Legislative Fiscal Bureau

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

February 28, 2002 Joint Committee on Finance Paper #1165

Medical Assistance and BadgerCare Base Reestimates (DHFS)

[LFB Summary of the Governor's Budget Reform Bill: Page 50, #3]

CURRENT LAW

Medical Assistance. The state's medical assistance (MA) program funds acute and long-term care services to persons who are aged, blind, disabled, children, members of families with dependent children and pregnant women who meet financial and nonfinancial criteria. In 2001-02, most MA services are funded on a 41.25% GPR/58.75% FED matching basis.

GPR funding budgeted for MA benefits is budgeted in a biennial appropriation, which enables DHFS to expend funds budgeted in the second year of the biennium to fund costs in the first year if the first year appropriation is insufficient to fully support program costs.

BadgerCare. BadgerCare funds the same services that are offered under MA to certain individuals who are not eligible for MA. Individuals initially eligible for BadgerCare cannot have household income that exceeds 185% of the federal poverty level (FPL). Once enrolled, a family's countable income may increase to 200% of the FPL before the family is no longer eligible for the program. Additionally, to be eligible for BadgerCare, an individual must meet certain nonfinancial eligibility criteria regarding health care coverage. MA policies regarding the types of services available and payment for those services apply under BadgerCare as well.

In 2001-02, approximately 32.4% of the costs of BadgerCare benefits are funded with GPR, the rest is funded from federal funds the state receives under the state children's health insurance program (CHIP) and MA and premiums paid by participating families with income that exceeds 150% of the FPL.

Current law specifies that DHFS must establish a lower maximum income level for initial eligibility determinations if BadgerCare funding is insufficient to meet program needs based on projected enrollment levels. The adjustment may not be greater than necessary to ensure that

sufficient funding is available to meet program costs. DHFS cannot implement a change to the maximum income level for initial eligibility unless it first submits to the Committee its plans for lowering the maximum income level and the Committee approves the plan under a 14-day passive approval process. This process is known as the "enrollment trigger." Further, implementation of the enrollment trigger requires approval from federal authorities under the terms of the waivers of federal law under which BadgerCare operates.

Intergovernmental Transfer Program Revenues. The state uses federal MA matching funds it claims under the intergovernmental transfer (IGT) program to support a portion of the state's share of MA and BadgerCare costs. These funds are deposited to a segregated trust fund, the MA trust fund, and budgeted to partially fund the state's share of MA costs.

GOVERNOR

Medical Assistance Base Reestimate. Provide $37,187,100 GPR annually to address an anticipated deficit in the MA benefits appropriation. Based on current federal financial participation rates, it is estimated that the increase in state spending will increase federal MA matching funds by $52,963,400 FED in 2001-02 and $52,344,900 FED in 2002-03.

BadgerCare. No provision.

DISCUSSION POINTS

1. This office has reviewed expenditure and caseload data for the MA and BadgerCare programs through December, 2001. Based on this review, it is estimated that the costs of these programs could exceed the amounts budgeted in Act 16 by approximately $144.2 million ($41.3 million GPR, $102.7 million FED and $0.2 million PR) in 2001-02 and $197.9 million ($90.7 million GPR, $106.4 million FED and $0.8 million PR) in 2002-03. The GPR portion of this increase represents approximately 5.9% of the total GPR budgeted for MA and BadgerCare in Act 16 for the 2001-03 biennium.

2. This projected shortfall is largely due to increases in enrollment that have occurred since the Act 16 projections were developed last spring. The attachment to this paper identifies the funding provided for MA and BadgerCare in Act 16 compared with current estimates and the caseload estimates used to project funding provided in Act 16 and the current caseload estimates for both programs.

3. As can be seen in the attachment, the biggest difference between the Act 16 caseload projections and current projections is reflected in the MA AFDC-related caseload. Enrollees in this category are members of families with household income that does not exceed the income limits under the former AFDC program. The AFDC income limit for a family of three is $647 per month, equivalent to approximately 52% of the FPL for a family of that size, based on the 2002 FPL. As of December, 2001, there were over 170,000 individuals enrolled in MA under the AFDC-related

criteria, an increase of more than 20,000 from six months earlier.

The MA AFDC-related average monthly caseload has decreased every year from a high of approximately 301,000 in 1991-92 to a low of approximately 144,000 in 1999-00, but increased to over 146,000 in 2000-01. The caseload projections used in Act 16 assumed modest growth in the AFDC-related caseload over the 2001-03 biennium, approximately 2.2% in 2001-02 and 2.3% in 2002-03. Current estimates project that caseload will increase by approximately 16.1% in 2001-02 and 17.4% in 2002-03.

