



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #465

### Medical Assistance Base Reestimate (DHFS -- Medical Assistance)

[LFB 2001-03 Budget Summary: Page 349, #2]

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#### CURRENT LAW

In 2000-01, \$993,762,200 GPR and \$1,860,785,500 FED is budgeted to fund the costs of medical assistance (MA) benefits.

#### GOVERNOR

Increase MA benefits funding by \$244,040,900 (\$79,909,200 GPR and \$164,131,700 FED) in 2001-02 and \$338,154,400 (\$113,639,200 GPR and \$224,515,200 FED) in 2002-03 to reflect estimates of the amount of additional funding that will be required to support MA benefits in the 2001-03 biennium under current law.

#### DISCUSSION POINTS

1. The MA base reestimate projects the cost to continue MA benefits under current eligibility rules, program restrictions and provider rates, except that capitation increases for health maintenance organizations are included in this item. This item would provide funding to support the estimated costs of providing a 3% rate increase for the last six months in calendar year 2001, a 3.7% rate increase in 2002, and a 4.2% rate increase for the first six months of calendar year 2003. In addition, this item includes increases to the rates budgeted in Act 9 for care management organizations that provide services under Family Care.

2. The current estimate incorporates additional data on caseload and utilization trends and new information on future FFP rates that was not available at the time the Governor's budget

was developed. The reestimate is based on a review of actual spending through March, 2001, for each MA service category, as well as caseload data for each MA eligibility group. In addition, historical changes in the average cost of services were reviewed through the second quarter of 2000-01. This information was used to project the average cost of services per eligible in the 2001-03 biennium.

3. The following table identifies current projections for MA caseload and projected changes in the average costs of services per recipient for the 2001-03 biennium.

### MA Caseload Reestimate

Category	Actual 1999-00	Projected			Percent Change From Previous Year		
		2000-01	2001-02	2002-03	2000-01	2001-02	2002-03
Aged	45,309	43,959	42,251	40,793	-3.0%	-3.9%	-3.5%
Disabled	97,815	97,473	97,325	97,306	-0.3	-0.2	-0.0
AFDC	144,024	145,614	148,846	152,280	1.1	2.2	2.3
Other*	117,183	133,562	143,987	154,044	14.0	7.8	7.0
Total	404,331	420,608	432,409	444,423	4.0%	2.8%	2.8%

\*Includes participants in waiver programs and the Healthy Start population.

### Projected Annual Changes in Average Per Recipient Costs

Service	2001-02	2002-03
Dental	12.5%	6.1%
Durable Medical Equipment and Supplies	4.3	3.1
Drugs	15.8	12.5
Transportation -- Emergency	7.3	6.9
Family Planning	-5.0	-1.6
Home Health Services	6.5	4.8
Inpatient Hospital Services	3.3	2.9
Laboratory and X-rays	5.0	5.0
Medicare Crossovers - Part A	3.4	2.5
Medicare Crossovers - Part B	5.2	2.6
Mental Health	20.4	14.7
Transportation -- Nonemergency	-0.7	-3.7
Outpatient Hospital	3.0	4.2
Outpatient Hospital -- Psychiatric	5.8	3.0
Personal Care	6.1	5.8
Physicians	0.1	1.9
Therapies	-1.0	-0.2
Other	9.2	9.4

4. Two important factors affecting MA costs are reflected in these tables. First, the previous trend of a declining caseload, from 488,244 MA eligibles in 1994-95 to 397,534 MA-eligibles in 1998-99, has ended. Total caseload had been increasing during the last 22 months and is projected to continue to increase at a rate of 2.8% per year, primarily due to projected increases in the number of individuals who will meet MA Healthy Start eligibility criteria.

5. The second factor contributing to increasing MA costs is spending for prescription drugs. Gross drug expenditures are projected to total \$362 million in 2000-01. In the two previous fiscal years, the average cost of drugs per elderly and disabled recipient increased at an average annual rate of 23%. As indicated in the table above, the average drug costs per recipient is expected to increase by 15.8% in 2001-02 and 12.5% in 2002-03. This factor alone will increase MA costs by \$57 million in 2001-02 and an additional \$52 million in 2002-03.

6. The federal financial participation (FFP) rate will decrease from 59.1625% in state fiscal 2000-01 to 58.75% in state fiscal year 2001-02 and is expected to decrease to 58.5025% in state fiscal year 2002-03.

7. Based on these caseload and intensity projections and FFP rates, funding in the bill needs to be increased by \$56,893,800 (\$31,701,800 GPR and \$45,082,800 FED) in 2001-02 and \$37,658,600 (\$17,701,200 GPR and \$19,957,400 FED).

The major factor contributing to the increase over the Governor's funding level is that the projected caseload growth is higher than under the Governor's projection, including caseload for the 2000-01 fiscal year. Almost half of the additional funding needed in 2001-02 is needed to support an anticipated deficit in 2000-01. Expenditures related to 2000-01 can be deferred, but additional funding will be needed in 2002-03 to fund these deferred expenditures.

8. The administration has requested a modification to this item in the Governor's bill to reflect the Governor's proposal to establish a segregated medical assistance trust fund. Under the Governor's budget, all additional federal matching funds related to unreimbursed expenditures of county- and municipal-owned nursing homes (IGT revenues) would be deposited in a medical trust account. The MA base reestimate includes of \$91,873,600 FED in 2001-02 and \$102,345,700 FED in 2002-03 of IGT revenue to offset the GPR costs of MA payments to nursing homes. If IGT funds are placed in a MA trust account, the use of these funds should be specified as SEG expenditures, rather than FED. Although the Governor's proposal to establish the segregated trust fund is discussed in LFB Paper #467, the change recommended by the administration has been incorporated into the modification.

## MODIFICATION

Modify funding in the bill by increasing funding by \$31,701,800 GPR and \$91,873,600 SEG and deleting \$82,388,300 FED in 2001-02 and increasing funding by \$17,701,200 GPR and \$102,345,700 SEG and deleting \$46,790,800 FED in 2002-03 to reflect reestimates of the cost to continue the current MA program in the 2001-03 biennium and to reflect the administration's requested revision to this item.

<u>Modification</u>	<u>GPR</u>	<u>FED</u>	<u>SEG</u>	<u>TOTAL</u>
<b>2001-03 FUNDING</b> (Change to Base)	\$242,951,400	\$259,467,800	\$194,219,300	\$696,638,500
<i>[Change to Bill]</i>	<i>\$49,403,000</i>	<i>- \$129,179,100</i>	<i>\$194,219,300</i>	<i>\$114,443,200]</i>

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