

Budget Brief

April 2011

Fiscal Year 2012: The House Ways and Means Budget Proposal

On April 13, 2011, the House Committee on Ways and Means (HWM) released its Fiscal Year 2012 (FY 2012) budget proposal. It will go to the House floor the week of April 25 where it may be amended. The Senate will take up the FY 2012 budget and release their own blueprint in May. The HWM bill includes a total of \$11.758 billion for MassHealth and other government programs that support health care for nearly 1.5 million of the state's low- and moderate-income residents. The HWM budget includes \$10.474 billion for MassHealth with an increase of just \$63.1 million over current FY 2011 projected spending.

Although HWM largely follows the Governor's savings proposals, HWM constrains MassHealth funding more than the Governor did, and discontinues funding for the Commonwealth Care Bridge program. Without intervention, growth in MassHealth member enrollment and utilization of services are projected to increase MassHealth spending by as much as \$800 million in FY 2012. HWM intends to address this increase with the same array of rate cuts for providers and managed care plans and other savings initiatives that were proposed by the Governor, and goes further by recommending \$32.4 million less for total MassHealth funding compared to the Governor. In addition, the HWM budget proposes more than \$4 million in cuts to administration of the MassHealth program compared to FY 2011 spending levels, a greater cut to administrative funding than that proposed by the Governor.

The HWM budget, like the Governor's budget proposal, includes \$822 million in funding for the Commonwealth Care program. However, whereas the Governor proposed \$50 million to maintain Commonwealth Care Bridge, a program now providing coverage for 20,000 legal immigrants, HWM instead proposes to transfer \$20 million more into the Health Safety Net to finance anticipated increased need for care provided to this population in hospitals and community health centers.

MassHealth and Health Reform (Millions of Dollars)

| | | FY 2011 Current Appropriation* | FY 2012 Governor | FY 2012 House W&M |
|--|--|-----------------------------------|---------------------|----------------------|
| MassHealth (Medicaid) | MassHealth | 10,269.0 | 10,340.0 | 10,307.6 |
| | MassHealth Administration | 170.1 | 167.2 | 166.1 |
| | Sub-Total | 10,439.1 | 10,507.2 | 10,473.7 |
| Health Reform and Health Safety Net | Prescription Advantage | 31.5 | 21.7 | 21.6 |
| | Div. of Health Care Finance & Other Initiatives | 24.1 | 22.4 | 26.4 |
| | Commonwealth Care Trust | 842.0 | 879.5 | 842.0 |
| | Health Insurance Technology Trust | 0.0 | 0.5 | 0.5 |
| | Medical Assistance Trust** | 886.1 | 394.0 | 394.0 |
| | Sub-Total | 1,783.7 | 1,318.1 | 1,284.5 |
| Total | | 12,222.8 | 11,825.3 | 11,758.2 |
| State Budget Total*** | | 33,997.6 | 33,342.8 | 33,228.7 |

*Including all enacted supplemental budget requests as of April 13, 2011, including Chapter 9 of the Acts of 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 FY 2012 proposals are based.

** These funds are predominantly supported by federal Medicaid matching funds. Transfers are contingent on federal approval and availability of state funds. It is an important source of additional funding for providers that care for low-income residents. The FY 2012 Governor and HWM budget proposals reflect proposed transfers in FY10 GAA and FY11 GAA budgets. With federal approval, additional funds may be transferred in FY 2012.

***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.

Typically the federal government reimburses Massachusetts for approximately half of its MassHealth spending. Cuts in MassHealth spending therefore result in reductions in federal revenues to the state. In recent years, the federal government provided substantial additional revenue as part of federal stimulus funding. These federal stimulus dollars will no longer be available starting in FY 2012, straining the FY 2012 budget and contributing significantly to the budget gap the proposals must fill.

