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SeniorCare Cost-to-Continue (Health Services -- Medicaid Services)

[LFB 2017-19 Budget Summary: Page 206, #3]

CURRENT LAW

Wisconsin's SeniorCare program provides assistance to help eligible seniors purchase prescription medication. State residents who are age 65 or older, who are not eligible for full Medicaid benefits, and who meet income requirements are eligible for benefits under the program. SeniorCare participants must pay a $30 annual enrollment fee, which supports costs the Department of Health Services (DHS) incurs to administer the program. Once an individual is enrolled, his or her receipt of benefits depends upon meeting deductible and copayment requirements. The deductible, if any, is based on the annual income level of the enrollee, as follows: (a) no deductible for persons with an annual income below 160% of the federal poverty level (FPL); $500 deductible for persons with an annual income between 160% of the FPL and 200% of the FPL; and (c) $850 deductible for persons with an annual income between 200% of the FPL and 240% of the FPL.

Persons with incomes above 240% of the FPL may enroll in the program, but will not be eligible for benefits unless the program's spend down rules are met. "Spend down" means that the person incurs expenses for prescription drugs within a year that equals the difference between his or her annual income and 240% of the FPL. Upon meeting that threshold, persons in the spend-down category must then meet an $850 deductible. After satisfying the applicable deductible, all enrollees make copayments of $5 for generic medications and $15 for brand name medications, while the program pays all other medication costs.

SeniorCare benefits are funded with a combination of state general purpose revenue (GPR), federal Medicaid matching funds (FED) and program revenue (PR) from rebates received from drug manufacturers that participate in the program. Base funding for program benefit expenditures is $110,946,000 ($22,051,500 GPR, $21,535,600 FED, and $67,358,900 PR).

GOVERNOR

Provide $17,626,900 ($752,900 GPR, $634,500 FED, and $16,239,500 PR) in 2017-18 and $36,666,200 ($3,425,500 GPR, $3,179,900 FED, and $30,060,800 PR) in 2018-19 to fund projected increases in the cost of benefits under the SeniorCare program.

DISCUSSION POINTS

1. The following table summarizes SeniorCare funding under the bill, and includes actual and expenditures for 2015-16 and the administration's projected expenditures for 2016-17.

	GPR	FED	PR	Total
2015-16 Actual Expenditures	$18,241,800	$17,180,800	$63,290,600	$98,713,200
2016-17 Projected Expenditures	$18,587,400	$17,952,100	$72,082,200	$108,621,700
2016-17 Appropriation Base	22,051,500	21,535,600	67,358,900	110,946,000
2017-18 Total Funding	22,804,400	22,170,100	83,598,400	128,572,900
2017-18 Increase to Base	$752,900	$634,500	$16,239,500	$17,626,900
2018-19 Total Funding	25,477,000	24,715,500	97,419,700	147,612,200
2018-19 Increase to Base	$3,425,500	$3,179,900	$30,060,800	$36,666,200

2. As shown in the previous table, the administration projects that GPR (as well as FED) expenditures will be below the appropriation base in 2016-17, resulting in an estimated GPR surplus of $3.5 million. Relative to the estimates used for the 2015-17 biennial budget (Act 55), the costs of SeniorCare benefits on a per-beneficiary basis have been slightly lower than expected, particularly for the lowest income tier. In addition, although overall enrollment is now expected to be the same as or slightly higher than Act 55 estimates for the top three income categories, enrollment in the lowest tier, which has the highest average costs, is now projected to be lower. Finally, drug manufacturer rebates are expected to exceed Act 55 estimates, which has the effect of reducing GPR expenditures.

3. The administration's cost-to-continue estimates are based on the projections for the following parameters: (a) the state's federal medical assistance percentage (FMAP) during the biennium; (b) the number of program enrollees, along with the distribution of enrollees in the program's different income-based enrollment categories; (c) the cost of program benefits per participant, by enrollment category; and (d) the percentage of program benefit costs that can be paid with drug rebate revenue, by enrollment category. The following points discuss each of these factors.

Federal Matching Percentage

4. The federal medical assistance matching percentage is based on the relationship between the state's per capita income and the national average per capita income. Under the formula, a state with a per capita income equal to the national average has an FMAP of 55%, while

states with a per capita income lower or higher than the average will have an FMAP that is higher or lower than 55%, respectively.

