Legislative Fiscal Bureau

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Medical Assistance -- Base Reestimate
(DHS -- Medical Assistance -- Services)

[LFB 2011-13 Budget Summary: Page 214, #2]

CURRENT LAW

Wisconsin's medical assistance (MA) program pays certified health care providers for the primary, preventive, acute, and long-term care services they provide to Wisconsin residents with limited resources. In practice, the MA program is a collection of separate programs ranging from Family Care to BadgerCare Plus. The Department of Health Services (DHS) administers these programs under federal and state law, and under the terms of the state plan it submits to the federal Centers for Medicare and Medicaid Services (CMS).

Most MA recipients receive their MA "card services" through the standard plan. The standard plan provides a comprehensive set of services, some of which the state is required to offer under federal law, and others which the state provides at its option. Some MA recipients, such as those enrolled in Family Care and the home- and community-based waiver programs, are eligible to receive long-term care services in addition to the traditional card services offered through the standard plan. Other MA recipients, by virtue of their income, family status, or other criteria, are enrolled in the benchmark plan or the BadgerCare Plus Core Plan, which offer more limited services and require greater participant cost-sharing than the standard plan.

As of April, 2011, there were approximately 1,078,700 individuals enrolled in MA programs. That figure does not include the 91,000 SeniorCare participants nor does it include approximately 6,000 individuals enrolled in the BadgerCare Plus Basic Plan, both of which are programs that are not budgeted as part of the MA program.

The majority of MA recipients are enrolled in managed care organizations (MCOs). For these individuals, DHS makes a monthly capitation payment to the MCO for each of their MA enrollees, and the MCO in turn reimburses health care providers in their network for the services they provide to those MA recipients. As of April, 2011, 737,500 MA recipients were enrolled in

MCOs, representing approximately 68% of all MA recipients (1,078,700). Of the total number of MA recipients enrolled in managed care programs, approximately 669,000, or 90%, participated in BadgerCare Plus. The rest were enrolled in Family Care MCOs, or MCOs that serve individuals who qualify for MA based on their eligibility for supplementary security income (SSI).

Benefit expenditures under the MA program are funded by a combination of GPR, federal matching funds, segregated revenues from the MA trust fund and the hospital assessment fund, and program revenues. The federal matching funds are based on the state's federal medical assistance percentage (FMAP). In recent years, Wisconsin's "normal" FMAP has been approximately 60%, meaning that federal dollars supported 60% of most eligible MA benefit expenditures. Under the American Recovery and Reinvestment Act of 2009 (ARRA), states received a temporary increase to their base FMAPs during the "recession adjustment period" of October 1, 2008 through December 31, 2010 (a period later extended through June 30, 2011). As a result of that temporary increase, Wisconsin's FMAP was approximately 68.75% in state fiscal year 2010-11. On July 1, 2011, the state's FMAP is scheduled to return to approximately 60.5%.

GOVERNOR

Provide $937,649,000 ($729,499,400 GPR, $282,177,600 FED, -$8,196,600 PR, and -$65,831,400 SEG) in 2011-12 and $1,250,494,900 ($855,238,700 GPR, $482,045,000 FED, -$13,979,500 PR, and -$72,809,300 SEG) in 2012-13 to fund the administration's estimate of projected MA benefits costs in the 2011-13 biennium based on current law and DHS program policies.

Provide that, notwithstanding current law regarding the treatment of biennial appropriations, DHS shall lapse to the general fund from the biennial GPR appropriation that funds MA benefits costs no more than $24,950,000 in the first fiscal year of the fiscal biennium in which the provision takes effect.

DISCUSSION POINTS

1. Historically, as part of its biennial budget development, the administration has provided its estimates of the cost to maintain the current MA program in the next biennium, based on projected caseload, measures of "intensity" (average costs per enrollee for specific services), and FMAPs. This estimate has served as a starting point for the development of the MA budget, and did not reflect proposed policy changes. Those policy changes and their projected fiscal effects have generally been identified separately in the Executive Budget Book and have been summarized as separate items for consideration by the Committee and the Legislature.

2. In the Governor's 2011-13 budget, the administration did not present the Legislature with a traditional budget analysis for the MA program. Instead, the administration presented a single funding request that merged current law assumptions with the estimated fiscal effects of program changes the administration intends to implement in the 2011-13 biennium. Working with

the administration, this office has attempted to separate the funding changes relating to maintaining the current MA program from the savings DHS expects to generate through those program changes. This paper discusses the former, while LFB Paper 341 discusses the latter.

