



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

December 17, 2009

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Forward Health Rate Reform Project and Program Status

This memorandum describes the "Forward Health Rate Reform Project" plan prepared by the Department of Health Services (DHS) to implement provisions in 2009 Wisconsin Act 28 that reduced funding in the medical assistance (MA), BadgerCare Plus, and SeniorCare programs in the 2009-11 biennium. In addition, the memorandum provides updated information regarding enrollment trends in the BadgerCare Plus program and the Childless Adults Core Plan.

### **Forward Health Rate Reform Project**

In total, the funding reductions enacted in Act 28 were anticipated to reduce benefits costs by approximately \$633.1 million (-\$207.7 million in state funds and -\$425.4 million in federal matching funds) in the 2009-11 biennium. This funding reduction represents a reduction of approximately 4.8% of total estimated program benefits costs in the biennium (approximately \$13.3 billion).

In September, DHS made public its plan. The Department's document, which is titled "Forward Health Rate Reform Project," identifies the amount of the Act 28 funding reductions DHS expects to generate, the administration's goals in reaching the plan's savings targets, and the process DHS used to develop the plan to meet these goals. The Department has made several changes to that plan since September. The Department's current plan, which contains 66 items, is provided in the Attachment, which lists each item in one of nine broad categories, together with the Department's estimates of savings the plan will generate, and the primary method by which DHS would generate savings.

The following table summarizes the information in the Attachment.

**TABLE 1**

**Summary of Current DHS Forward Health Rate Reform Plan  
(\$ in Millions)**

No. of Items	Broad Category	All Funds Savings			GPR Savings			Percent of Savings	
		2009-10	2010-11	2009-11	2009-10	2010-11	2009-11	All Funds	GPR
9	Managed Care	\$25.1	\$97.8	\$122.9	\$7.4	\$33.9	\$41.3	20.2%	18.8%
5	Hospital Services	5.0	17.2	22.2	1.5	6.0	7.5	3.7	3.4
7	Physician/Clinic/Imaging/Acute Care Providers	7.4	19.2	26.6	2.2	6.6	8.8	4.4	4.0
3	Mental Health	-0.9	2.5	1.6	-0.3	0.9	0.6	0.3	0.3
17	Pharmacy	73.3	126.0	199.3	21.7	43.6	65.3	32.8	29.8
12	Long-Term Care	9.2	23.4	32.6	2.7	8.1	10.8	5.4	4.9
2	Administration	0.2	0.4	0.6	0.1	0.1	0.2	0.1	0.1
3	Program Integrity	<u>0.0</u>	<u>6.8</u>	<u>6.8</u>	<u>0.0</u>	<u>2.4</u>	<u>2.4</u>	<u>1.1</u>	<u>1.1</u>
58	Subtotal	\$119.3	\$293.3	\$412.6	\$35.3	\$101.5	\$136.8	67.9%	62.4%
8	Delayed Payments and One-Time Savings	\$15.0	\$180.4	\$195.4	\$4.4	\$78.0	\$82.4	32.1%	37.6%
66	GRAND TOTAL	\$134.3	\$473.7	\$608.0	\$39.7	\$179.5	\$219.2	100.0%	100.0%

The table shows that the administration estimates that the plan will result in savings totaling \$608.0 million (\$219.2 million GPR and \$388.8 million FED) in the 2009-11 biennium. However, the Department's plan includes approximately \$195.4 million of (all funds) savings that will be realized on a one-time basis in the current biennium, including approximately \$82.4 million in one-time GPR savings. These amounts represent approximately 32.1% and 37.6% of the total all funds and GPR savings in the plan, respectively. The one-time savings DHS expects to realize in 2010-11 will increase GPR commitments in the 2011-13 biennium.

**BadgerCare Plus**

During the first five months of 2009-10, MA enrollment is trending significantly higher than the projections used to establish the level of benefits funding provided in Act 28. Much of that increase has occurred in BadgerCare Plus, which provides healthcare coverage to low-income children and their families, and to pregnant women. (For these purposes, BadgerCare Plus does not include the Childless Adults Core Plan, discussed separately below.) Fiscal year to date, BadgerCare Plus enrollment has averaged 687,000 individuals per month. By comparison, Act 28 assumed the program's monthly enrollment would average 638,000 individuals in 2009-10 and 648,000 individuals in 2010-11. As of November 30, 2009, approximately 700,000 individuals were enrolled in BadgerCare Plus.

