MMPI Massachusetts Medicaid Policy Institute

fact sheet

# The Basics of MassHealth

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Massachusetts has become, since 2006, the vanguard state attempting to extend health insurance coverage, through public and private means, to most of its residents. A pillar of that effort is MassHealth, the state's combined Medicaid and State Children's Health Insurance Program (SCHIP). But MassHealth long predates the 2006 expansions as a central part of the state's health care safety net. Today, it provides health care coverage — a key to accessing care — to over 1.1 million of the Commonwealth's neediest, most vulnerable residents. It pays providers such as hospitals, physicians and pharmacies for treatments that would otherwise go largely uncompensated. It brings billions of federal dollars into the state to help finance physical and behavioral health care for low-income people, and it is the financial engine for the publicly subsidized insurance created by the 2006 reform law. In a state where most believe that people who need medical care should get it regardless of their economic circumstances, the MassHealth program goes a long way to making that possible.

MassHealth presents challenges as well. Because of its important role and the diverse medical needs of the people it serves, the program demands a great amount of public resources. It competes with other priorities in the state budget process, where allocations in favor of one program are often to the detriment of others. Enrollment and costs have grown to a point where maintaining the same level of federal financial participation is in question, yet many providers still feel that the rates MassHealth pays them are inadequate. And because of its size, the number of interested stakeholders, and the need for public accountability, most major decisions about MassHealth are made under intense public scrutiny.

This fact sheet introduces the MassHealth program, describing its basic structure, who receives benefits and what those benefits are, and how enrollment and spending has changed over time. It explains how MassHealth fits into the complex of complementary programs created by the 2006 reform law. It concludes with a discussion of some of the current policy issues and challenges facing the program.

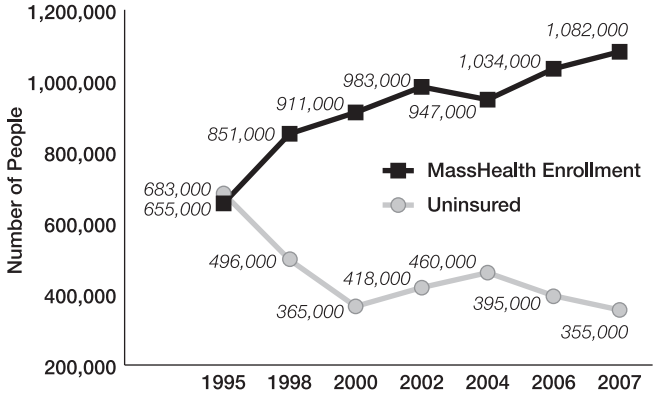
## Background

Medicaid is a joint federal-state program, created by Congress in 1965 as Title XIX of the Social Security Act. It was passed as a companion to Medicare, Title XVIII. MassHealth also incorporates the State Children's Health Insurance Program (SCHIP), Title XXI of the Social Security Act, enacted in 1997. Medicaid is a means-tested entitlement, jointly funded by state and federal governments.[1] States administer the program and set rules for eligibility, benefits and provider payments within broad federal guidelines. As a result, there are wide variations in Medicaid across states. Massachusetts operates its Medicaid program under a federal "research and demonstration" waiver, which allows the state more latitude to tailor its program to its population and political circumstances. Though the waiver only applies to people under age 65, its name — MassHealth — is used generically for the entire program.

## Who is covered?

MassHealth provides health coverage to many of the poorest, most vulnerable and most intensive users of health care services in the Commonwealth. Since 1997 the Commonwealth has, as a matter of policy, sought to expand MassHealth enrollment among critically underserved groups. The expansion has occurred in two phases. The program added over 300,000 members from 1997 to 2002, the first years of the MassHealth waiver. After a contraction following some program cuts in 2002, enrollment climbed again, adding over 100,000 more members from 2004 to the present, coincident with the introduction of an automated enrollment system (known as the "Virtual Gateway") in 2004 and the enactment of health care reform in 2006. As of March 2008, enrollment stands at 1,145,000.