3. There are two primary factors driving the bill's large GPR funding increases for MA benefits costs. The first is the MA program's significant growth during the 2009-11 biennium, especially when compared to the funding that was budgeted for the program in 2009 Act 28. For example, in state fiscal year 2010-11 (which serves as the base year for 2011-13 budgeting purposes) Act 28 provided approximately $6.23 billion (all funds) for MA benefit expenditures. Updated estimates anticipate that actual MA benefit expenditures in 2010-11 will be approximately $6.87 billion (all funds). A variety of factors contributed to these large cost overruns, the principal one being higher-than-expected MA caseloads (see Table 2).

4. The second primary factor underlying the large GPR increase is the impending reduction in the state's FMAP beginning July 1, 2011. As noted, the state's FMAP, which was temporarily increased to 68.75% in 2010-11 under ARRA, is scheduled to return to approximately 60.5% on July 1, 2011. Assuming total MA benefit expenditures of approximately $7.0 billion per year in the 2011-13 biennium, the projected decline in the state's FMAP will result in approximately $578 million less in federal MA matching funds per year, compared to the federal dollars the state would have received had the current year's FMAP remained in effect. The bill assumes this lower federal contribution (in percentage terms) during the 2011-13 biennium will be funded by GPR.

5. Based on updated estimates and more recent data, the Committee could make several adjustments to the funding requested in the bill. The first set of adjustments relates to the revenues deposited to the MA trust fund. The MA trust fund is a segregated fund that receives revenues from a variety of sources and uses those revenues to support MA benefits costs. The administration has indicated that relative to the amounts assumed in the bill, the following adjustments are required.

6. First, revenues deposited to the MA trust fund from the nursing home certified public expenditure (CPE) program are expected to exceed the amounts assumed in the bill by $5.0 million in 2011-12 and by $10.0 million in 2012-13. These revenues represent federal MA matching funds the state claims in connection with otherwise unreimbursed costs reported by these publicly-owned nursing homes. The increased revenue projections reflect the administration's assumption, based on historical trends, that these nursing homes will incur increased per-resident costs during the 2011-13 biennium. The fiscal effect of the administration's revised CPE revenue estimate is to increase the projected amount of SEG revenue deposited to the MA trust fund, and to reduce the GPR required to fund MA benefit expenditures during the upcoming biennium.

7. Second, the administration has indicated that revenues generated by an MA intergovernmental transfer program that UW uses to support an annual transfer to the MA trust fund will be $4,661,500 less per year than assumed in the bill, and $7,161,500 less per year than required in statute. To reflect the administration's updated revenue estimates for this UW IGT program, SEG funding budgeted for the MA trust fund should be decreased by $4,661,500 SEG per year, and GPR funding in the bill should be increased by corresponding amounts. In addition, statutory provisions which currently require UW to transfer $27.5 million to the MA trust fund annually in 2011-12 and

2012-13 should be revised to require a transfer of $20,338,500 in each of those years.

8. Table 1 shows an updated condition statement for the MA trust fund for the 2011-13 biennium, reflecting the adjustments described above as well as several other minor adjustments. The net fiscal effect of these changes is to increase the projected amount of SEG revenues to the MA trust fund by $485,400 in 2011-12 and by $5,485,400 in 2012-13, and to reduce the amount of GPR required to fund MA benefits in the 2011-13 biennium by corresponding amounts.

TABLE 1

MA Trust Fund
Estimated Revenues, Expenditures, and Balances

	2010-11	2011-12	2012-13
Beginning Balance	$497,400	$0	$0
Projected Revenue			
Nursing Home Certified Public Expenditure Program	$48,884,000	$48,884,000	$48,884,000
Nursing Home Bed Assessment	72,224,200	69,578,300	68,403,300
ICF-MR Bed Assessment	8,565,900	8,610,400	8,513,700
Enhanced Federal Match for Services Provided by Counties	19,068,600	0	0
Federal Funds from Wisconsin Medicaid Cost Reporting Program	0	5,558,900	22,938,000
Interest Expenses	-231,600	-231,600	-231,600
Revenue Transferred from Other Funds			
Hospital Assessment Fund	$203,452,700	$147,896,600	$147,112,600
Critical Access Hospital Assessment Revenue	5,218,700	3,793,600	3,773,500
Ambulatory Surgical Center Assessment Revenue	16,600,000	16,600,000	16,600,000
Permanent Endowment Fund	50,000,000	50,000,000	50,000,000
UW Lapse for UW Physician's Intergovernmental Transfer	25,000,000	20,338,500	20,338,500
HealthCheck Services Provided by Residential Care Centers	12,800,000	7,000,000	7,000,000
Total Funds Available	$462,079,900	$378,028,700	$393,332,000
Expenditures			
MA Benefits	$447,643,900	$378,028,700	$393,332,000
Required Lapse to General Fund	7,021,400	0	0
Carryover of Unexpended Authority from 2009-10	7,414,600	0	0
Total Expenditures	$462,079,900	$378,028,700	$393,332,000
Closing Balance	$0	$0	$0
Amount in Governor's Bill (with Veterans Home Adjustment)		377,543,300	387,846,600
Increase SEG Funding and Decrease GPR Funding		$485,400	$5,485,400

