

DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF DIRECTOR

ACTION REFERRAL

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| TO <i>Supra</i> | DATE <i>12-1-11</i> |
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| DIRECTOR'S USE ONLY | ACTION REQUESTED |
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| 1. LOG NUMBER <i>101208</i> | <input type="checkbox"/> Prepare reply for the Director's signature DATE DUE _____ |
| 2. DATE SIGNED BY DIRECTOR <i>cc: Mr. Keck, Singleton, Lynch</i> <i>Cleared 12/12/11, see attached</i> <i>e-mail response.</i> | <input checked="" type="checkbox"/> Prepare reply for appropriate signature DATE DUE <i>12-12-11</i> <input type="checkbox"/> FOIA DATE DUE _____ <input type="checkbox"/> Necessary Action |

| APPROVALS (Only when prepared for director's signature) | APPROVE | * DISAPPROVE (Note reason for disapproval and return to preparer.) | COMMENT |
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G A O

Accountability • Integrity • Reliability

United States Government Accountability Office
Washington, DC 20548

November 23, 2011

The Honorable Kathleen Sebelius
The Secretary of Health and Human Services

Dear Madam Secretary:

Enclosed is a copy of our proposed correspondence entitled *Medicaid: Health Opportunity Accounts Demonstration Program (GAO-12-221R)*. We are providing this draft for your review and comment before the correspondence is issued.

We would like to obtain HHS' written or oral comments from you or your designated representative by December 7, 2011. These comments will be reflected in the final correspondence. We prefer written comments and request that the written comments be provided electronically. However, we will accept comments provided in hard copy, orally, or in an unsigned e-mail message. Please direct all comments and any questions you may have concerning this draft to me at (202) 512-7114 or Walter Ochinko, Assistant Director, at (202) 512-7157. You may also reach us by email at YocomC@gao.gov or OchinkoW@gao.gov.

This draft has not been fully reviewed within GAO, is subject to change, and must be safeguarded to prevent its improper disclosure. Please do not show or release its contents for any purpose. All drafts remain the property of GAO. Upon request, all electronic copies must be destroyed and any hard copies of drafts must be returned. We appreciate your cooperation in this matter.

Sincerely yours,

Carolyn Yocom
Director, Health Care

Enclosure

DRAFT

Date

Congressional Committees

Subject: *Medicaid: Health Opportunity Accounts Demonstration Program*

The Deficit Reduction Act (DRA) of 2005 established a 5-year demonstration program allowing up to 10 states to test alternative health benefits under Medicaid, a joint federal state program that finances health care coverage for certain low-income individuals.¹ States participating in the demonstration program were required to establish savings accounts—known as Health Opportunity Accounts (HOAs)—that beneficiaries could use to pay for out-of-pocket medical expenses.² The state and federal government could fund the accounts with up to \$2,500 annually for an eligible adult and \$1,000 for a child.³ The HOA had to be offered in conjunction with a high-deductible health plan, and transactions involving the account had to be conducted electronically, without cash.⁴ Generally, only certain individuals—including Medicaid-eligible healthy adults under age 65 and children—could voluntarily enroll in the program, subject to annual renewal.⁵ Beneficiaries who subsequently lost Medicaid eligibility could pay for medical or certain other expenses with the unused balances in their accounts.⁶ Although the demonstration program began in January 2007, Congress prohibited the approval of any new state HOA

¹Pub. L. No. 109-171, § 6082, 120 Stat. 4, 113 (2006) (codified at 42 U.S.C. § 1396u-8). Demonstrations were required to (1) create patient awareness of the high cost of medical care, (2) provide incentives to patients to seek preventive care services, (3) reduce inappropriate use of health care services, (4) enable patients to take responsibility for health outcomes, (5) provide enrollment counselors and ongoing education, and (6) provide access to negotiated provider payment rates.

²States were allowed to fully cover preventive care, with no costs charged to the HOA.

³These amounts were to be adjusted each year to take into account medical inflation.

⁴The deductible amount had to be at least equal to 100 percent, and not greater than 110 percent of, the annualized amount of contributions into the HOA.

⁵Pregnant, and disabled individuals or those aged 65 or over, were not eligible to enroll.

⁶Individuals enrolled for one year or less who lost Medicaid eligibility could use 75 percent of any remaining account balance for up to 3 years to pay for the cost of medical expenses or to purchase private health insurance. In addition, individuals who maintained an HOA for more than 1 year before losing eligibility could use any surplus funds for other purposes including job training or educational expenses, if permitted by the state, and approved by the Department of Health and Human Services.

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demonstrations in the Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA) in February of 2009.⁷

The DRA directed GAO to evaluate and report on the HOA demonstration program at the end of the 5 year period. Specifically, we examined how many states had established an HOA program, and the barriers to enrollment that they faced.

To conduct our work, we interviewed officials from the Centers for Medicare & Medicaid Services (CMS)—the agency within the Department of Health and Human Services (HHS) that administers the Medicaid program—as well as Medicaid officials from South Carolina, the only state that established an HOA program. We also reviewed relevant laws, CMS guidance to states, and other materials related to South Carolina's program.

We conducted our work from October 2011 through November 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Only one state—South Carolina—applied for and was approved to implement a demonstration prior to CHIPRA. According to a CMS official, two factors that may have prevented more states from applying were (1) the fact that states paid up front to set up the HOA for a generally healthy population that could keep any remaining amounts if they lost Medicaid eligibility, and (2) the difficulty of implementing the required electronic debit card system to access the accounts.

