
CMCS Informational bulletin

DATE: September 15, 2023

FROM: Center for Medicaid & CHIP Services (CMCS)

SUBJECT: Basic Health Program; Federal Funding Methodology for Program Year 2024

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). CMS published the Basic Health Program; Federal Funding Methodology for Program Year 2023 in the Federal Register on December 20, 2022 ([87 FR 77722](#)) (hereinafter referred to as 2023 BHP Final Rule). Previously, Federal BHP regulations required CMS to publish the BHP methodology annually. Under 42 CFR 600.610, as revised in the 2023 BHP Final Rule, CMS only publishes a revised BHP payment methodology as needed. We have determined that we do not need to update the methodology for 2024 and will continue to use the methodology published in the 2023 BHP Final Rule. That methodology will continue to be in effect until CMS publishes a different methodology. Per 42 CFR 600.610(b), CMS will publish any changes to the BHP methodology in the Federal Register.

This Informational Bulletin specifies the final values for the factors needed to calculate the Federal BHP payment rates for 2024, using the methodology published in the 2023 BHP Final Rule. In addition, this guidance reminds states operating a BHP for 2024 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 2023 or 2024 qualified health plan (QHP) premiums as the basis for calculating the 2024 BHP Federal payments.

Updated Values for Variables Used in Payment Equations

This section briefly describes the income reconciliation factor, premium trend factor, and the 1332 waiver factor. These are the 2024 values that were not available at the time of publication of 2023 BHP Final Rule. The final values for these variables are included below. All other factors remain the same as previously published in the 2023 BHP Final Rule.

1. Income Reconciliation Factor (IRF)

As described in section III.D.6 of the 2023 BHP Final Rule, the income reconciliation factor (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. Because enrollment in a QHP is a requirement for individuals to receive APTC, individuals determined or assessed as eligible for a BHP are not eligible to receive APTC for coverage in the Exchange. Because they do not receive APTC, BHP enrollees are not subject to the same income reconciliation as Exchange enrollees.

The IRF accounts for (a) the difference between calculating estimated PTC (which is based on income at initial application for enrollment) and (b) actual income, 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 the Federal poverty level (FPL) during the plan year.

For 2024, 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 96.05 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 96.50 percent.¹ The value of the IRF for 2024 is 96.05 percent, as both states currently operating a BHP are Medicaid expansion states.

2. Premium Trend Factor (PTF)

As described in section III.E of the 2023 BHP Final Rule, states have the option to have their final 2024 Federal BHP payment rates (based on actual enrollment data) calculated using (1) the projected 2024 adjusted reference premium (ARP) (that is, using 2023 premium data multiplied by the premium trend factor defined below)², or (2) the 2024 QHP premiums. This approach and the determination of the premium trend factor (PTF) is consistent with the current methodology.

¹ States may cover adults under age 65 with income at or below 133 percent of the FPL under 42 CFR 435.119.

² See Equation (2b) of the 2023 BHP Final Rule.

For the PTF, we use the annual growth rate in private health insurance expenditures per enrollee from the 2022-2031 National Health Expenditure projections, developed by the Office of the Actuary in CMS ([NHE projection tables](#), Table 17). Based on these projections, the PTF will be 6.8 percent for BHP program year 2024.

3. Section 1332 Waiver Factor (WF)

As described in section III.D.7 of the 2023 BHP Final Rule, for a state that operates a BHP and an approved section 1332 waiver, the BHP can impact the section 1332 waiver pass-through funding for that state. For example, the existence of a BHP impacts aggregate PTC amounts in the state because the BHP moves some individuals, who would otherwise be eligible for PTC, out of Exchange coverage. Similarly, as the section 1332 waiver may impact the benchmark QHP premiums and the PTCs in a state, the waiver may also have an effect on the calculation of Federal BHP payments in a state operating a BHP.

As described in the 2023 BHP Final Rule, we determined it is appropriate to account for the impact of an approved section 1332 waiver when calculating Federal BHP payments by including the section 1332 WF in the 2023 BHP payment methodology.