9. A second category of adjustments to the bill for MA benefit expenditures relates to the administration's enrollment projections. First, the actual enrollment in the program as of April, 2011, exceeds the levels assumed in the bill by approximately 15,000 enrollees. This difference is attributable to the fact that the administration's projections were developed in part using actual enrollment information through November, 2010. Since that time, enrollment in the program has continued to grow at a higher rate than assumed in the bill. The estimated cost to update the

enrollment assumptions in the bill to reflect actual program enrollment as of April, 2011 is $38,947,700 ($15,294,500 GPR and $23,653,200 FED) and $39,323,800 ($15,362,400 GPR and $23,961,400 FED) in 2012-13.

10. Second, the Committee could revise the rates of enrollment growth the administration used to establish the funding in the bill. Table 2 shows the actual rates of enrollment increases during several recent time periods for the major MA eligibility groups. As the table indicates, BadgerCare Plus enrollment increased dramatically in 2009-10, driven in part by high unemployment and other economic pressures associated with the recession. Thus far in 2010-11, enrollment growth in the BadgerCare Plus program has moderated slightly, but remains high by historical measures. Overall enrollment in the elderly, blind, and disabled MA population has also increased in recent years, especially the number of disabled participants. The enrollment figures in Table 2 suggest that the number of MA recipients classified as "Elderly" has declined, which runs counter to the increasing number of elderly individuals in the general population. DHS indicates that this reflects the fact that a significant number of individuals over age 65 are included in the disabled category, since the conditions and service needs of these individuals meet the disabled classification.

TABLE 2

MA Enrollment by Major Eligibility Group
(Annualized Rates of Change)

	2009-10	YTD 2010-11	Last 6 Months	Assumption Used in Bill 2011-12	Assumption Used in Bill 2012-13
BC+ Children	9.4%	5.7%	5.2%	0.00%	-1.00%
BC+ Adults	13.5	7.2	8.2	-4.50	-3.00
BC+ Pregnant Women	0.0	4.8	4.4	1.00	1.00
Elderly	-1.0	-0.8	-2.4	-2.00	-2.00
Disabled	5.4	5.4	5.3	1.66	1.66

11. Table 2 also shows the enrollment assumptions the administration used to establish the funding amounts in the bill. As indicated, the administration assumes that, with the exception of elderly participants, enrollment trends in the 2011-13 biennium will be much lower than the program's recent experience. The administration based these enrollment projections on its expectation that general economic conditions will improve during the next two years, and that some of the changes it intends to make to the MA program will impact enrollment. For example, the administration has indicated that modifying the program's state residency requirements and increasing recipient cost-sharing might impact enrollment, particularly in the BadgerCare Plus populations.

12. For several reasons, the Committee could decide that the administration's MA enrollment projections for 2011-13 are overly aggressive. First, since the administration developed its enrollment projections, the program's actual enrollment has continued to exceed expectations. Second, without additional information, it is difficult to predict precisely how the program changes

DHS hopes to implement might impact MA enrollment. Third, the Department has expressed concerns about delays it may experience in implementing some of those changes. Fourth, the program's experience of the past two years illustrates the budgetary issues that can arise when the program's enrollment exceeds expectations.

