



Budget Brief

February 2012

The Governor's House 2 Budget Proposal for FY 2013

On January 25, 2012, the Governor released his Fiscal Year 2013 (FY 2013) budget proposal, which contains a total of \$12.70 billion in funding for MassHealth and other programs that support health care for the state's low- and moderate-income residents. This total represents an increase of 6.9 percent compared to current FY 2012 appropriated funding for these programs. After taking into account additional spending expected to occur in FY 2012, the increase is 4.9 percent. The budget proposal includes new initiatives to promote long-term changes in the health care delivery system, help state health programs implement federal health reform requirements, and improve administrative capacity of the MassHealth program. It also assumes that MassHealth will be able to reduce projected FY 2013 spending for existing programs by \$544.4 million through a variety of savings initiatives and will tap enhanced federal matching funds worth \$45 million in new federal revenues. In addition, the budget proposes to raise new tobacco tax revenue to support the Commonwealth Care program.

MassHealth/Medicaid

MassHealth programs cover more than 1.32 million people, including about 363,000 disabled adults and elderly individuals, and more than 535,000 children. Since the recession began in late 2007 MassHealth enrollment has increased by nearly 200,000. During FY 2013 enrollment is expected to rise slightly, to around 1.36 million. The Governor's budget includes \$10.95 billion for MassHealth programs, an increase of \$553.59 million, or 5.3 percent, over the current FY 2012 appropriation. (Taking into account expected additional spending in FY 2012 as a result of supplemental budget requests pending before the legislature, the increase is \$518.28 million, or 5.0 percent.) In order to achieve the projected rate of growth the administration plans to implement new cost-control strategies, in addition to those launched in FY 2012 (see below for more detail on savings initiatives). The Governor's FY 2013 budget proposal assumes no cuts in eligibility, elimination of covered services, or increased member

MassHealth and Health Reform (Millions of Dollars)

		FY 2012 Current Appropriation*	Est. FY 2012 Spending**	FY 2013 Governor
MassHealth (Medicaid)	MassHealth	10,397.27	10,432.58	10,950.86
	MassHealth Administration	89.22	89.22	89.03
	Sub-Total	10,486.5	10,521.8	11,039.9
Commonwealth Trust Fund	General Fund Transfer***	745.01	745.01	737.12
	Tobacco Tax Transfer	120.00	120.00	192.90
	Sub-Total	865.0	865.0	930.0
Other Health Finance and Safety Net Funding	HHS Information Technology	81.76	81.76	100.30
	Div. of Health Care Finance & Other Initiatives	31.66	37.66	29.09
	Prescription Advantage	21.60	21.60	19.00
	Medical Assistance Trust	394.0	394.0	394.0
	Delivery Service Initiatives Trust	0.0	186.9	186.9
	Health Insurance Technology Trust	0.5	0.5	0.0
	Sub-Total	529.5	722.5	729.3
	Total Spending	11,881.05	12,109.27	12,699.24
State Budget Total****		33,822.98		35,185.29

*FY 2012 Current Appropriations include all enacted supplemental budgets through January, 2012.

**Estimated FY 2012 spending reflects updated estimates for MassHealth programs and pending supplemental budgets (see Appendix for line item detail).

***General Fund Transfer for FY 2012 includes a \$728 million transfer from the General Fund, as well as \$17 million in FY 2011 revenues carried forward for use 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.

cost-sharing in MassHealth programs, although it does include language that would allow the administration to restructure optional MassHealth benefits. In addition, it does not include restoration of adult dental benefits that were eliminated in 2009.

Between the beginning of FY 2009 and the first quarter of FY 2012, MassHealth enrollment increased by 13.4 percent, while the number of full-time equivalent employees at the Executive Office of Health and Human Services and MassHealth declined by 9.5 percent. In recognition of increased demand on the MassHealth program's eligibility and enrollment infrastructure, the budget proposes a new line item (4000-1602) with \$2 million dedicated towards MassHealth Operations. In addition, it creates a new health care system reform line item (4000-1604), with \$3.125 million dedicated to support MassHealth's efforts to implement the Affordable Care Act and to manage new payment methodologies and purchasing approaches in support of delivery system reform and enhanced integration of health care services. A separate account (4000-1700) that funds information technology costs across agencies within the Executive Office of Health and Human Services, including MassHealth, is also increased.