In recent months, enrollment increases have moderated, relative to the historically high rates experienced earlier in the year (0.85% per month during the past three months, compared to 1.66%

per month during the first eight months of calendar year 2009). While it is not certain if this trend will continue, it is consistent with the program's historical experience, where enrollment growth has tended to moderate as economic conditions in the state stabilize. Even if the moderating trend continues, however, the program's average monthly enrollment will exceed Act 28 projections. Based on current estimates of the program's average per member costs, the GPR cost overruns associated with that higher-than-projected enrollment could range from \$100 million to \$125 million over the 2009-11 biennium.

In addition to per member costs, the potential GPR shortfalls are based on the state's projected federal medical assistance percentage (FMAP). The American Recovery and Reinvestment Act of 2009 (ARRA) temporarily increased Wisconsin's FMAP for the period October 1, 2008, through December 31, 2010, referred to as the "recession adjustment period". Act 28 assumed this temporary FMAP increase would result in Wisconsin receiving approximately \$317 million in additional federal MA matching funds during state fiscal year 2011. The federal healthcare reform bill recently passed by the United States House of Representatives (H.R. 3962) would extend ARRA's recession adjustment period through June, 2011. That extension, if it becomes law, could result in the state receiving approximately twice the additional federal MA matching funds in fiscal year 2011 as was originally estimated in Act 28. The exact amount of any such additional funding would depend upon the state's MA benefit expenditures during the period and the state's future unemployment rate (to which the temporary FMAP increase would be tied). To the extent that additional one-time federal assistance would be used to fund ongoing commitments, it would need to be replaced with other funding sources in the 2011-13 biennium.

The Patient Protection and Affordable Care Act currently being debated in the U.S. Senate does not contain a comparable extension of the ARRA FMAP. A separate Senate bill, however, titled the "Transitional Federal Medical Assistance Percentage Act," would extend ARRA's FMAP increases through June, 2011, similar to H.R. 3962. In addition, the Senate bill would phase those increases out gradually during the period July, 2011 through December, 2013 (referred to as the "ARRA transitional assistance period"), rather than terminating them altogether in June, 2011. Whether H.R. 3962 or the Transitional Federal Medical Assistance Percentage Act will become law cannot be said at this time.

### **The Childless Adults Core Plan**

The 2007-09 biennial budget act authorized DHS to request a waiver from the federal government that would allow the state's MA program to provide healthcare services to childless adults ages 19 through 64 who have incomes up to 200% of the federal poverty level and who are not eligible for any other MA, Medicare, or SCHIP program. DHS began enrolling individuals in the new childless adults program (the Core Plan) in January, 2009. The first enrollees consisted primarily of individuals previously enrolled in Milwaukee County's general assistance medical program (GAMP). DHS initially planned to expand the program statewide beginning in April, 2009. Budget constraints delayed that statewide expansion until July, 2009.

Act 28 provided \$85.2 million (\$27,286,800 GPR, \$51,134,700 FED, and \$6,799,400 PR) in 2009-10 and \$129.2 million (\$44,415,400 GPR, \$77,936,100 FED, and \$6,799,400 PR) in 2010-11 to support benefits for Core Plan enrollees during the 2009-11 biennium. Subsequent to the

enactment of Act 28, DHS was awarded a grant of \$10 million per year for each of the next five years (beginning in federal fiscal year 2009-10) from the U.S. Department of Health and Human Services Health Resources and Services Administration (HRSA) to further support the program's costs.

Act 28 assumed that monthly enrollment in the Core Plan would average 24,900 individuals in fiscal year 2010 and 39,500 individuals in fiscal year 2011. Because the number of applications quickly exceeded those projections, DHS obtained approval from the federal Centers for Medicare and Medicaid Services (CMS) to limit program enrollment to individuals who applied by October 9, 2009, and who timely paid the program's \$60 annual enrollment fee. DHS received over 76,000 applications for the Core Plan by the October 9th deadline. Individuals who applied for the Core Plan after October 9, 2009 were placed on a wait list.

As of November 30, 2009, 55,000 individuals were enrolled in the Core Plan. Final enrollment figures will not be available until later this month, when DHS completes its review of the applications received prior to the October 9th deadline. Preliminarily, however, DHS estimates that Core Plan enrollment could reach 68,000 individuals when that review process is completed.