13. While duly crediting the administration's arguments that improving economic conditions and program changes will impact future enrollment, the Committee could decide to use slightly more conservative projections. For instance, the Committee could decide to adjust the 2011-12 enrollment projections as follows: (a) for BadgerCare Plus children, increase the assumed rate of growth from 0.0% to +2.0%; (b) for BadgerCare Plus adults, increase the assumed rate of growth from -4.5% to 0.0%; and (c) for disabled individuals, increase the assumed rate of growth from +1.66% to +3.0%. Given the uncertainties inherent in projecting future enrollment, and the program's recent experience, the Committee could reasonably decide that these more conservative projections are more realistic than the assumptions in the bill. Moreover, adjusting the enrollment assumptions for 2011-12 can be particularly beneficial, as unbudgeted enrollment increases in the first year of the biennium can have a compounding effect. The estimated costs to adjust the 2011-12 enrollment assumptions in the bill as indicated above, while retaining the administration's projected rates for 2012-13, are $28,181,500 ($11,086,800 GPR and $17,094,700 GPR) in 2011-12 and $53,136,400 ($20,769,500 GPR and $32,366,900 FED) in 2012-13.

14. There are two other funding adjustments the Committee could make to this item. First, the Department has recommended increasing the nursing home acuity projections in the bill by 1.0% in 2011-12 and by additional 1.0% in 2012-13. The Department believes this adjustment is in keeping with past acuity trends and is needed to avoid what would otherwise effectively be a reduction to nursing rates in the 2011-13 biennium. Making that recommended adjustment would require additional funding of $7,257,000 ($2,871,000 GPR and $4,386,000 FED) in 2011-12 and $14,690,000 ($5,829,000 GPR and $8,861,000 FED) in 2012-13.

15. Second, an adjustment should be made to reflect the fact that the bill mistakenly provided funding for payment of supplemental hospital payments to independent rural hospitals totaling $800,000 GPR in each year of the 2011-13 biennium. Under current law, those supplemental payments are discontinued at the end of the current state fiscal year.

16. Alternative 1 would make the following changes to the funding in the bill for MA benefit expenditures in the 2011-13 biennium: (a) increase SEG and decrease GPR by $485,400 in 2011-12 and by $5,485,400 in 2012-13 to reflect revised estimates of the revenues to be deposited to the MA trust fund; (b) increase funding by $38,947,700 ($15,294,500 GPR and $23,653,200 FED) in 2011-12 and by $39,323,800 ($15,362,400 GPR and $23,961,400 FED) in 2012-13 to update the enrollment assumptions in the bill to reflect actual program enrollment as of April, 2011; (c) increase funding by $7,257,000 ($2,871,000 GPR and $4,386,000 FED) in 2011-12 and by $14,690,000 ($5,829,000 GPR and $8,861,000 FED) in 2012-13 to provide a 1.0% acuity increase for nursing homes in 2011-12 and an additional 1.0% increase in 2012-13; and (d) reduce funding by $800,000 GPR in 2011-12 and in 2012-13 to delete funding mistakenly provided for supplemental payments for independent rural hospitals. In sum, the funding changes in Alternative 1 total $45,404,700 ($16,880,100 GPR, $28,039,200 FED, and $485,400 SEG) in 2011-12 and $53,213,800 ($14,906,000 GPR, $32,822,400 FED, and $5,485,400 SEG) in 2012-13.

17. Alternative 2 would provide an additional $28,181,500 ($11,086,800 GPR and

$17,094,700 GPR) in 2011-12 and $53,136,400 ($20,769,500 GPR and $32,366,900 FED) in 2012-13 to incorporate the slightly more conservative enrollment assumptions for 2011-12, as described in discussion point 13. If the Committee decided to use those enrollment projections, it should select this alternative in addition to Alternative 1. Conversely, if the Committee wished to retain the administration's more aggressive enrollment assumptions, as shown above in Table 2, it should just adopt Alternative 1.

ALTERNATIVES

1. Increase funding in the bill by $45,404,700 ($16,880,100 GPR, $28,039,200 FED and $485,400 SEG) in 20111-12 and by $53,213,800 ($14,906,000 GPR, $32,822,400 FED, and $5,485,400 SEG) in 2012-13 to reflect the funding adjustments summarized in discussion point 16. In addition, revise statutory provisions relating to the UW lapse to the MA trust fund to reduce the annual lapse amounts in 2011-12 and 2012-13 from $27,500,000 to $20,338,500.

ALT 1	**Change to Bill** Funding
GPR	$31,786,100
FED	60,861,600
SEG	5,970,800
Total	$98,618,500

2. Increase funding in the bill by $28,181,500 ($11,086,800 GPR and $17,094,700 GPR) in 2011-12 and $53,136,400 ($20,769,500 GPR and $32,366,900 FED) in 2012-13 to incorporate the revised rates of enrollment growth for the MA program in 2011-12, as described in discussion point 13.

ALT 2	**Change to Bill** Funding
GPR	$31,856,300
FED	49,461,600
Total	$81,317,900

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