Caseload and Eligibility

- The HWM and Governor's budgets both assume **MassHealth** caseload will grow by approximately 4.6% 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 and that the **Commonwealth Care** caseload will grow by roughly 13,000 members to an estimated 174,000 by the end of FY 2012. Commonwealth Care growth is expected due to unemployed workers' extended federal unemployment benefits (and therefore also Medical Security Plan coverage) expiring. Unlike the Governor's proposal, HWM ends **Commonwealth Care Bridge**, eliminating health insurance coverage for approximately 20,000 legal immigrants¹.

Benefits

- The HWM and Governor's budget both include significant cuts to the **MassHealth 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. Both propose the cut for roughly 80% of the 7,000 individuals who receive these supports, saving approximately \$55 million in total spending (\$27 million in net state savings). MassHealth would continue to cover these services for the remaining 20% who have the most complex medical needs.
- **Adult dental benefits** for MassHealth and Commonwealth Care members continue to be limited under both the HWM and the Governor's proposals. In July 2010, restorative dental services (such as fillings) were eliminated from adult MassHealth coverage (with the exception of clients of the Department of Developmental Services), leaving MassHealth members with acute dental needs to access care in settings that can bill the Health Safety Net for such services.

Cost Sharing for Members

- Both the Governor's and HWM proposals **increase selected pharmacy co-payments** to as high as \$5 and add a new \$2 co-pay for non-emergency transportation. This increased member cost sharing is estimated to save \$11 million in total (\$5 million in net state savings).

¹ The Bridge program has provided limited health care coverage to immigrants known as "aliens with special status,"—primarily legal immigrants with green cards who have been in the country for fewer than five years—since they were excluded from Commonwealth Care eligibility in August 2009. Bridge has been closed to new members since then, and now approximately 19,000 low-income legal immigrants are receiving care through the Health Safety Net.

Provider and Managed Care Organization Rates

- The Governor's and HWM budget proposals **reduce rates or payments to health care providers** resulting in total savings of \$150 million (net state savings 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 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 hospital care.
- The Governor's and HWM budget proposals **eliminate inflation increases for managed care plans rates** for a projected savings of \$169 million in total (\$84 million in net state savings).

Service Delivery

- Proposes **aggressive contracting of most state-administered health care programs**: MassHealth, Commonwealth Care, the Group Insurance Commission, and the Medical Security Program for the unemployed. HWM and the Governor's budgets estimate total savings of \$351 million to the MassHealth program alone from competitive procurement of services for up to 800,000 of its members. MassHealth will release its request for responses from managed care plans at the end of April 2011 that will reflect a new procurement strategy for FY 2012. The GIC and the Connector have already completed their procurements for FY 2012 and appear to be on target for their projected savings.

Other Programs and Initiatives

- **Prescription Advantage.** Both the Governor's and HWM proposals cut funding by roughly \$9.9 million reflecting the fact that under federal health reform Medicare covers more of the gap in prescription drug coverage—referred to as the "doughnut hole"—which Prescription Advantage previously filled.
- **Electronic Health Records.** Both the Governor's and HWM proposals create the Health Insurance Technology Trust, a fund to allow the state to leverage federal reimbursement for the development of EHR within MassHealth. Using \$500,000 of state "seed" money, Massachusetts could get full (100%) federal reimbursement for the costs of developing such a system, and up to \$50 million for providers to implement EHR systems in FY 2012.
- **All Payer Claims Database.** The HWM budget includes a new line item appropriation of \$4 million for the Division of Health Care Finance and Policy to support creation of an All Payer Claims Database, designed to provide more information about actual health care costs.
- **Outreach.** Previously, MassHealth, the Connector or the Massachusetts Health and Educational Facilities Authority provided \$2.5 to \$3.5 million in funding for grants to community organizations to assist with enrollment and maintaining coverage for persons eligible for publicly subsidized health programs. Neither the HWM nor the Governor's proposals includes outreach grant funding.