Going forward, DHS intends to allow natural attrition in the program to cause enrollment to decline to approximately 54,000 individuals, a level DHS believes is sustainable under the "budget neutrality" requirement of its waiver agreement with CMS. Under that requirement, the amount of federal matching funds available for Core Plan benefits cannot, in any given federal fiscal year, exceed the federal funds the state would have received that year to support disproportionate share hospital (DSH) payments. In federal fiscal year 2010, that amount is approximately \$94 million. If program expenditures during any given federal fiscal year cause DHS to exceed its "budget neutrality" limit, the overspending must be financed totally with state funds. Based on its initial projections, DHS believes it will satisfy the budget neutrality requirements of the CMS waiver agreement in the 2009-11 biennium.

As the foregoing explanation implies, "budget neutrality" in this context does not correlate to Act 28 funding levels. Stated otherwise, program expenditures could satisfy the budget neutrality requirement of the waiver agreement while exceeding the funding provided in Act 28 (even as supplemented by the HRSA grant). Based on current estimates of the Plan's per member costs, and assumptions regarding final enrollment and attrition rates, the GPR cost overrun for the Core Plan during the biennium is currently projected to reach approximately \$20 to \$25 million. This preliminary estimate is subject to ongoing modification as additional program enrollment and cost information becomes available.

The potential GPR cost overruns identified above, both with respect to BadgerCare Plus and the Core Plan, are premised on higher-than-anticipated enrollment. They are, therefore, largely independent of the Department's success in realizing the savings identified in its current Forward Health Rate Reform plan. If the Department does not achieve those savings, and additional federal matching funds are not provided, the MA program's shortfall may exceed the potential overruns identified in this memorandum.

With respect to individuals on the Core Plan wait list, DHS intends to give them an opportunity to enroll in the Core Plan (contingent upon their satisfying the program's eligibility criteria and paying the \$60 annual enrollment fee) when program enrollment falls below the 54,000 level DHS believes is sustainable under the CMS budget neutrality requirement. As of November 14, 2009, there were 7,434 on the Core Plan wait list. DHS is currently developing the BadgerCare Plus Basic plan to provide basic healthcare coverage to individuals while they remain on the Core Plan wait list. It is envisioned that benefits under the Basic Plan will be more limited than those offered through the Core Plan. It is also the Department's stated objective to have the cost of the Basic Plan wholly supported by enrollee premiums. Implementation of the Basic Plan will require statutory authorization.

Prepared by: Charlie Morgan, Eric Peck, and Cory Kaufman

# ATTACHMENT

## DHS Savings Plan (\$ in Millions)

	DHS Savings Targets		Primary Method of Achieving Savings
	2009-10	2010-11 Biennium	
<b>Managed Care</b>			
1 Reduce HMO Administrative Reimbursement by 2%	\$15.5	\$17.0	Rate Reduction
2 Reduce HMO Administrative Reimbursement for SSI Populations from 11.3% to 10%	1.4	2.8	Rate Reduction
3 Hold Capitation Payments at Risk for Pay For Performance Incentives -- Eliminate Funding for Incentives	0.0	4.5	Rate Reduction
4 Adjust Reimbursement to HMOs to Reward Good Birth Outcomes, Penalize Poor Outcomes	0.0	1.0	Aggregate Rate Reduction
5 Discontinue Payments Intended to Offset HMO Losses due to Phase-In of Regional Rate Adjustments	0.9	0.9	Rate Reduction
6 Freeze Capitation Payments in CY 2010 and 2011 at CY 2009 Rates	4.2	14.3	Rate Reduction
7 Eliminate Payments Initially Provided to Encourage HMO Expansion in Select Counties	0.6	2.2	Rate Reduction
8 Reduce Capitation Rates for Dual Eligibles	2.5	5.0	Rate Reduction
9 Issue RFP to Provide Managed Care in Six Counties in Southeastern Wisconsin	<u>0.0</u>	<u>50.1</u>	Rate Reduction
Total Estimated Savings	\$25.1	\$97.8	
All Funds	\$7.4	\$33.9	
GPR		\$41.3	
<b>Hospital Services</b>			
1 Adopt Outpatient Prospective Payment System Based on Ambulatory Payment Classifications	\$0.0	\$3.0	Aggregate Rate Reduction
2 Require Hospitals to Submit Plan of Care for Readmissions	0.0	2.0	Reduce Billable Services
3 Reduce Rates for Critical Access Hospitals to Pay Approximately 90% of these Hospitals' Costs	5.0	10.0	Rate Reduction
4 Pay for No More than One 24-Hour Period for ER Visit	0.0	2.0	Reduce Billable Services
5 Eliminate MA Reimbursement for "Never Events," such as Wrong Sites for Surgeries	<u>0.0</u>	<u>0.2</u>	Reduce Billable Services
Total Estimated Savings	\$5.0	\$17.2	
All Funds	\$1.5	\$6.0	
GPR		\$7.5	
<b>Physician/Clinic/Imaging/Acute Care Provider Recommendations</b>			
1 Require Providers to Use Decision Support Software to Assess Appropriateness of Imaging Tests	\$0.0	\$3.2	Reduce Billable Services
2 Reimburse C-Sections at Same Rate As Vaginal Deliveries, Unless C-Section is Medically Necessary	0.3	0.5	Rate Reduction/Change Service Mix
3 Pay No More than Medicare Rates for all Noninstitutional Services	7.1	9.4	Rate Reduction
4 Issue RFP to Contract with an Entity to Improve Clinical Care Management to Reduce Hospitalizations	0.0	8.0	Reduce Billable Services
5 Reimburse Physicians Based on Quality Measures, as Indicated in WHIO Data	0.0	0.0	No Net Fiscal Effect
6 Reimburse for Recording Body Mass Index	0.0	-2.0	Increase Billable Services
7 Eliminate Reimbursement for "Never Events"	<u>0.0</u>	<u>0.1</u>	
Total Estimated Savings	\$7.4	\$19.2	
All Funds	\$2.2	\$6.6	
GPR		\$8.8	