5. The administration's SeniorCare estimates, which were developed in September of 2016, were based on projections of the state's FMAP for the 2017-19 biennium available at that time. The estimate assumed a federal fiscal year 2017-18 FMAP of 58.58% and a federal fiscal year 2018-19 FMAP of 58.72%. Since the time of these estimates, the actual federal fiscal year 2017-18 FMAP and an updated projection of the 2018-19 FMAP have become available. For both years, the FMAP is slightly higher than the projections used for the bill's cost-to-continue estimate. For federal fiscal year 2017-18, the actual FMAP is 58.77%, and for federal fiscal year 2018-19, the projected FMAP is 59.02%. These changes have the effect of slightly reducing the GPR costs of program benefits and increasing FED costs.

Number and Distribution of SeniorCare Participants

6. The administration assumes that program enrollment will grow by 2% annually for the lower two income-based enrollment categories, by 4% for the third enrollment category, and by 10% annually for the spend-down category. Since the administration developed the estimates in the summer of 2016, the 2017-19 enrollment projections start from a 2016-17 baseline that also assumes these growth factors for that year, from a starting point in June 2016.

7. The growth rates assumptions used by the administration would differ from recent trends. The following table compares the annual growth rates by enrollment category used for the administration's cost-to-continue estimate with the actual annualized growth rates by enrollment category in 2016-17, through March. The recent trends are also consistent with longer term trends. Enrollment in the first category, for instance, has declined by 7% since the beginning of 2015.

Annualized Growth Rates by Enrollment Category, Assumptions and Actual

Enrollment Category	Bill Assumptions	Since June 2016
Less than 160% of FPL	2.0%	-0.5%
160% of FPL to 200% of FPL	2.0	-2.4
200% of FPL to 240% of FPL	4.0	-0.5
More than 240% of FPL	10.0	12.7

8. The SeniorCare cost-to-continue reestimate presented in this paper revises enrollment assumptions in light of recent trends, in addition to incorporating actual enrollment through March. For the first two enrollment categories (less than 160% of FPL and 160% of FPL to 200% of FPL), it is assumed that enrollment will remain unchanged through 2017-18 (0% growth) and then grow at 1% on an annualized basis in 2018-19. For the third category (200% of FPL to 240% of FPL), it is assumed that enrollment will grow from current levels at an annualized growth rate of 1% through the end of the biennium. Finally, for the spend-down category (over 240% of the FPL), it is assumed that enrollment will grow at an annualized rate of 13%.

9. The revised growth rate assumptions for the first three enrollment categories are lower than those used by the administration, but are higher than recent trends. This revision reduces the estimate cost of SeniorCare benefits, but remains generally consistent with a careful budgeting approach by allowing for some growth in case program enrollment exceeds those trends.

10. Although the revised growth rate assumptions for the spend-down category is higher than the rate that the administration used, this change has a relatively small impact on the estimate. Since most persons in the spend-down category only receive benefits after incurring drug costs equal to the difference between their annual income and 240% of the federal poverty level (plus the deductible), very few enrollees in this category receive benefits. The average weekly program cost for enrollees in the spend-down category is currently $1.64, whereas the combined average weekly program cost for enrollees in the other three categories is $31.75. Consequently, the downward revisions to the growth rate assumptions for lower income tiers has a much larger impact on the cost-to-continue estimate.

Cost of Program Benefits

11. The administration projects that the program costs per beneficiary for each enrollment category will increase by 12% annually in 2016-17, by 15.5% in 2017-18, and by 12% in 2018-19. The following table shows the weekly average program cost per beneficiary under the administration's assumptions.

Projected Weekly Program Expenditures Per Beneficiary

Enrollment Category	2016-17	2017-18	2018-19
Less than 160% of FPL	$37.88	$43.75	$49.00
160% of FPL to 200% of FPL	34.72	40.10	44.91
200% of FPL to 240% of FPL	26.08	30.12	33.74
More than 240% of FPL	1.77	2.04	2.28
Assumed Growth Rate From Prior Year	12.0%	15.5%	12.0%

12. As with the administration's enrollment assumptions, the average weekly cost estimates were developed in the summer of 2016. Actual program expenditures in 2016-17 suggest that average costs have not risen as rapidly as expected. The following table shows the average weekly cost in 2016-17, by enrollment category, through February. The percentage change from the 2015-16 cost is also shown.