**Chart 1. Trends in MassHealth Enrollment and Uninsured, 1995-2007**



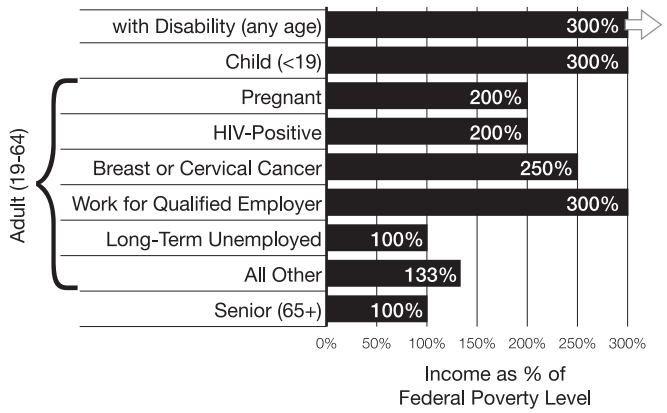

Sources: MassHealth figures are from the Office of Medicaid and are from June of the year, except 1995 which is a monthly average. Uninsured numbers are from the Division of Health Care Finance and Policy, from a survey that year. 1995 uninsured numbers from Blendon et al., "Massachusetts Residents Without Health Insurance, 1995," Harvard School of Public Health.

[1] SCHIP is limited by federal appropriation and is therefore not technically an entitlement, but sufficient federal funds have always eventually been made available to meet states' needs. The extension of this treatment, and of SCHIP in general, has been a hotly debated (and, as of this writing, not finally resolved) topic in the 2007-08 Congressional session.

MassHealth covers more than one out of every six residents of Massachusetts. It provides health care coverage to low-income children and families, pregnant women, women with breast or cervical cancer, people with HIV-AIDS, long-term unemployed adults, seniors and people with disabilities. Eligibility for coverage is different for each of these categories and the rules are complex. Eligibility is determined by a variety of factors, including income relative to the federal poverty level, age and immigrant status, and (for some categories of eligibility) assets.

In general, children in families with income up to three times the federal poverty level (FPL for a family of four in 2008 is $22,200) qualify for some form of coverage. Parents of these children are eligible with incomes up to 133 percent of the FPL. The eligibility limit is 100 percent of FPL for long-term unemployed adults and 200 percent for pregnant women and people with HIV. Women with breast or cervical cancer are eligible up to 250 percent, and employees of certain employers (for whom MassHealth subsidizes premiums for private coverage) up to 300 percent. Higher income children and adults with disabilities may enroll in MassHealth by paying a sliding scale premium based on income. People over age 65 generally must have income at or below the federal poverty level and minimal assets, although they may qualify with higher incomes or assets if they have sufficiently large medical expenses.

**Chart 2. MassHealth Eligibility Standards by Category of Coverage**

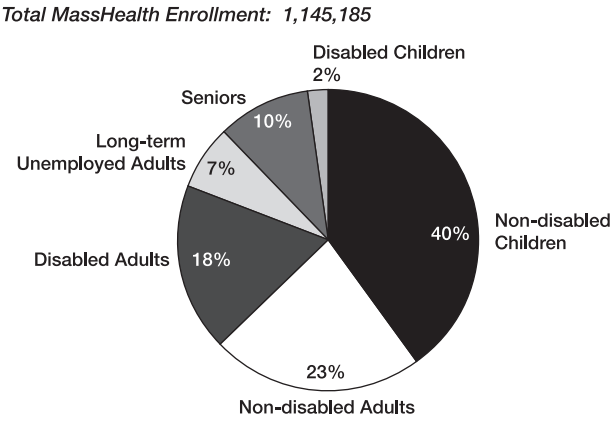



Source: Office of Medicaid.

The 2006 health care reform law introduced Commonwealth Care as a companion program to MassHealth. Most adults up to 300 percent of FPL who do not qualify for MassHealth are eligible for publicly subsidized coverage through Commonwealth Care. Thus, nearly all Massachusetts residents with incomes below three times the poverty level now have access to health insurance programs at a minimal cost.[2]

About one-third of the Commonwealth's children (486,000) are MassHealth members, 25,000 with disabilities. Other population groups also rely on MassHealth to a great degree for their health coverage. MassHealth provides coverage to two-thirds of the Commonwealth's nursing home residents, more than half of those with HIV-AIDS, and a quarter of non-elderly adults with disabilities.

