

## Budget Brief

February 2011

This budget brief describing the Governor's Fiscal Year 2012 (FY 2012) budget proposal for MassHealth (Medicaid) and other health care programs is the first in a series of fact sheets that will be published by the Massachusetts Medicaid Policy Institute (MMPI) and produced by the Massachusetts Budget and Policy Center in partnership with the Massachusetts Law Reform Institute. MMPI will be publishing budget fact sheets at each stage in the FY 2012 budget process, as budget proposals move through the legislature. These will be posted at [www.massmedicaid.org](http://www.massmedicaid.org).

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# Fiscal Year 2012: The Governor's House 1 Budget Proposal

On January 26, 2011, the Governor released his Fiscal Year 2012 (FY 2012) budget proposal, which included a total of \$11.825 billion in funding for MassHealth and other programs that support health care for the state's low- and moderate-income residents. Currently, MassHealth provides health care coverage for nearly 1.3 million residents, including more than 535,000 children; Commonwealth Care covers approximately 161,000 residents; and Commonwealth Care Bridge currently covers more than 20,000 legal immigrants with special status.

The Governor's budget includes \$10.507 billion for MassHealth — essentially level with current estimated spending — with an increase of just \$100 million over current FY 2011 projected spending. Given projected growth in MassHealth enrollment and medical inflation, level funding creates a gap of \$800 million. Therefore, the Governor's budget includes MassHealth savings initiatives which aim to cut spending by nearly \$800 million to close that gap. The Governor's budget also includes \$822 million in funding for the Commonwealth Care program and \$50 million for the Commonwealth Care Bridge program. Both of these programs are level funded, based on the Administration's estimates for FY 2011 spending.

Typically the federal government reimburses Massachusetts for approximately half of its spending on the MassHealth program. This means that cuts in MassHealth spending result in reductions in federal revenues to the state. In recent years, the federal government provided substantial additional revenue as part of the federal stimulus funding. These federal stimulus dollars will no longer be available starting in FY 2012. This loss of federal revenue places a particular strain on the FY 2012 budget and contributes significantly to the budget gap the proposals must fill.

### MassHealth and Health Reform (Millions of Dollars)

		FY 2011 Current Appropriation*	FY 2012 Governor
<b>MassHealth (Medicaid)</b>	<b>MassHealth</b>	10,269.0	10,340.0
	<b>MassHealth Administration</b>	170.1	167.2
	<b>Sub-Total</b>	<b>10,439.1</b>	<b>10,507.2</b>
<b>Health Reform and Health Safety Net</b>	<b>Prescription Advantage</b>	31.5	21.7
	<b>Div. of Health Care Finance &amp; Other Initiatives</b>	22.2	22.4
	<b>Commonwealth Care Trust</b>	842.0	879.5
	<b>Health Insurance Technology Trust</b>	0.0	0.5
	<b>Medical Assistance Trust**</b>	<b>686.7</b>	<b>394.0</b>
	<b>Sub-Total</b>	<b>1,582.4</b>	<b>1,318.1</b>
	<b>Total</b>	<b>12,021.5</b>	<b>11,825.3</b>
	<b>State Budget Total***</b>	<b>33,671.1</b>	<b>33,342.8</b>

\*Including all enacted supplemental budget requests as of February 1, 2011. See Appendix for line item detail as well as estimated FY 2011 spending as reported by the Secretariat for Administration and Finance and upon which the Governor's House 1 proposal was based.

\*\*Funds come from assessments on public entities and federal Medicaid matching funds. Although no state revenues are used to fund this trust, it is an important source of additional funding for providers that care for low-income residents.

\*\*\*This total includes all line item appropriations, operating transfers, and direct spending from statutorily designated taxes, as well as a reduction to account for municipal participation in the state's Group Insurance Commission, and an adjustment to account for tuition retained by state universities and colleges. These adjustments allow for more accurate year-to-year comparisons.