Commonwealth Care

The Commonwealth Care Trust Fund (CCTF) primarily funds health coverage provided through the Commonwealth Care program for low-income people who do not qualify for MassHealth. The Governor's FY 2013 budget assumes \$974 million from the CCTF will be available to fund Commonwealth Care (including \$44 million in Trust balances). The CCTF is funded by an annual transfer from the General Fund, cigarette tax revenue, assessments on employers who do not provide health insurance, and penalties paid by taxpayers who did not buy health insurance deemed to be affordable. (Note: the latter two items are not included in the above table due to their being off-budget assessments rather than dedicated transfers or revenues.) In FY 2013, the cigarette tax revenue is projected to increase by \$72.9 million as a result of a proposed 50 cents increase in the cigarette tax and new application of this increased tax rate to all tobacco products.

There are currently about 160,000 enrollees in the Commonwealth Care program and another 13,400 in Bridge, a program that was created in FY 2009 and provides more limited health coverage to certain legal immigrants (those in the country less than five years) who had been excluded from eligibility for Commonwealth Care. Following a recent state Supreme Judicial Court decision, which found the exclusion unconstitutional, this group will return to Commonwealth Care. In addition, approximately 24,000 immigrants who have not been able to receive coverage because Bridge was closed to new enrollment will be able to enroll in Commonwealth Care. The Connector, which oversees the Commonwealth Care program, has indicated it will begin to reinstate Bridge enrollees

during the current (FY 2012) fiscal year and will use existing funds to do so.

In FY 2013 the state will need to fund the full-year cost of reinstatement of this population (estimated at about \$156 million), along with enrollment growth of roughly 15,000 expected in the rest of the Commonwealth Care program by the end of the fiscal year. The Administration is assuming no new restrictions in eligibility or benefits in the Commonwealth Care program during FY 2013, although it will continue to restrict plan choices to achieve savings; it also plans to designate \$2 million for enhancements to Commonwealth Care smoking cessation benefits, which MassHealth studies suggest will be a cost-effective investment.

Delivery System Investments and Reform Initiatives

The Governor's budget contains a number of new initiatives intended to make the health care delivery system more efficient. Some of these initiatives involve new investments, while others are projected to achieve significant savings.

Investments

- The Governor's budget proposes a \$186.9 million transfer of funds into a new Delivery System Transformation Initiatives (DSTI) Trust Fund that will provide incentive payments to providers for activities that support the development of new payment systems and delivery models, such as better management of chronic conditions, communications systems that support a medical home model, and improved care transitions. Under the 1115 MassHealth demonstration waiver, seven safety net hospitals are eligible for this funding. (A recently filed FY 2012 supplemental budget creates the new trust fund and provides for a transfer of \$186.9 million in funds during the current fiscal year.)
- \$20 million will be distributed to a broader group of non-safety net hospitals for activities similar to those supported by the DSTI Trust Fund (4000-0700).
- \$3 million will be used to support medical home models in community health centers (4000-0700).

Reform Initiatives

- A payment reform pilot, with incentives for MCOs to work with providers to develop "shared savings" payment models, will be implemented through both MassHealth MCO and Commonwealth Care MCO contracts.
- Implementation of a new Primary Care Clinician Plan behavioral health carve-out contract and introduction of value based purchasing with MCOs is expected to achieve \$40 million in savings.
- Two modifications to acute hospital payments aimed at promoting more effective care are projected to achieve \$9.6 million in savings:
 - Additional rate reductions for hospitals with higher than average rates of potentially preventable readmissions (PPRs) and,

- Similar to Medicare, bundling outpatient services received 72 hours before admission into inpatient payment rates.
- Initiatives aimed at strengthening community long-term care services are projected to collectively achieve \$36.8 million in savings:
 - A nursing facility diversion program to help transition members out of nursing facilities,
 - Similar to Medicare, shifting payment for home health care to an episodic rate for members receiving home health for longer than 60 days,
 - Introducing new prior authorization requirements for some community long-term care services, and,
 - Adjusting Senior Care Options (SCO) capitation rates as the case-mix is expected to change with increased enrollment after implementation of legislatively mandated outreach mailings about the option of enrolling in a SCO.