South Carolina began implementing its HOA in Richland County in May 2008, and faced several barriers to enrollment. Officials from the South Carolina Department of Health and Human Services told us that although the state's application projected that 1,000

⁷Pub. L. No. 111-3, § 613, 123 Stat. 8, 101.

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individuals enrolled in its fee-for-service Medicaid program would eventually participate in the demonstration, enrollment since 2008 totaled 2 adults and 3 children. As of August 2011, 3 children were still enrolled in the program—2 since August 2010 and 1 since October 2010.⁸ Officials told us that children were more likely to qualify than adults because the state's Medicaid income eligibility requirement for children was 200 percent of the federal poverty level compared to 50 percent for adults who are not pregnant or disabled. According to state officials, other factors contributing to low enrollment may have been:

- a lack of beneficiary interest in a program that did not yield any immediate access to the cash in the HOA account;
- competition from the state's Medicaid managed care program that was also being launched at the same time with extensive marketing compared to limited marketing for the HOA program; and
- the reluctance of beneficiaries who were already enrolled in a Medicaid managed care plan to switch back to fee-for-service Medicaid in order to participate in the demonstration.

According to state officials, the enrolled children had received preventive services that were not charged to their HOA accounts and the account balances remained high even though some services were paid for out of the HOAs. They also told us that the state has never had to pay out any unused account balances. The South Carolina HOA demonstration is scheduled to continue through May 2013.

We are sending copies of this report to the appropriate congressional committees. We are also sending copies of this report to the Secretary of Health and Human Services. This report is also available at no charge on GAO's Web site at <http://www.gao.gov>.

⁸Two adults were also enrolled at one point, but their enrollment had to be terminated for failure to maintain their Medicaid eligibility.

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If you or your staffs have any questions regarding this report, please contact me at (202)-512-7114 or yocomc@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Individuals making key contributions to this report include Walter Ochinko, Assistant Director and Iola D'Souza.

Carolyn L. Yocom
Director, Health Care

(290967)

Brenda James - Re: Fwd: DRAFT GAO-12-221R.pdf (SECURED) - Adobe Acrobat Professional

From: John Supra
To: Michael Jones; Deirdra Singleton
Date: 11/28/2011 1:53 PM
Subject: Re: Fwd: DRAFT GAO-12-221R.pdf (SECURED) - Adobe Acrobat Professional
CC: Brenda James; Teeshla Curtis

I think you got it as it bounced back when they sent it to Alicia.

I've cc'd Brenda and Teeshla on this and lets make it a log letter assigned to me to respond and I'll delegate it to Michael for coordinating the content of the response and Teeshla can prepare the response based on Michael and Jenny's input.

john

>>> Deirdra Singleton 11/28/11 1:40 PM >>>

Thanks y'all. I am not sure why they sent this to me, but do you all want to followup with Mr. Ochino to see what's what? Let me know. thanks

Deirdra T. Singleton
Deputy Director/General Counsel
Department of Health and Human Services
1801 Main Street
Columbia, South Carolina 29201
(803)898-2795

(803)255-8210 fax>>> John Supra 11/28/2011 1:24 PM >>>

Yes -- Jenny Lynch is/was the one who provided me the most information about the program -- I had also asked Alicia a bit about it as well.

john

>>> Michael Jones 11/28/11 12:40 PM >>>

To my knowledge, Kendall Quinton was involved and Jenny Lynch has been involved. We also had an eligibility worker involved early on, but then determined that because of the low numbers we took that responsibility back.

I can stress that my opinion is that this program needs to away asap, then we could create more useful and productive options with the new member management system (area)...

Thanks

>>> John Supra 11/28/2011 10:32 AM >>>

I believe this is a program that had/has a small number of participants in it and that we'd like to phase out of as well.

john

>>> Deirdra Singleton 11/28/11 10:20 AM >>>

Michael,

Who in eligibility worked with Alicia on this Health Opportunity Account (HOA) demonstration project? See attached. thanks

Deirdra T. Singleton
Deputy Director/General Counsel
Department of Health and Human Services
1801 Main Street
Columbia, South Carolina 29201
(803)898-2795

(803)255-8210 fax>>> "Ochinko, Walter S" <OchinkoW@gao.gov> 11/23/2011 3:14 PM >>>
Our e-mail to Alicia Jacobs bounced. Iola D'Souza said we should send the draft to you. Thanks,

Walter Ochinko
Assistant Director, Health Care
U.S. GAO

Brenda James - Re: Fwd: DRAFT GAO-12-221R.pdf (SECURED) - Adobe Acrobat Professional

From: Teeshla Curtis
To: Brenda James
Date: 12/12/2011 9:21 AM
Subject: Re: Fwd: DRAFT GAO-12-221R.pdf (SECURED) - Adobe Acrobat Professional
CC: John Supra

Brenda,

Here is the response for **Log 208** (see Jenny's comments).

Thank you,

Teeshla

>>> Jennifer Lynch 12/2/2011 10:08 AM >>>

I spoke with Carolyn Yocum this morning and gave her the new enrollment information.

Currently, there is one child enrolled. The other two mentioned in the report have closed. Of those two, one is eligible for a \$558.02 payout (I have not heard from the family yet - they have 3 years to use the money). The other child closed due to not returning the review form and is not eligible for a payout.

Jenny Lynch,
Legislative Affairs and Communications
SC Department of Health and Human Services
(803) 898-3965
(803) 351-5673 Cell
(803) 255-8235 Fax

>>> Michael Jones 11/28/2011 12:42 PM >>>

Would you be willing to provide your comments on this to me and then we can get together and finalize what I send out...

Thanks