**Chart 3. Distribution of MassHealth Enrollment, March 2008**




Source: Office of Medicaid, March 2008 Snapshot Report.

### Who is *not* covered?

Though Medicaid is popularly thought of as "health insurance for the poor," it has not historically covered that population comprehensively. In particular, low-income, non-disabled adults with no children have had limited access to MassHealth. That is still true today, though in Massachusetts most people with limited incomes who do not qualify for MassHealth will be eligible for its companion program, Commonwealth Care. As a result, most children in families with income below two times the FPL, and most adults with income below one-and-a-half times the FPL, are eligible for some coverage that requires no premiums and nominal copayments.

Two groups still do not qualify for either MassHealth or Commonwealth Care, even with incomes below 150 percent of FPL: undocumented immigrants and certain other non-citizens; and people who are ineligible for MassHealth and have access to employer-sponsored coverage (which disqualifies them for Commonwealth Care), even if they do not accept it.

### What services are covered?

The federal government mandates a set of services that all state Medicaid programs must cover with no more than minimal cost sharing (such as copayments) required of beneficiaries. These services include hospital care (including for mental health treatment), physicians, community health centers, pediatric screening and treatment, and family planning, pregnancy and post-partum services, among others. Also included are services that are not typically covered in private health insurance plans, such as skilled nursing facilities and home health services.

MassHealth also covers most of the services that the federal government agrees to participate in financing but deems optional, including prescription drugs,[3] intermediate care facilities for individuals with mental retardation (ICF/MR), personal care, targeted case management, and others.[4] Certain groups that are eligible for MassHealth by virtue of the waiver's eligibility expansions have a slightly narrower benefit package; benefits for these groups exclude nursing facilities and other types of community-based care. In general, though, the coverage that MassHealth offers is comprehensive.

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[2] Commonwealth Care excludes undocumented immigrants and certain other non-citizens, as well as people who have access to affordable employer-sponsored insurance.

[3] As of 2006, about 200,000 elderly and disabled MassHealth members who are also enrolled in Medicare receive their prescription drugs through Medicare.

[4] MassHealth covers all optional benefits for at least some of its members *except* nurse anesthetist services and religious non-medical health care. (Kaiser Commission on Medicaid and the Uninsured, Medicaid Benefits Database, www.kff.org/medicaid/benefits, accessed May 9, 2008.)

**What does it cost; how is it funded?**

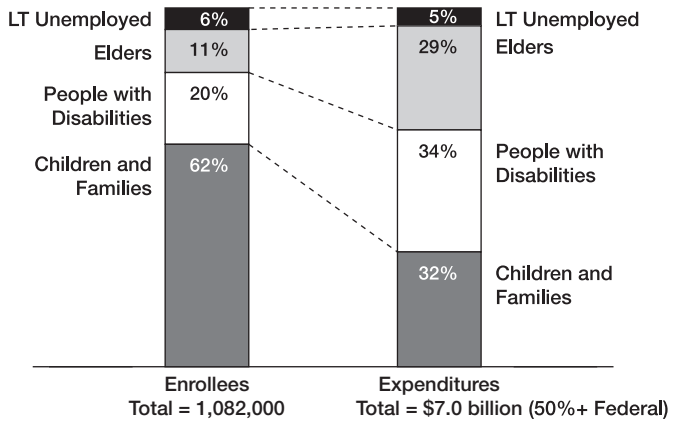
Massachusetts paid $7.0 billion in claims and capitation fees to MassHealth providers and managed care organizations for services delivered in fiscal year 2007. (Slightly more than half of this amount was reimbursed by the federal government.) This was more than double the spending on MassHealth 10 years earlier, and represented about 25 percent of total state government spending in FY 2007.[5] Still, while MassHealth spending has grown considerably and consumes a larger share of the state budget, it imposes no larger burden on the state's overall economy than it did in 1994. MassHealth spending accounted for 2 percent of total personal income (a common measure of overall economic activity) in 1994, and 2.02 percent in 2007. In short, the state's economic capacity to support MassHealth remains stable.[6]

In some sense, the spending increase is not surprising, since enrollment in the program increased significantly from 1997 to 2007, and health care inflation, which affects all health care payers, public and private, outpaced general inflation by a wide margin.[7] In addition, MassHealth covers costly services, mainly institutional and community-based long-term care, that neither private insurance nor Medicare cover, for a population with very high medical needs — low-income seniors and people with disabilities.