## Caseload

- Assumes **MassHealth** caseload will grow by approximately 4.6 percent over the course of the year, adding 19,000 children and 41,000 adults, for a total caseload of 1.36 million people in FY 2012.
- Assumes **Commonwealth Care** caseload will grow from roughly 161,000 members today to an estimated 174,000 by the end of FY 2012.
- Includes limited funding for **Commonwealth Care Bridge** to maintain current caseload of roughly 20,000.<sup>1</sup>

## Benefits

- Includes significant cuts to the **Adult Day Health program**, which provides care to frail elders and adults with disabilities in community settings as a means to prevent hospitalization and, in some cases, to avoid or delay nursing home placement. Proposes to cut adult day health services for roughly 80 percent of the 7,000 frail elders and adults with disabilities who receive these supports, saving approximately \$55 million in total spending or \$27 million in net savings to the state. MassHealth would continue to cover adult day health services for the remaining 20 percent who have the most complex medical needs.
- **Adult dental benefits** for MassHealth and Commonwealth Care members continue to be limited. In July 2010, restorative dental services (such as fillings) were eliminated from MassHealth coverage for adults (with the exception of those adults who are clients of the Department of Developmental Services), leaving MassHealth members with acute dental needs to access care in hospital emergency rooms or at community health centers that have dental clinics which can bill the Health Safety Net for such services.

## Cost Sharing for Members

- **Increases pharmacy co-payments** from \$3 to \$4 for brand name drugs for MassHealth members with incomes below 150 percent of the federal poverty level. For members with incomes over 150 percent of the federal poverty level co-payments for generics will increase from \$3 to \$4 and for brand name drugs from \$3 to \$5. Those drug co-pays now at \$1 will not change.<sup>2</sup> The Governor's budget also proposes a new \$2 co-pay for non-emergency transportation. These increased pharmacy co-payments also apply to Commonwealth Care members with incomes below 100 percent of the federal poverty level. This increased cost sharing for members is estimated to save \$11 million in total, resulting in \$5 million in net savings to the state.

## Eligibility

- Includes no changes to eligibility.

<sup>1</sup> The Commonwealth Care Bridge program has provided limited health care coverage to immigrants known as "aliens with special status," or AWSS, since they were first excluded from eligibility for Commonwealth Care in August 2009. These are primarily legal immigrants with green cards who have been in the country for fewer than five years. Enrollment in Bridge has been closed to new members since August 2009, and now approximately 19,000 low-income legal immigrants are only receiving care through the Health Safety Net. Federal government subsidies for these immigrants' coverage will begin in 2014 under the new federal health care law.

<sup>2</sup> Includes antihyperglycemics, antihypertensives, and antihyperlipidemics.

## Provider and Managed Care Organization Rates

- **Reduces rates or payments to health care providers** resulting in total savings of \$150 million, for a net savings to the state of approximately \$75 million. These cuts include: not paying hospitals for "preventable" readmissions that occur within 30 days; reducing transition payments to certain hospitals; reducing hospital rate "add-ons" for hospitals that serve a disproportionate share of publicly funded patients; eliminating special payments to community health centers to support increased dental capacity; and eliminating payments to nursing facilities to hold a patient's bed for up to 10 days while the patient receives care in a hospital.
- **Eliminates rate increases for managed care plans** for a projected savings of \$169 million in total, or \$84 million in net savings to the state.

## Service Delivery

- Includes a proposal for **aggressive contracting of most state-administered health care programs**: MassHealth, Commonwealth Care, the Group Insurance Commission which purchases coverage for state employees, dependents and retirees, and the Medical Security Program for the unemployed. The Governor estimates total savings of \$351 million to the MassHealth program alone from competitive procurement of services for up to 800,000 of its members. This initiative focuses on care integration and care management for high risk populations and aims to lay the foundation for delivery system and payment reforms throughout the health care system.

