the specific nature and scope of such a program and how quickly it could be implemented.
3. Temporarily Increase Hospital Payments Using the Enhanced Federal Matching Rate
  - a. HFS is investigating whether certain payments under the current Assessment program could be increased for the months of April to June.
  - b. In essence, because of the enhanced FMAP, the same hospital tax amount could be used to finance increased hospital payments.
  - c. However, any new spending has to comply with existing Medicaid spending rules, such as the Medicaid upper payment limit and managed care payment rules.

4. Accelerate Payments under the Assessment
  - a. It may also be feasible to accelerate the assessment payments to maximize the benefit of the enhanced federal matching rate. This may also require the hospital tax to be paid on a quicker turnaround schedule.
  - b. This strategy could also help with hospital cash flow pressures.
  - c. This strategy would require the MCOs to promptly make the assessment payments and for the hospitals to make their tax payments on time.

**Next Steps:** Discussions with HFS leadership on this subject have been very productive and they understand the importance of this issue for hospital sustainability. We hope to be able to report further progress on these discussions in the near future.

**Background Information:**

- [HFS Coronavirus Updates](#)
- [CMS COVID-19 Frequently Asked Questions \(FAQs\) for State Medicaid and CHIP](#)