This spending trend is tempered by the fact that the federal government plays a large role in financing Medicaid, in Massachusetts and in all states. Massachusetts receives 50 cents for every dollar it spends on the Medicaid portion of MassHealth (by far the largest piece) and 65 cents on the dollar for the SCHIP portion.[8] The state also receives federal financial participation for a number of programs, administered for example by the Departments of Mental Health and Mental Retardation, which serve Medicaid-eligible individuals. The state's ability to access federal funds for MassHealth and these other Medicaid-related expenditures helps to make Medicaid one of the most important sources of revenue in the state budget, bringing several billion dollars per year to the General Fund.

MassHealth spending is not spread evenly across the various categories of beneficiaries. Nearly two-thirds (63%) of benefit spending in FY 2007 was for services to seniors (29%) and non-elderly people with disabilities (34%), though these groups comprised less than a third of MassHealth members at the end of the fiscal year. Average spending per elderly MassHealth member was about $16,800, and for members with disabilities about $11,000, compared with about $6,500 for all members.

**Chart 4. MassHealth Enrollment and Spending, FY2007**




Source: Office of Medicaid.

From the perspective of providers, the role of Medicaid in financing health care varies in importance. MassHealth payments account for over half (56%) of nursing homes' revenues, just over a quarter (28%) of community health centers' revenues, and about 12 percent of hospitals' revenues. Of course, the dominance of Medicaid as a payer also varies significantly around these averages within provider groups.[9]

**Some of the challenges ahead**

MassHealth is a critical program to a significant portion of the state's residents and health care providers, a linchpin of health care reform, and a major concern to public policy officials. Policy makers, budget officers and program administrators confront ongoing challenges to continue fulfilling MassHealth's mission. These are some of the more important challenges:

***Containing Costs***

Overall medical costs will continue to rise at rates that exceed general inflation. The Centers for Medicare and Medicaid Services (CMS), the federal Medicaid oversight agency, projects that health care spending will grow by nearly seven percent per year over the next decade, and Medicaid spending nationally will grow one to two percentage points per year faster.[10]

MassHealth has been working to develop strategies that contain costs without limiting the availability of the program or sacrificing quality. This will be an important part of MassHealth's policy agenda for the foreseeable future. A notable success in recent years is the utilization review and prior authorization protocol of the MassHealth pharmacy program, which began in 2002 and has succeeded in flattening a steep upward trend in pharmaceutical spending through a Preferred Drug List that emphasizes cost effectiveness and the use of generics.

MassHealth will have the opportunity to further address the cost containment challenge this year as part of two major policy updates: renewal of the federal research and demonstration waiver, the initial proposal for which includes numerous cost containment initiatives; and updating the contracts with the managed care organizations that serve MassHealth members, which will emphasize

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[5] MassHealth figure is from EOHHS, Office of Medicaid; total state expenditures from Massachusetts Office of the Comptroller, Statutory Basis Financial Reports.

[6] For the complete analysis, see the MMPI issue brief *Massachusetts Medicaid in Perspective: An Analysis of Spending Growth and Economic Growth, 1996-2007* (forthcoming).

[7] The general consumer price index (CPI) increased by about 29 percent over this period; the medical care CPI increased by 51 percent. U.S. Department of Labor, Bureau of Labor Statistics, Consumer Prices Indexes, http://www.bls.gov/cpi/home.htm. Accessed June 13, 2008.

[8] These federal funds are not unlimited: Medicaid funds are restricted by a federal "budget neutrality" requirement in the research and demonstration waiver (see *Continuing MassHealth's role in health care reform*, below) and SCHIP funds are limited by federal appropriation (see footnote 1).

[9] Massachusetts Division of Health Care Finance and Policy, *Massachusetts Health Care Trends: 1990-2005*.