Other Strategies

While the goal of the service delivery investments and reforms described above is to control costs and improve care over the long term, the budget also relies on a variety of cost saving strategies to realize \$457.2 million of the \$544.4 million in savings required for the FY 2013 budget, and identifies \$45 million in additional federal revenue that will generate \$90 million in spending capacity.

Savings

- Adjust in-patient hospital rates, including paying out-of-state hospitals a median Medicaid rate rather than the standard state-specific rate, saving \$30.4 million.
- Discontinue a one-time payment made to long-term care facilities in FY 2012 and eliminate rate increases for special provider contracts, saving \$30.8 million.
- Align certain pharmacy regulations with federal standards, including the adoption of the federal upper payment limit for certain drugs, saving \$18 million.
- Change rates for the McInnis House (a medical respite program for the homeless) from a visit rate to a cost-based day rate, saving \$3 million.
- Use cash management and other payment strategies, saving \$256 million in FY 2013.
- Free up \$75 million that had been budgeted for a pay out of Pay-for-Performance payments to hospitals. Instead P4P payments in the amount of \$55 million are being paid out during FY 2012.
- Continue efforts to promote program integrity, saving \$44 million.

New Federal Revenue

- Higher rate of drug rebates collection for MCO pharmacy expenditures, generating \$20 million in new revenues.
- Implementing a new health home initiative for which MassHealth will be eligible for 90 percent federal matching

funds, generating \$10 million in new revenues.

- Claiming expenditures for the Children’s Medical Security Plan as a child health initiative under the state Children’s Health Insurance Program (CHIP), generating \$10 million in new revenues over two years due to the higher federal match rate available through CHIP.
- Enhanced claiming of administrative expenditures, generating \$5 million in new revenues.

Other Health Financing and Safety Net Issues

- **Community-based Outreach, Enrollment, and Retention Grants.** As in FY 2012, the budget does not include funding for these grants which expired in December 2011.
- **Prescription Advantage** receives funding of \$19 million, a \$2.6 million (12.1 percent) decrease. The decrease is primarily the result of changes to Medicare Part D drug coverage that reduced the size of the “donut-hole” (drug costs that Part D does not cover). Because Medicare will now cover a greater portion of drug costs, the state program will need to cover a smaller share of costs; Prescription Advantage beneficiaries will not experience any change as a result of this funding change.
- **The Health Safety Net (HSN) Program**, which provides health care for uninsured patients, will receive its regular annual transfer of \$30 million from the CCTF; this amount is added to \$320 million in off-budget revenue from assessments paid by hospitals and insurers. Another \$70 million in separate payments made to two hospitals is counted as HSN reimbursement, increasing the total resources available to all hospitals. Budget documents reflect the administration’s concern about stress on this program due to the recent economic crisis and indicate plans to closely monitor demand on the program. It projects a \$134 million shortfall in FY 2013.
- In FY 2013, as in FY 2012, \$1 million of CCTF funds will support a **wellness subsidy** which reduces premiums by 15 percent for small businesses enrolled in Commonwealth Choice plans purchased through the Connector.
- **HIT Trust Fund.** Assumes \$125 million in federal funds will be made available through the HIT Trust to support the implementation of electronic health records and other health technology upgrades. Since all funding will come from federal sources, there is no transfer of state revenue to the HIT Trust in FY 2013.

