



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #417

Unspecified Reductions for MA and MA-Related Programs (DHS -- Medical Assistance -- Overview and Base Funding Adjustments)

[LFB 2009-11 Budget Summary: Page 351, #6]

CURRENT LAW

The medical assistance (MA) program pays certified health care providers for a wide range of primary, acute, preventive, and long-term care services for individuals who meet financial and non-financial eligibility criteria. The program is authorized under Chapter 49 of the statutes, and is administered by the Division of Health Care Access and Accountability (DHCAA) in the Department of Health Services (DHS). DHCAA administers the program in conformance with state and federal law, the state's MA plan, and waivers of federal law negotiated between DHS and the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS).

GOVERNOR

Reduce funding for MA and MA-related programs by \$34,117,000 GPR in 2009-10 and by \$66,617,000 in 2010-11 to reflect saving the administration expects DHS will achieve in the 2009-11 biennium.

This item includes: (a) reduced funding for MA benefits (-\$28,550,000 GPR in 2009-10 and -\$62,050,000 GPR in 2010-11; (b) reduced funding for contracted administrative services (-\$2,667,000 in 2009-10 and -\$1,667,000 GPR in 2010-11; and (c) reduced funding for SeniorCare benefits (-\$2,900,000 GPR annually).

There are no statutory changes in the bill relating to this item.

DISCUSSION POINTS

1. Assembly Bill 75 includes several funding reductions to MA and MA-related programs without specifying how DHS would realize program savings. These reductions

include this item, and across-the-board reductions that affected both the GPR- and SEG- funded MA benefits appropriations and SeniorCare benefits appropriation.

2. The bill would not reduce estimates of federal matching funds that correspond to the state funding reductions. However, the availability of federal matching funds to support program benefits results in a greater impact on the program, especially payments to MA providers, than the GPR funding reduction alone.

3. The attachment to this paper lists the unspecified funding reductions to state funded MA benefits in AB 75, and shows the estimated effect of these funding reductions on estimated federal matching funds. The attachment shows that, in total, the Governor's recommended state (GPR and SEG) funding reductions would result in an estimated loss of approximately \$119.3 million FED in 2009-10 and \$167.9 million FED in 2010-11. The effect of these reductions on federal matching funds is greater in the 2009-11 biennium than it otherwise would be due to the enhanced federal medical assistance percentage that the state will receive for the period beginning October 1, 2008, through December, 2010, under the federal American Recovery and Reinvestment Act of 2009.

As the attachment indicates, the total (all funds) reductions in payments to health care providers, including health maintenance organizations and other managed care entities, for health services they provide to MA, BadgerCare Plus, and SeniorCare enrollees, is estimated to be approximately \$428.4 million in the 2009-11 biennium.

4. Without statutory changes, DHS would be required to make program changes that do not conflict with current statutory program requirements. For example, the statutes identify groups of individuals who are eligible for MA and BadgerCare Plus, and list the types of services to which enrollees are entitled. With respect to SeniorCare, the statutes identify financial eligibility standards that determine enrollee cost-sharing requirements. The statutory cost-sharing requirements include deductibles for each group of enrollees, as well as copayments for prescription and generic drugs.

However, DHS can make some program changes to reduce program costs as a matter of policy. In particular, DHS could realize program savings by reducing provider payment rates, which are not specified in statute, or rule, reducing the scope of some of the services offered under the program, or limiting the amount of services enrollees may receive.

5. DHS is soliciting suggestions from health care providers to determine how MA payment rates could be revised to generate program savings. The administration's intent is to conduct a comprehensive examination of how the MA program purchases specific health care services, with the goal of encouraging more integrated and cost-effective care. The Governor's priorities in this effort are to maintain current eligibility and benefits for recipients. In developing proposals, DHS is seeking ways to pay providers for "value," rather than based on volume. For example, DHS may explore options to pay providers based on an entire episode of care, rather than for each billable procedure a provider performs, increase payments for successful outcomes, and reduce payments in cases where outcomes were poor, or resulted in errors or unnecessary complications.

6. Providers have begun to submit ideas to DHS for staff to investigate and review. Some of the ideas are specific to certain services and procedures, such as no longer reimbursing personal care services for travel time. Other suggestions would represent more significant changes to the program, such as discontinuing managed care for MA recipients in Milwaukee County.