4. The Department of Administration estimates that the MA program will have a deficit of $37,187,100 GPR in 2001-02, but has not reestimated the cost of the MA program in 2002-03. Additionally, the administration does not project a deficit in BadgerCare in 2001-02, and like MA, has not reestimated BadgerCare costs in 2002-03. The Governor recommends: (a) funding the projected 2001-02 MA deficit: (b) increasing GPR funding for MA benefits by an identical amount in 2002-03; and (c) waiting until January, 2003, to determine how much funding, if any, will be necessary to fund both programs in 2002-03. DOA staff indicate that there remains considerable uncertainty over future caseload for the programs, and that, if a 2002-03 deficit is projected next January, it can be addressed next spring.

5. There are several reasons why DHFS cannot significantly reduce MA benefits costs to ensure that costs do not exceed the amounts appropriated for the program. First, the program's eligibility standards and covered services are specified in state and federal law. As an entitlement program, DHFS cannot place eligible individuals on waiting lists for services. Second, DHFS staff indicate that the Department has no authority to reduce provider rates as a means of addressing a projected shortfall because doing so would be contrary to decisions made as part of the Legislature's budget deliberations. For these reasons, DHFS staff indicate that, if no additional funding were provided to support MA benefits in the 2001-03 biennium, or the additional funding recommended by the Governor were insufficient to support projected program costs, it would continue to administer the current program without changes with the expectation that the Governor and Legislature would provide additional funding at a later date to fully fund the program in the 2001-03 biennium.

6. Unlike MA, state law specifies that BadgerCare is not an entitlement program. However, the program operates under the conditions specified in two waivers of federal law approved by the Health Care Financing Administration (now, the Centers for Medicare & Medicaid Services, or CMS). The first waiver, approved in January, 1999, authorized a demonstration project, which allowed the state to use federal MA-matching funds to provide family coverage under BadgerCare. The second waiver, approved in January, 2001, authorized the use of federal funds allocated to the state under CHIP to support costs for adults enrolled in BadgerCare with income above 100% of the FPL. Before the second waiver was approved, CHIP funds could only be used to support costs for children enrolled in BadgerCare.

CHIP funds are available at a higher federal matching rate than under MA, 71% vs. 59%. By authorizing the use of CHIP funds to support BadgerCare costs for some adult enrollees, rather

than MA funds, the second waiver allows the state to reduce GPR support for the costs of these enrollees. Based on current cost and caseload projections, the GPR savings available from the use of CHIP funds, rather than MA funds, for costs for adults with income above 100% of the FPL is estimated at over $7.0 million in 2001-02 and over $9.0 million in 2002-03. Under the terms of the waivers, changes to the BadgerCare program must be approved by CMS or the waiver approval may be rescinded.

7. Even though the statutes specify that BadgerCare is not an entitlement program, implementation of the "enrollment trigger" is not a desirable option since, under the terms and conditions of the second waiver, DHFS cannot close enrollment, institute a waiting list or decrease eligibility standards while the second waiver is in effect, otherwise the second waiver is terminated. In this case, the state incurs a financial penalty because the state would be required to revert to using federal MA matching funds to support costs for adults with income above 100% of the FPL, rather than CHIP funds. Additionally, because under the terms of the first waiver, use of the enrollment trigger only applies to new enrollees and not existing enrollees, the extent to which DHFS could reduce the eligibility limits enough to generate sufficient savings to address a projected deficit is limited.

8. Several options are presented for the Committee's consideration to address the projected deficits in the MA and BadgerCare programs.

First, the Committee could adopt the Governor's recommendation to increase GPR funding for MA in 2001-02 and 2002-03 by an amount equal to the projected shortfall in the first year and to provide no funding for BadgerCare at this time. The Committee could then consider the need to provide additional funding for MA and BadgerCare in the spring of 2003.

Projected MA and BadgerCare benefits costs for the rest of the biennium are sensitive to the assumptions used about future caseload. For example, current projections assume that the MA AFDC-related caseload will increase by 1.5% per month from January, 2002 through September, 2002, and 0.75% from October, 2002, through the remainder of the biennium. These assumptions represent an approximate midpoint of average growth over the last four to twelve months. However, if these assumptions were modified to instead reflect average growth for January through September, 2002, based on the most recent four-month period (2.15% per month) and slowing growth beginning in October, 2002 (1.075% per month), the projected deficit in MA increases from approximately $126 million GPR to over $138 million GPR over the biennium. Alternatively, if caseload growth were to slow to only 0.75% per month from January, 2002, through the remainder of the biennium, the projected deficit in MA decreases to approximately $115 million GPR over the biennium.

The disadvantage to providing funding in both years equal only to the first year projected deficit is that it is most likely that the amounts budgeted in 2002-03 will not be sufficient to meet 2002-03 costs. Based on the current estimate, the amount of funding that may be required at that time, above the amounts provided in the bill, will be $57.6 million GPR for both programs. The actual amount necessary to fund 2002-03 costs could be much greater or less, due to the uncertainty

of continued caseload growth in 2002-03.