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Appendix

Line Item	Name	FY 2012 Current Appropriation*	FY 2012 Estimated Spending**	FY 2013 Governor	Cat. ***
1599-2004	Health Care Cost Containment Reserve	1,900,000	1,900,000	—	F
1599-2009	Hale Hospital Reserve	2,400,000	2,400,000	—	F
4000-0265	Primary Care Workforce	1,000,000	1,000,000	—	F
4000-0300	Exec. Office of Health & Human Services & MassHealth Administration	86,484,473	86,484,473	86,291,466	A
4000-0301	MassHealth Auditing and Utilization Reviews	1,736,425	1,736,425	1,739,619	A
4000-0309	MassHealth Field Auditing Taskforce	1,000,000	1,000,000	1,000,000	A
4000-0320	MassHealth Recoveries Retained Revenue	225,000,000	225,000,000	225,000,000	M
4000-0430	MassHealth CommonHealth Plan	130,439,637	76,332,519	73,165,558	M
4000-0500	MassHealth Managed Care	3,879,010,669	3,980,487,347	4,164,475,376	M
4000-0600	MassHealth Senior Care	2,515,602,264	2,566,654,470	2,763,630,662	M
4000-0640	MassHealth Nursing Home Supplemental Rates	318,300,000	318,692,354	288,500,000	M
4000-0700	MassHealth Fee-for-Service	2,029,206,633	1,809,829,381	1,939,680,126	M
4000-0870	MassHealth Basic Coverage	157,016,626	170,608,370	179,909,689	M
4000-0875	MassHealth Breast and Cervical Cancer Treatment	4,770,999	4,734,599	5,248,099	M
4000-0880	MassHealth Family Assistance Plan	218,925,814	209,233,330	213,894,591	M
4000-0890	MassHealth Premium Assistance and Insurance Partnership	58,181,956	30,987,873	30,481,392	M
4000-0895	Healthy Start Program	13,800,000	13,818,028	15,850,244	M
4000-0950	Children's Behavioral Health Initiative	214,743,708	214,743,708	221,705,516	M
4000-0990	Children's Medical Security Plan	12,600,000	14,150,718	13,298,695	M
4000-1400	MassHealth HIV Plan	18,541,135	17,940,665	19,744,723	M
4000-1405	MassHealth Essential	389,757,408	493,458,055	505,998,457	M
4000-1420	Medicare Part D Phased Down Contribution	211,370,985	285,913,498	285,153,027	M
4000-1602	MassHealth Operations (NEW)	—	—	2,000,000	M
4000-1604	Health Care System Reform (NEW)	—	—	3,125,000	M
4000-1700	Health and Human Services Information Technology Costs	81,762,075	81,762,075	100,301,495	IT
4100-0060	Division of Health Care Finance and Policy	21,157,507	21,157,507	21,894,515	F
4100-0061	All Payer Claims Database	4,000,000	4,000,000	4,000,000	F
4100-0360	Health Care Quality and Cost Council Retained Revenue	100,000	100,000	100,000	F
4100-0082	Health Safety Net Claims Migration (NEW)	—	6,000,000	2,000,000	F
7006-0029	Health Care Access Bureau Assessment	1,100,000	1,100,000	1,100,000	F
9110-1455	Prescription Advantage	21,602,546	21,602,546	18,996,516	Ph
1595-1067	Delivery Systems Transformation Initiatives Trust (NEW)	—	186,907,667	186,907,667	T
1595-1068	Medical Assistance Trust Fund (operating transfer)	394,025,000	394,025,000	394,025,000	T
1595-1069	Health Insurance Technology Trust Fund	500,000	500,000	—	T
1595-5819	Commonwealth Care Trust Fund (operating transfer)	745,011,822	745,011,822	737,122,286	T
	Commonwealth Care Trust Fund (cigarette tax transfer)	120,000,000	120,000,000	192,900,000	T

* FY 2012 Current Appropriation reflects funding in the General Appropriation Act, as well as supplemental funding provided during the fiscal year, through January 2012. It also includes FY 2011 revenue made available in FY 2012 for the Commonwealth Care Trust Fund and Nursing Home Supplemental Rates.

** Estimated FY 2012 spending reflects updated spending estimates for MassHealth programs and supplemental spending expected during the year.

*** "Cat." refers to the category in the chart on page 1 of this brief. M= MassHealth; A=Administration; F=Finance; Ph=Prescription Advantage; T=Trust; IT=Information Technology