7. DHS staff expects to submit final recommendations to generate savings to the DHS Secretary in June. Consequently, it is unlikely that any of these recommendations will be available by the time the Committee considers this item as part of its 2009-11 biennial budget deliberations.

8. This proposal represents a significant delegation of program policy authority to DHS. It can be argued that DHS as the administering agency, and health care providers who serve MA recipients, are best able to determine where there are opportunities for cost savings in the program. The statutes currently require DHS to exercise responsibilities relating to fiscal matters, the eligibility for benefits under standards set forth in statute, and the general supervision of the program.

Most importantly, while the program entitles eligible individuals to certain services, it is not funded from a "sum sufficient" appropriation. DHS may only expend amounts authorized for the program through legislation. Consequently, the agency is responsible for administering the program within the funding amounts provided by the Legislature. DHS has the statutory responsibility to periodically report to the Joint Committee on Finance concerning projected expenditures and alternative reimbursement and cost control policies in the MA program.

9. Prior to the enactment of 2009 Wisconsin Act 2, DHS was required to notify the Governor, the Joint Committee on Legislative Organization, the Joint Committee on Finance and the appropriate standing committees of the Legislature if DHS determines that state appropriations for the program are insufficient to support program costs. Act 2 repealed this requirement. In light of the potential shortfall that would result if DHS is unable to realize the savings the Governor assumed would be realized through modifications to provider reimbursement rates, the Committee may wish to restore this provision (Alternative 3).

10. Others would argue that a provision that requires DHS to realize savings of this magnitude (approximately \$428 million (all funds) in the biennium) but does not specify how these savings would be realized, delegates too much authority to DHS, and therefore reduces legislative oversight of the program. For example, the issue of modifying provider reimbursement rates has historically been considered in the context of the biennial budget, since these decisions affect estimates of the amount of funding that is needed to support program costs.

11. If the Committee wished to provide DHS with maximum flexibility in determining how to realize savings in the MA program in the 2009-11 biennium, it could adopt the Governor's recommendations. However, federal MA and SeniorCare benefits funding should be reduced to reflect anticipated reductions in federal matching funds that would result by reducing state funding for MA and SeniorCare benefits (Alternative 1).

12. If the Committee wished to maintain some oversight with respect to the implementation of the proposed funding reductions, it could require DHS to submit its plan to

realize these savings to the Committee under a 14-day passive review process. Under this option, DHS would be required to submit a plan to the Committee by August 1, 2009, that would describe each component of the plan, together with the administration's estimate of the state and federal cost savings that would result from the proposal, by state fiscal year. If the Committee wishes to meet on the plan, it would be required to meet and approve an alternative plan by September 1, 2009, otherwise the original plan submitted by DHS would be deemed approved (Alternative 2).

ALTERNATIVES

1. Modify the Governor's recommendations by reducing funding for MA and SeniorCare benefits by \$119,332,100 FED in 2009-10 and by \$167,868,100 FED in 2010-11 to reflect the estimated effect of the Governor's proposed GPR- and SEG-funded reductions to MA and SeniorCare benefits on federal matching funds.

ALT 1	Change to Bill Funding
FED	- \$287,200,200

2. Modify the Governor's recommendations by reducing funding for MA and SeniorCare benefits by \$119,332,100 FED in 2009-10 and by \$167,868,100 FED in 2010-11 to reflect the estimated effect of the Governor's proposed GPR- and SEG-funded reductions to MA and SeniorCare benefits on federal matching funds. In addition authorize the Committee to review and approve the Department's plan to realize the savings assumed in the bill under a 14-day passive review process, as described in Discussion Point 12.

ALT 2	Change to Bill Funding
FED	- \$287,200,200

3. Modify the Governor's recommendations by reducing funding for MA and SeniorCare benefits by \$119,332,100 FED in 2009-10 and by \$167,868,100 FED in 2010-11 to reflect the estimated effect of the Governor's proposed GPR- and SEG-funded reductions to MA and SeniorCare benefits on federal matching funds. In addition: (a) authorize the Committee to review and approve the Department's plan to realize the savings assumed in the bill under a 14-day passive review process, as described in Discussion Point 12; and (b) restore the provision that was repealed in Act 2 that required DHS to notify the Governor, the Joint Committee on Legislative Organization, the Joint Committee on Finance and the appropriate standing committees of the Legislature if DHS determines that state appropriations for the program are insufficient to support program costs.

ALT 3	Change to Bill Funding
FED	- \$287,200,200

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Attachment