## Other Initiatives

- **Prescription Advantage**. Cuts funding by \$9.9 million reflecting the fact that under federal health reform (the Patient Protection and Affordable Care Act) Medicare now covers more of the gap in prescription drug coverage — referred to as the "doughnut hole" — which Prescription Advantage previously filled.
- **Electronic Medical Records**. Creates a special trust fund, the Health Insurance Technology Trust, to allow the state to leverage federal reimbursement from the federal government for the development of electronic health records within the MassHealth program. Using \$500,000 of state "seed" money, Massachusetts could get full (100 percent) reimbursement from the federal government for the costs of developing such a system, and up to \$50 million could be available for providers to implement electronic health record systems in FY 2012.
- **Outreach**. In previous years, MassHealth, the Connector Authority or the Massachusetts Health and Educational Facilities Authority provided funding for grants — totaling between \$2.5 to \$3.5 million depending on the year — to community organizations to assist with enrollment and maintaining coverage for persons eligible for publicly subsidized health programs. The Governor's FY 2012 budget proposal does not include funding for outreach grants.

# Appendix

Line Item	Name	FY 2011 Current Appropriation*	Estimated FY 2011 Spending**	FY 2012 Governor's House 1	Category***
4000-0300	Executive Office of Health and Human Services and MassHealth Administration	86,970,271	87,336,613	84,000,300	Admin
4000-0301	MassHealth Auditing and Utilization Reviews	1,736,425	1,736,425	1,736,425	MassHealth
4000-0320	MassHealth Recoveries from Current and Prior Fiscal Years Retained Revenue	225,000,000	225,000,000	225,000,000	MassHealth
4000-0430	MassHealth CommonHealth Plan	132,886,183	130,439,637	130,439,637	MassHealth
4000-0500	MassHealth Managed Care	3,772,835,669	3,772,835,669	3,872,835,669	MassHealth
4000-0600	MassHealth Senior Care	2,497,390,461	2,495,602,264	2,495,602,264	MassHealth
4000-0640	MassHealth Nursing Home Supplemental Rates	315,700,000	288,500,000	288,500,000	MassHealth
4000-0700	MassHealth Indemnity	2,011,390,506	2,026,206,633	2,026,206,633	MassHealth
4000-0870	MassHealth Basic Coverage	165,351,318	157,016,626	157,016,626	MassHealth
4000-0875	MassHealth Breast and Cervical Cancer Treatment	4,770,999	4,770,999	4,770,999	MassHealth
4000-0880	MassHealth Family Assistance Plan	222,090,812	218,925,814	218,925,814	MassHealth
4000-0890	MassHealth Premium Assistance and Insurance Partnership Program	58,181,956	58,181,956	58,181,956	MassHealth
4000-0895	Healthy Start Program	14,409,312	13,800,000	13,800,000	MassHealth
4000-0950	Children's Behavioral Health Initiative	214,743,708	214,743,708	214,743,708	MassHealth
4000-0990	Children's Medical Security Plan	12,600,000	12,600,000	12,600,000	MassHealth
4000-1400	MassHealth HIV Plan	18,801,714	18,541,135	18,541,135	MassHealth
4000-1405	MassHealth Essential	389,757,408	389,757,408	389,757,408	MassHealth
4000-1420	Medicare Part D Phased Down Contribution	211,370,985	211,370,985	211,370,985	MassHealth
4000-1700	Health and Human Services Information Technology Costs	83,112,075	83,197,047	83,197,047	Admin
4100-0060	Division of Health Care Finance and Policy	20,957,507	20,957,507	21,157,507	Finance
4100-0360	Health Care Quality and Cost Council Retained Revenue	100,000	100,000	100,000	Finance
7006-0029	Health Care Access Bureau Assessment	1,100,000	1,100,000	1,100,000	Finance
9110-1455	Prescription Advantage	31,542,765	31,542,765	21,665,608	Pharmacy
1595-1068	Medical Assistance Trust Fund (operating transfer)	686,737,736	870,601,088	394,025,000	Trust
1595-1069	Health Insurance Technology Trust Fund	0	0	500,000	Trust
1595-5819	Commonwealth Care Trust Fund (operating transfer)	722,011,822	722,011,822	759,511,822	Trust
	Portion of cigarette tax revenue devoted to Commonwealth Care Trust Fund	120,000,000	120,000,000	120,000,000	Trust

\* FY 2011 Current includes funding in the General Appropriation Act, as well as supplemental funding provided over the course of the year as of February 1, 2011.

\*\* Estimated FY 2011 Spending provided by the Secretariat of Administration and Finance.

\*\*\* Category refers to the chart on page 1 of this brief.