9. A second option for the Committee is to fully fund the projected shortfall in the MA and BadgerCare programs as part of this budget reform bill. Increasing funding for these programs at this time ensures that the funding will be available to meet current projected program costs. Further, it would not increase costs for MA and BadgerCare -- the costs for benefits provided under these programs will be incurred regardless of whether funding is provided as part of this bill to fund projected costs. If actual caseload growth or costs are less than currently projected, any additional GPR budgeted for MA would lapse to the general fund and would be available to support costs in the 2003-05 biennium. Finally, by providing additional funding for BadgerCare at this time, it is less likely that DHFS will be required to implement the BadgerCare enrollment trigger to ensure that costs do not exceed the amounts budgeted for the program.

10. If the Committee wants to fund all or a portion of the projected shortfall in the MA and BadgerCare programs, it could fund these costs either with GPR or segregated funds from the MA trust fund (revenue the state claimed under the IGT program). On February 25, 2002, this office notified the Committee of the resolution to several issues regarding the state's claiming federal MA matching funds under the IGT program. The February 25 memorandum indicated that, under the Governor's budget recommendations, the projected balance in the MA trust fund would be approximately $427.8 million at the end of the 2001-03 biennium and -$21.9 million at the end of the 2003-05 biennium.

11. There are two primary arguments against using IGT revenue to support the projected MA and BadgerCare shortfalls. First, because the state claims IGT revenues based on the difference between what nursing homes would receive based on Medicare payment principals and what the state's MA program pays nursing homes, using IGT revenue to fund MA reimbursement to nursing homes should be a priority use of IGT funds, rather than to fund projected MA and BadgerCare deficits. The current projected deficit in MA is primarily due to increases in the number of low-income families that have enrolled in the program during the past year, not due to increases in the number of MA nursing home residents. Further, there is little justification for using IGT revenues to support the costs of BadgerCare, since there are few nursing home costs incurred by BadgerCare enrollees.

Second, based on the Governor's budget reform bill, there will be a projected deficit in the MA trust fund of approximately $21.9 million by the end of the 2003-05 biennium, even if there were no rate increases for nursing homes or other health care providers funded from this source in the 2003-05 biennium. It will be necessary to substitute GPR for base costs currently funded from segregated IGT funds, beginning in the 2003-05 biennium, and to a much greater extent in future biennia as the amount of IGT funds the state receives continues to decrease. In this way, using current IGT balances to fund the projected MA and BadgerCare deficits will increase the GPR structural deficit in 2003-05.

12. In light of the current uncertainty over projected MA and BadgerCare costs for the rest of the biennium, the Committee could consider several options and recommendations offered

by the administration at a future date, when additional actual enrollment and caseload data are available. At that time, the Committee could also consider reducing MA rates paid to providers to reduce the amount of state funding that would otherwise be necessary to fund any projected deficit.

For example, the Committee could direct DOA to submit a report to the Committee by September 1, 2002, that would identify: (a) the administration's estimates of the costs of MA and BadgerCare in the 2001-03 biennium and the amount of additional funding, if any, that would be required to fully fund these programs through the 2001-03 biennium; (b) options to reduce program costs in 2002-03 that the Committee could consider and approve that would not require statutory changes relating to eligibility and coverage, but would include proposals to reduce provider rates, both selectively and across-the-board, in 2002-03, including the feasibility of implementing rate reductions retroactively to July 1, 2002; (c) the administration's projections of annual IGT revenue and balances in the MA trust fund through June 30, 2005; and (d) the administration's recommendations to address any projected shortfall in the MA and BadgerCare programs in the 2001-03 biennium. This report could be submitted, together with the Department of Administration's recommendations, under a 14-day passive review process.

In addition, statutory changes would be necessary to: (a) authorize the Committee to modify the 2002-03 provider rates that were established as part of the Act 16 budget deliberations; and (b) authorize the Committee to transfer funding from the unallocated balance of the MA trust fund to fund any projected shortfall in the MA and BadgerCare programs in the 2001-03 biennium.

ALTERNATIVES TO BILL

A. Medical Assistance

1. *Fund MA Based on Governor's First Year Estimate*

a. Adopt the Governor's recommendations to provide $37,187,100 GPR annually and $52,963,400 FED in 2001-02 and $52,344,900 FED in 2002-03 to address an anticipated deficit in the MA benefits appropriation. The annual GPR amounts reflect the administration's estimate of the projected deficit in the 2001-02 fiscal year.

b. Modify the Governor's funding recommendations by funding the state share of these costs with segregated IGT revenues, rather than GPR.