Appendix

| Line Item | Name | FY 2011 Current Appropriation* | Estimated FY 2011 Spending** | FY 2012 Governor's House 1 | FY 2012 House Ways and Means | Category*** |
|-----------|---|--------------------------------|------------------------------|----------------------------|------------------------------|-------------|
| 1599-2004 | Health Care Cost Containment Reserve | 1,900,000 | | | | Finance |
| 4000-0300 | Executive Office of Health and Human Services and MassHealth Administration | 86,970,271 | 87,336,613 | 84,000,300 | 83,484,473 | Admin |
| 4000-0301 | MassHealth Auditing and Utilization Reviews | 1,736,425 | 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 | 225,000,000 | MassHealth |
| 4000-0430 | MassHealth CommonHealth Plan | 132,886,183 | 130,439,637 | 130,439,637 | 130,439,637 | MassHealth |
| 4000-0500 | MassHealth Managed Care | 3,772,835,669 | 3,772,835,669 | 3,872,835,669 | 3,872,835,669 | MassHealth |
| 4000-0600 | MassHealth Senior Care | 2,497,390,461 | 2,495,602,264 | 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 | 288,500,000 | MassHealth |
| 4000-0700 | MassHealth Indemnity | 2,011,390,506 | 2,026,206,633 | 2,026,206,633 | 2,026,206,633 | MassHealth |
| 4000-0870 | MassHealth Basic Coverage | 165,351,318 | 157,016,626 | 157,016,626 | 157,016,626 | MassHealth |
| 4000-0875 | MassHealth Breast and Cervical Cancer Treatment | 4,770,999 | 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 | 207,173,987 | MassHealth |
| 4000-0890 | MassHealth Premium Assistance and Insurance Partnership Program | 58,181,956 | 58,181,956 | 58,181,956 | 38,181,956 | MassHealth |
| 4000-0895 | Healthy Start Program | 14,409,312 | 13,800,000 | 13,800,000 | 13,154,576 | MassHealth |
| 4000-0950 | Children's Behavioral Health Initiative | 214,743,708 | 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 | 12,600,000 | MassHealth |
| 4000-1400 | MassHealth HIV Plan | 18,801,714 | 18,541,135 | 18,541,135 | 18,541,135 | MassHealth |
| 4000-1405 | MassHealth Essential | 389,757,408 | 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 | 211,370,985 | MassHealth |
| 4000-1700 | Health and Human Services Information Technology Costs | 83,112,075 | 83,197,047 | 83,197,047 | 82,571,886 | Admin |
| 4100-0060 | Division of Health Care Finance and Policy | 20,957,507 | 20,957,507 | 21,157,507 | 21,157,507 | Finance |
| 4100-0061 | All Payer Claims Database | | | | 4,000,000 | Finance |
| 4100-0360 | Health Care Quality and Cost Council Retained Revenue | 100,000 | 100,000 | 100,000 | 100,000 | Finance |
| 7006-0029 | Health Care Access Bureau Assessment | 1,100,000 | 1,100,000 | 1,100,000 | 1,100,000 | Finance |
| 9110-1455 | Prescription Advantage | 31,542,765 | 31,542,765 | 21,665,608 | 21,602,546 | Pharmacy |
| 1595-1068 | Medical Assistance Trust Fund (operating transfer) | 886,101,088 | 870,601,088 | 394,025,000 | 394,025,000 | Trust |
| 1595-1069 | Health Insurance Technology Trust Fund | | | 500,000 | 500,000 | Trust |
| 1595-5819 | Commonwealth Care Trust Fund (operating transfer) | 722,011,822 | 722,011,822 | 759,511,822 | 361,005,911 | Trust |
| 1595-5820 | Commonwealth Care Trust Fund (operating transfer) | | | | 361,005,911 | Trust |
| | Commonwealth Care Trust Fund (cigarette tax transfer) | 120,000,000 | 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 April 13, 2011.

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

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

The authors would like to thank staff from the Office of Medicaid (Alda Rego and Mohamed Sesay) and the Secretariat for Administration and Finance (Diana Ong and Candace Reddy) for their input towards drafting this document.