[10] Centers for Medicare and Medicaid Services, Office of the Actuary, "National Health Expenditure Projections 2007-2017." http://www.cms.hhs.gov/NationalHealthExpendData/Downloads/proj2007.pdf, accessed May 21, 2008.

coordinated care for people with chronic illnesses.[11] MassHealth officials also lead work that is part of the HealthyMass Compact, a Patrick Administration initiative to coordinate efforts across executive branch agencies. In addition to containing health care costs, HealthyMass seeks to advance the goals of improving access to care, health care quality, individual wellness and healthy communities.

***Managing the federal relationship***

Actions of the federal government arguably have more importance to the MassHealth program today than they did 10 years ago. This is because of the need for approval of the waiver (see below), but also because of the recent posture of federal officials who see robust Medicaid and SCHIP programs as drains on the federal budget and, thus, as sources of savings. A number of Medicaid regulations have been proposed that would restrict services and reduce federal spending, at the expense of states.[12] In addition to regulation, CMS has advanced its policy goals vis-à-vis states by extracting agreements in the course of waiver negotiations and by issuing extra-regulatory administrative directives. These developments challenge all states' Medicaid programs, and Massachusetts can make common cause with other states in arguing for continuation of the traditional federal-state partnership that has supported Medicaid for over 40 years.

***Continuing MassHealth's role in health care reform***

MassHealth has key programmatic and financial roles in the continuing evolution of the Commonwealth's health reform effort. As a program, it acts as "insurer of last resort" for a large and growing group of Massachusetts residents, among them some of those most in need of health care. As a financial engine, the MassHealth research and demonstration waiver makes available hundreds of millions of federal dollars per year that are essential to the MassHealth eligibility expansions and the Commonwealth Care premium subsidies that have put the goal of near-universal coverage within reach.

Massachusetts and the federal government are negotiating terms for extending authorization of the waiver for another three years (it has been in place for 11). An issue in the negotiation is whether federal funds would continue to flow at the level that currently supports the public coverage expansions. The state must keep its federal partner's financial commitment "budget neutral," spending no more federal dollars than it would have in a traditional, non-waiver Medicaid program. This challenge is daunting, and is closely and regularly monitored. The state has moved very close to its budget neutrality ceiling in the last few years, and it must stay within its means in order to keep the expansive public sector components of health care reform intact.[13]

***Rebalancing long-term care***

Medicaid is the predominant source of third-party payment for long-term care, and long-term care services are a sizeable portion of the Medicaid budget — $2.4 billion in FY 2007. In recent years, MassHealth has pursued a policy of "Community First" to shift the delivery of care from institutions such as nursing homes to home and community-based settings, when appropriate. This is in keeping with the preferences of many seniors and people with disabilities, with recent state and federal laws, and with a number of settlements resulting from class-action litigation in the state. Expanded access to community-based services is both desirable from a quality of care standpoint and, in many cases, more cost effective than institutional care.

There are a number of challenges to realizing the benefits of long-term care rebalancing, the most important being matching resources in the community to needs. "Resources" in this case refers to the range of services that must be made available, qualified providers to deliver services in a medically and culturally appropriate way, and housing to accommodate residents with various disabilities. Nursing homes also have an important role to play, and many have already begun to adapt by moving toward shorter term services such as rehabilitation, assisted living, adult day health and hospice.

**Conclusion**

MassHealth is an essential gateway to health care for a large portion of the Massachusetts population, an important source of revenue for health care providers who serve low income, medically needy groups, and an integral part of the Commonwealth's health care reform strategy. For these reasons, it expends a lot of the state's dollars and draws a lot of attention in policy discussions. The most productive of those discussions will continue to focus on how best to improve the program and strengthen its function as the foundation of health care access in the Commonwealth.

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[11] Commonwealth of Massachusetts, "Section 1115 Demonstration Project Extension Request." http://www.mass.gov/Eeohhs2/docs/eohhs/cms_waiver_2007/cms_waiver_2007.1/ma_1115_demonstration_extension-proposal.pdf, accessed May 27, 2008.

[12] "Medicaid: Overview and Impact of New Regulations." Kaiser Commission on Medicaid and the Uninsured, Issue Paper #7739, January 2008.

[13] For further discussion, see MMPI's *The Outlook for Medicaid in Massachusetts*, March 2007.

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