		DHS Savings Targets		Primary Method of
		2009-10	2010-11	Achieving Savings
		Biennium		
<b>Mental Health</b>				
1	Reduce IMD Hospital Payments to Reflect that Some Drugs Used by IMDs are Billable to Medicare	\$0.0	\$0.2	Rate Reduction
2	Accelerate SBIRT Screenings to Increase Estimated Savings in the 2009-11 Biennium	-0.9	2.3	Reduce Billable Services
3	Authorize MA Billing for Mental Health Treatment Services Provided by Peer Counselors	0.0	0.0	No Estimated State Fiscal Effect
	Total Estimated Savings			
	All Funds	-\$0.9	\$2.5	\$1.6
	GPR	-\$0.3	\$0.9	\$0.6
<b>Pharmacy</b>				
1	Require Providers, Rather than Pharmacies, to Obtain Prior Authorization (PA) for Certain Types of Drugs	\$0.3	\$0.5	Reduce Billable Services/Change Service Mix
2	Impose Quantity Limits for Specific Classes of Drugs	2.0	3.9	Reduce Billable Services
3	Designate Oxycodone ER as a "Non-Preferred Drug" to Encourage Use of Less Expensive Oxycotin	0.4	0.9	Change Service Mix
4	Implement the Provider Synergies Diabetic Supply Program to Place Meters & Strips on Preferred Drug List	0.6	1.2	Change Service Mix
5	Conduct More Frequent Reviews of the Preferred Drug List	4.0	6.0	Change Service Mix
6	Implement a Web-based Disease Management/Medication Therapy Program	-0.1	-0.1	Reduce Billable Services
7	Deny Pharmacy Claims for Claims Submitted Prior to the Recommended Refill Date, Unless PA Approved	0.6	1.3	Reduce Billable Services
8	Expand Narcotic Utilization Controls	0.7	1.4	Reduce Billable Services
9	Apply Quantity Limits, Prior Authorization, Diagnosis Restrictions to Provider-Administered Drugs	0.3	0.7	Reduce Billable Services
10	Provide 100-Day Supplies of Specified Maintenance Drugs	1.9	3.8	Reduce Billable Services
11	Tablet-Splitting -- Encourage Pharmacies to Dispense Single, Higher-Dose Drugs that can be Split by User	0.3	0.6	Reduce Billable Services
12	Improve Coordination of Benefits	0.0	0.0	No Net Fiscal Effect
13	Expand Pharmacy "Lock in" Program (Limits Certain Recipients to Using a Single Pharmacy)	0.1	0.3	Reduce Billable Services
14	Use Specialty Pharmacies to Dispense Certain Types of High-Cost and Specialty Drugs	1.2	2.3	Rate Reduction
15	Identify New Generic Drugs, Apply State Maximum Allowable Cost (MAC) Pricing	25.1	46.2	Change Service Mix
16	Modify MAC Pricing (Used for Multiple Source Drugs)	17.9	33.0	Rate Reduction
17	Savings Due to Reduced AWP's Reported to First Databank	18.0	24.0	Rate Increase
	Total Estimated Savings	\$73.3	\$126.0	\$199.3
	All Funds	\$21.7	\$43.6	\$65.3
	GPR			
<b>Long-Term Care Recommendations</b>				
1	Reduce Reimbursement for Nursing Home "Bed Hold" Days from 59% to 25% of Average Direct Care Rates	\$0.7	\$0.8	Rate Reduction
2	Eliminate Increased Reimbursement for Property Portion of NH Rate if Property Costs are Below Target Amounts	2.1	2.3	Rate Reduction
3	Revise Downward Inflation Adjustment for Property Costs	0.4	0.4	Rate Reduction
4	Increase Threshold for Eligibility for Enhanced Intensity Payments, from 65% to 70% of Medicare and MA Residents	0.6	0.7	Rate Reduction
5	Update Acuity (RUGS) Status for Residents on a Quarterly Basis, Rather than on an Annual Basis	1.0	12.5	Rate Reduction
6	Eliminate Reimbursement for Veterans at King Whose Costs are Supported Entirely with USDVA Federal Funds	2.0	1.0	Rate Reduction
7	Reduce NH Payments for Hospitalizations Resulting from Pressure Ulcers, Injury/Hip Fractures, and Urinary Tract Infections		3.0	Reduce Billable Services
8	Discontinue Payments for Care Coordination Provided by Registered Nurses in Independent Practice	1.0	1.5	Rate Reduction
		0.3	0.3	Reduce Billable Services

