



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #361

### **BadgerCare Base Reestimate (DHFS -- MA, BadgerCare and SeniorCare -- Base Reestimates and Funding)**

[LFB 2005-07 Budget Summary: Page 234 #3]

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#### **CURRENT LAW**

BadgerCare funds health care services for certain individuals and families with dependent children who have countable household income at or below 185% of the federal poverty level (FPL). Once enrolled, recipients may remain eligible as long as their household income does not exceed 200% of the FPL. Individuals that are eligible for the state's medical assistance (MA) program are not eligible for BadgerCare. In 2005, 185% of the FPL equals \$29,766 annually for a family of three.

The program is supported with: (a) GPR; (b) federal funds, including federal MA matching funds and funds the state receives under the state children's health insurance program (SCHIP); and (c) program revenue, which is revenue from premiums paid by families with income above 150% of the FPL with members enrolled in the program. Base funding for the program is \$216,559,500 (\$68,336,800 GPR, \$139,268,400 FED and \$8,954,300).

As of the end of March, 2005, there were approximately 91,400 individuals (61,800 adults and 29,600 children) enrolled in BadgerCare.

#### **GOVERNOR**

Reduce funding by \$26,463,300 (-\$6,132,100 GPR, -\$18,387,900 FED, and -\$1,943,300 PR) in 2005-06 and by \$2,278,900 (\$8,351,300 GPR, -\$9,115,400 FED, and -\$1,514,800 PR) to fund projected costs of BadgerCare benefits in the 2005-07 biennium, based on current law.

*Average Cost Assumptions.* The administration estimates that average costs of providing services to children and adults who are not enrolled in health maintenance organizations (HMOs) will increase by 2.5% and 5.2% in 2005-06 and 2006-07, respectively. In addition, this item includes funding to support the administration's projection of annual calendar year increases in

capitation payments to HMOs of 3.4% in calendar year 2006, and an additional 3.4% in calendar year 2007.

*Federal Penalty.* This item includes \$9.3 million GPR in 2006-07 that would enable DHFS to pay a federal penalty because the state violated a requirement that the first BadgerCare five-year waiver be cost neutral.

## **DISCUSSION POINTS**

1. It is currently estimated that the total cost of BadgerCare benefits in the next biennium, based on current law, will be \$190,508,400 (\$62,506,300 GPR \$121,137,500 FED, and \$6,864,600 PR in 2005-06 and \$214,556,000 (\$77,736,400 GPR, \$129,568,700 FED, and \$7,250,900 PR) in 2006-07. The attachment to this paper identifies the current estimates, by year and source, and the difference between this estimate and base funding for the program and the funding provided in the Governor's budget.

2. Compared with the funding provided in the bill for BadgerCare benefits, the current estimate represents an increase of \$412,300 (\$301,600 GPR, \$257,000 FED and -\$146,300 PR) in 2005-06 and \$275,400 (\$1,048,300 GPR, -\$584,300 FED and -\$188,600 PR) in 2006-07.

3. The current estimate is based on caseload information through March, 2005, and reflects a slightly different federal matching rate than the administration assumed in developing its estimate. The Governor's bill assumes no change in the matching rate, whereas this estimate reflects the trend of decreasing federal matching rates during the past several years.

4. Slightly more than half of the biennial GPR increase from the Governor's estimate (\$0.72 million of the \$1.35 million increase) is due to the most recent calculation of the federal penalty that the state is required to pay because the state violated a requirement that the first five-year waiver be cost neutral to the federal government. Before the state implemented the program, the state negotiated with the U.S. Department of Health and Human Services (DHHS) to extend eligibility to adults with income at or below 100% of the FPL with dependent children. The state receives the current MA federal matching rate (approximately 58%) to support services for this group of adults. However, DHHS required that the state meet specific per person per month cost targets.

5. The state was unable to meet the cost per person targets for several reasons. The original cost per person targets were established on a prospective basis, based on the recent changes in health care costs. After these cost targets were established, there was a period of substantial health care cost inflation, and the budget neutrality clause only allowed for a 3.48 % increase in the rate allowed per person. In addition, fewer enrollees were served in managed care than originally projected, thus increasing average costs for this group as a whole.