Actual Average Weekly Cost in 2016-17 by Enrollment Category, Through February

Enrollment Category	Average Weekly Cost	Percentage Change
Less than 160% of FPL	$34.67	2.5%
160% of FPL to 200% of FPL	30.90	-0.3
200% of FPL to 240% of FPL	24.58	5.5
More than 240% of FPL	1.64	4.1

13. In addition to the recent program data suggesting that per beneficiary costs are not increasing as rapidly as the administration had assumed, projections of future growth suggest that the growth in drug expenditures is expected to moderate in 2018. Notably, the federal Centers for Medicare and Medicaid Services (CMS) projects that per capita drug costs in Medicare Part D will increase by 3.4% in 2018, compared to 2017. Given that this projection is significantly less than the administration's growth rate assumptions (15.5% in 2017-18), a revision to per beneficiary cost assumptions is warranted. However, because prescription drug costs and spending can vary widely from year to year, it would be prudent to retain a relatively cautious approach to the per beneficiary cost estimate. The reestimate presented in this paper incorporates the lower actual costs through February, assumes an additional 3% growth in average costs for the remainder of 2016-17, a 5% annual growth rate in 2017-18, and a 10% annual growth rate in 2018-19.

Rebate Revenue

14. The administration's estimate assumes that rebate revenue will increase during the biennium, accounting for 68.2% of benefit expenditures annually for the first two enrollment categories (under 200% of the FPL) and 82.3% of benefit expenditures for the other two enrollment categories (over 200% of the FPL). SeniorCare receives drug rebate revenue for all drug purchases made through the program, even if other insurance coverage (such as Medicare Part D) pays for a portion of the cost. Consequently, rebate revenue can sometimes exceed SeniorCare's costs for some transactions. Although this dynamic has increased the percentage of costs covered by rebate revenue in recent years, the reestimate presented in this paper revises the rebate percentage downward to guard against the possibility that this trend will not continue. Accordingly, it is assumed that rebates will cover the same percentage of program costs as in 2015-16, which was 64.6% for the first two enrollment categories and 82.1% for the other two categories.

15. Since the rebate revenue accounts for just 61% of the total program in the appropriation base, the revised rebate percentage assumptions, although not as high as the administration's assumptions, still result in a shift in funding from GPR and FED sources to PR funding.

Discussion of Reestimate

16. As a result of the revisions to the FMAP, enrollment, average weekly cost, and rebate percentages discussed in this paper, SeniorCare benefit costs are projected to be lower than the

administration's estimates. The following table shows the revised funding estimates, and the change to the administration's estimates, by fund source.

Revised SeniorCare Benefit Estimate

	2017-18		2018-19	
	Funding	Change to Bill	Funding	Change to Bill
GPR	$18,013,800	-$4,790,600	$20,927,400	-$4,549,600
FED	18,133,000	-4,037,100	21,067,700	-3,647,800
PR	69,428,100	-14,170,300	75,312,300	-22,107,400
Total	$105,574,900	-$22,998,000	$117,307,400	-$30,304,800

17. The combination of the change to the FMAPs and to the enrollment assumptions outlined in this paper result in a decrease in estimated SeniorCare benefits costs. The GPR share of SeniorCare benefit costs is funded with a sum certain biennial appropriation. In the event that GPR-funded benefit costs exceed the amount appropriated, the Department is required, by statute, to suspend benefit payments. The reestimate presented in this paper makes reasoned modifications to the budget estimates, resulting in a lower GPR appropriation for the program. As with any estimate, it is possible that costs or enrollment could change in a way that results in benefit costs exceeding this budget. If this occurs, the Department could choose, rather than suspending payments, to submit a request under s. 13.10 of the statutes for a GPR appropriation supplement or an appropriation transfer from another program to maintain benefit expenditures.

MODIFICATION

Reduce funding for SeniorCare benefits by $22,998,000 (-$4,790,600 GPR, -$4,037,100 FED, and -$14,170,300 PR) in 2017-18 and by $30,304,800 (-$4,549,600 GPR, -$3,647,800 FED, and -$22,107,400 PR) in 2018-19 to reflect revisions to FMAP, enrollment, average cost, and rebate percentage assumptions.

	Change to	
	Base	Bill
GPR	- $5,161,800	- $9,340,200
FED	- 3,870,500	- 7,684,900
PR	10,022,600	- 36,277,700
Total	$990,300	- $53,302,800

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