	DHS Savings Targets			Primary Method of Achieving Savings	
	2009-10	2010-11	Biennium		
	0.0	0.7	0.7		
9	Institute Member-Based Prior Authorization for Personal Care, PDN, and Home Health Services				
10	Accelerate NH Relocations to Family Care Counties by Providing Funding to ADRCs and MCOs for Pre-enrollment Costs	0.4	1.7	2.1	Change Service Delivery
11	Contract with State of Michigan for Bulk Purchase of Incontinence and Ostomy Supplies	0.7	1.5	2.2	Rate Reduction
12	Divestment Options	0.0	0.0	0.0	No Net Fiscal Effect
	Total Estimated Savings	\$9.2	\$23.4	\$32.6	
	All Funds	\$2.7	\$8.1	\$10.8	
	GPR				
	<b>MA Administration</b>				
1	Member Responsibility	\$0.0	\$0.0	\$0.0	No Net Fiscal Effect
2	Use Paperless Media to Produce and Disseminate Payments to Providers	0.2	0.4	0.6	Unknown
	Total Estimated Savings	\$0.2	\$0.4	\$0.6	
	All Funds	\$0.1	\$0.1	\$0.2	
	GPR				
	<b>Program Integrity</b>				
1	Expand ClaimCheck Use/Correct Coding Initiative	\$0.0	\$0.5	\$0.5	Reduce Billable Services
2	Add 10.0 Auditors to Increase Recoveries	0.0	5.0	5.0	Reduce Billable Services
3	Expand Casualty Collections	0.0	1.3	1.3	Reduce Billable Services
	Total Estimated Savings	\$0.0	\$6.8	\$6.8	
	All Funds	\$0.0	\$2.4	\$2.4	
	GPR				
	<b>One-Time Savings and Rescheduled or Delayed Payments</b>				
1	Accelerate January, 2011 Managed Care Payments	\$0.0	\$10.8	\$10.8	Time Payments to Maximize FFP
2	Reschedule 1 Month of Managed Care Capitation Payments	0.0	107.2	107.2	Delay Payment to 2011-12
3	Reschedule 1 Month of Family Care MCO and WPP Capitation Payments	0.0	19.4	19.4	Delay Payment to 2011-12
4	Accelerate January, 2011 Payments for NH Supplements	0.0	1.8	1.8	Time Payments to Maximize FFP
5	Accelerate January, 2011 Capitation Payments for MCOs	0.0	11.2	11.2	Time Payments to Maximize FFP
6	Reschedule June, 2011 Claims Payments (MA Administration)	0.0	20.0	20.0	Delay Payment to 2011-12
7	Revenue Maximization (MA Administration)	0.0	10.0	10.0	Unknown
8	Recover Overpayments to Providers Following Implementation of InterChange (MA Administration)	15.0	0.0	15.0	Reduce Billable Services
	Total Estimated Savings	\$15.0	\$180.4	\$195.4	
	All Funds	\$4.4	\$78.0	\$82.4	
	GPR				
	Grand Total of Estimated Savings	\$134.3	\$473.7	\$608.0	
	All Funds	\$39.7	\$179.5	\$219.2	
	GPR				