6. The original cost per person estimate used a combination of managed care and fee-for-service calculations. While the average fee-for-service calculation was based only on adults, the managed care calculation estimate included children, because, at the time, the state's practice was to

pay one rate for all HMO enrollees, regardless of age or gender. The federal Balanced Budget Act of 1997 required states to establish managed care rates based on age and gender and required states to implement this change by 2003. The managed care rate calculation per person for this group of adults rose due to this change because adults typically have higher health care costs than children and children's costs were no longer incorporated into the average cost per person calculation.

DHFS implemented this change to rate calculations in 2002, a year before federal law required states to have separate managed care rates, based on age and gender. DHHS did not penalize the state in 2003 for the managed care per person cost increase that resulted from this policy change, but penalized the state for 2002, as it was not yet a federally mandated change.

All these factors led to the violation of the budget neutrality agreement. The most recent calculation of the penalty is approximately \$10.0 million, which is approximately \$700,000 more than the estimate assumed in the Governor's budget.

7. There has been a significant decrease in BadgerCare enrollment in the past year, which is thought to be the result of a change in the employment and insurance verification process for enrollees. DHFS is completing a study of the factors that have resulted in this enrollment decrease, but has not yet released its report. The current cost estimates for BadgerCare assume that DHFS will maintain its current policies relating to insurance verification. If DHFS makes changes, as a matter of policy, that would reduce or remove potential barriers to enrollment based on the results of the study, program enrollment and costs would likely increase above the current projections. The current caseload estimate assumes that the effect of the change in the employment verification policy that DHFS implemented one year ago will no longer result in enrollment decreases, beginning in 2005-06, and that enrollment will begin to increase at a rate that was similar to the caseload growth that occurred during the months before the change in the employment verification policy. The following table identifies actual and projected BadgerCare enrollment, based on the current estimates.

**Actual and Projected Average Monthly Enrollment by Eligibility Group  
Fiscal Years 2003-04 through 2006-07**

	2003-04	2004-05	2005-06	2006-07	<u>% Change from Previous Year</u>		
	<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Adults	76,100	63,700	62,500	64,700	-16.3%	-1.9%	3.5%
Children	<u>36,900</u>	<u>31,000</u>	<u>29,900</u>	<u>31,000</u>	-16.0	-3.5	3.7
Total	113,000	94,700	92,400	95,700	-16.2%	-2.4%	3.6%

8. The Governor's proposed rate increase for HMOs reflects the administration's estimates of the annual rate increase that would be necessary for the state to comply with the federal requirement that capitation rates be actuarially sound and appropriate for the populations covered

and the services furnished. The 3.4% annual rate increase is equal to an aggregate rate increase that Milliman Consultants and Actuaries determined was actuarially sound for the MA/BadgerCare HMO rate increases the state provided to HMOs, effective February, 2005, for the 11-month period from February through December, 2005. It is not known what rate increases will be needed to provide actuarially sound rates to HMOs in the future.

**MODIFICATION**

Increase funding in the bill by \$412,300 (\$301,600 GPR, \$257,000 FED and -\$146,300 PR) in 2005-06 and \$275,400 (\$1,048,300 GPR, -\$584,300 FED and -\$188,600 PR) in 2006-07 to fully fund BadgerCare benefits in the next biennium based on current law. This estimate includes \$10 million that would be budgeted to fund an estimated penalty the state will be required to pay in 2006-07.

<u>Modification</u>	<u>GPR</u>	<u>FED</u>	<u>PR</u>	<u>TOTAL</u>
<b>2003-05 FUNDING</b> (Change to Bill)	\$1,349,900	- \$327,300	- \$334,000	\$687,700

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Attachment

**ATTACHMENT**

**BadgerCare Base and Cost-to-Continue Funding, 2005-07 Biennium**

<u>Fund Source</u>	<u>Base</u>	<u>Current Estimate</u>		<u>Change to Base</u>		<u>Change to AB 100</u>	
		<u>2005-06</u>	<u>2006-07</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2005-06</u>	<u>2006-07</u>
GPR	\$68,336,800	\$62,506,300	\$77,736,400	-\$5,830,500	\$9,399,600	\$301,600	\$1,048,300
FED	139,268,400	121,137,500	129,568,700	-18,130,900	-9,699,700	257,000	-584,300
PR	<u>8,954,300</u>	<u>6,864,600</u>	<u>7,250,900</u>	<u>-2,089,700</u>	<u>-1,703,400</u>	<u>-146,300</u>	<u>-188,600</u>
Total	\$216,559,500	\$190,508,400	\$214,556,000	-\$26,051,100	-\$2,003,500	\$412,300	\$275,400