The section 1332 WF is equal to the ratio of (1) the second lowest cost silver plan premium that would have been in place without the waiver for the plan year to (2) the second lowest cost silver plan premium in place with the waiver for the plan year, as determined for the purposes of calculating the section 1332 waiver pass-through payment.³ This factor will be calculated specific to each state and geographic area, to the extent that the factor may vary across geographic areas. The second lowest cost silver plan premiums with and without the waiver, as provided by the state as part of the section 1332 waiver requirements, will be used to calculate the factor.

³ Office of Tax Analysis, Department of Treasury, “Method for Calculation of Section 1332 Reinsurance Waiver 2023 Premium Tax Credit Pass-through Amounts,” March 2023.
<https://www.cms.gov/files/document/1332-ota-methodology-2023-reinsurance-pass-through-march-2023.pdf>

Pursuant to the 2023 BHP Final Rule, in the event the 2024 premium information is not available prior to the calculation of the Federal BHP payments in the fall prior to the start of the 2024 BHP program year, we will temporarily use values from the 2023 waiver reporting, and then retroactively update the payment rates and payments once the values for the 2024 plan year are known.

In the event that a state adopts a new waiver or waiver amendment that could delay the timeline by which the state would receive BHP funding, we will initially calculate the rates without adjustment for the section 1332 WF, and then retroactively adjust payment rates and payments using the updated waiver data once it becomes available.

State Options Regarding 2024 BHP Funding Methodology

This section briefly describes the state options to 1) use 2023 or 2024 QHP premiums for BHP payments and 2) include a retrospective state-specific health risk adjustment in the certified methodology. Specific deadlines for electing each state option are outlined below.

1. State Option to Use 2023 or 2024 QHP Premiums for 2024 BHP Federal Payments

As described above, states have the option to have their final 2024 Federal BHP payment rates (based on actual enrollment data) calculated using (1) the projected 2024 ARP (that is, using 2023 premium data multiplied by the premium trend factor which is 6.8 percent as described above), or (2) the 2024 QHP premiums.

Deadline to elect option: States operating a BHP have **30 days from the release of this document** to notify CMS if it is electing to use the projected 2024 ARP as the basis for the 2024 BHP Federal payments. If the state does not notify CMS of its intent by that date, the 2024 QHP premiums will be used.

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

To account for the potential differences in the average health status between BHP enrollees and person enrolled through the Exchanges, CMS included the population health factor (PHF) in the 2023 BHP Final Rule payment methodology. To the extent that BHP enrollees would have been enrolled through an Exchange in the absence of a BHP in a state, the exclusion of those BHP enrollees in the Exchange may affect the average health status of the overall population and the expected QHP premiums.

We currently do not believe that there is evidence that the BHP population would have better or poorer health status than the Exchange population. At this time, there continues to be a lack of data on the experience in the Exchanges that limits the ability to analyze the potential health differences between these groups of enrollees. More specifically, Exchanges have been in operation since 2014, and 2 States have operated BHPs since 2015, but data is not available to do the analysis necessary to determine if there are differences in the average health status between BHP and Exchange enrollees. In addition, differences in population health may vary across States.

Given these analytic challenges and the limited data about Exchange coverage and the characteristics of BHP-eligible consumers, the PHF will remain 1.00 for program year 2024, unless the state elects to use the retrospective health risk adjustment as described below.

Section III.F of the 2023 BHP Final Rule 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 PHF based on data accumulated during program year 2024 for each rate cell.

A state electing the option to implement a retrospective population health risk 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.

Deadline to submit PHF adjustment protocol: The state must submit a proposed protocol to adjust the Federal BHP payment based on a PHF for the 2024 program year **by 60 days from the release of this document**. If a state does not submit a PHF methodology by that date, no adjustment will be made. For a state to implement the retrospective health risk adjustment, CMS must approve the state's protocol within 60 days of receipt.

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 Cassie Lagorio at Cassie.Lagorio@cms.hhs.gov.