Alternative A1b	GPR	SEG	TOTAL
2001-03 FUNDING	- $74,374,200	$74,374,200	$0

2. *Fund MA Based on Current First Year Estimate*

a. Increase funding in the bill by $3,926,300 GPR and $43,565,000 FED in 2001-02

and $3,926,300 GPR and $5,526,700 FED in 2002-03 to address an anticipated deficit in the MA benefits appropriation. The annual GPR amounts reflect the current estimate of the projected deficit in the 2001-02 fiscal year.

Alternative A2a	GPR	FED	TOTAL
2001-03 FUNDING	$7,852,600	$49,091,700	$56,944,300

b. Modify Alternative A2a by funding the state share of these costs with segregated IGT revenues, rather than GPR.

Alternative A2b	SEG	FED	TOTAL
2001-03 FUNDING	$7,852,600	$49,091,700	$56,944,300

c. Modify Alternative A2b by: (a) funding the state share of these costs with segregated IGT revenues, rather than GPR; and (b) substituting the Governor's recommended GPR funding increase with segregated IGT revenues.

Alternative A2c	GPR	FED	SEG	TOTAL
2001-03 FUNDING	- $74,374,200	$49,091,700	$82,226,800	$56,944,300

3. *Fully Fund Current MA Deficit*

a. Increase funding in the bill by $3,926,300 GPR and $43,565,000 FED in 2001-02 and $48,045,700 GPR and $37,601,300 FED in 2002-03 to fully fund current estimates of MA costs in the 2001-03 biennium.

Alternative A3a	GPR	FED	TOTAL
2001-03 FUNDING	$51,972,000	$81,166,300	$133,138,300

b. Modify Alternative A3a by funding the state share of these costs with segregated IGT revenues, rather than GPR.

Alternative A3b	GPR	FED	SEG	TOTAL
2001-03 FUNDING	- $74,374,200	$81,166,300	$126,346,200	$133,138,300

B. BadgerCare

1. Adopt the Governor's recommendation to provide no additional funding for

BadgerCare at this time.

2. Provide $179,300 GPR, $6,208,800 FED and $191,800 PR in 2001-02 and $5,427,100 GPR, $16,474,300 FED and $783,200 PR in 2002-03 to fully fund the current projected costs of BadgerCare benefits in the 2001-03 biennium.

Alternative B2	GPR	FED	PR	TOTAL
2001-03 FUNDING	$5,606,400	$22,683,100	$975,000	$29,264,500

3. Modify Alternative B2 by funding the state share of these costs with segregated IGT revenues, rather than GPR.

Alternative B3	FED	PR	SEG	TOTAL
2001-03 FUNDING	$22,683,100	$975,000	$5,606,400	$29,264,500

C. Report to Committee

In addition to any of the alternatives under "A" and "B," direct DOA to submit a report to the Committee by September 1, 2002, that would identify: (a) the administration's estimates of the costs of MA and BadgerCare in the 2001-03 biennium and the amount of additional funding, if any, that would be required to fully fund these programs through the 2001-03 biennium; (b) options to reduce program costs in 2002-03 that the Committee could consider and approve that would not require statutory changes relating to eligibility and coverage, but would include proposals to reduce provider rates, both selectively and across-the-board, in 2002-03, including the feasibility of implementing rate reductions retroactively to July 1, 2002; (c) the administration's projections of annual IGT revenue and balances in the MA trust fund through June 30, 2005; and (d) the administration's recommendations to address any projected shortfall in the MA and BadgerCare programs in the 2001-03 biennium. Require the report to be submitted, together with the DOA's recommendations, under a 14-day passive review process.

In addition, authorize the Committee to modify the 2002-03 provider rates that were established as part of the Act 16 budget deliberations and to transfer funding from the unallocated balance of the MA trust fund to fund any projected shortfall in the MA and BadgerCare programs in the 2001-03 biennium.

Prepared by: Rachel Carabell and Charlie Morgan

Attachment

ATTACHMENT

Medical Assistance and BadgerCare Reestimates
($ in Millions)

Funding

	Act 16		Current Estimate		Difference		
	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03	2001-03
Medical Assistance							
GPR	$1,106.7	$1,023.8	$1,147.8	$1,109.0	$41.1	$85.2	$126.3
FED	2,041.6	2,173.8	2,138.1	2,263.7	96.5	90.0	186.5
SEG	155.1	296.9	155.1	296.9	0.0	0.0	0.0
Total	$3,303.4	$3,494.5	$3,441.0	$3,669.6	$137.6	$175.2	$312.8
BadgerCare							
GPR	$48.0	$52.2	$48.2	$57.7	$0.2	$5.4	$5.6
FED	95.5	104.2	101.7	120.6	6.2	16.5	22.7
SEG	0.3	0.7	0.3	0.7	0.0	0.0	0.0
PR	3.0	3.3	3.2	4.1	0.2	0.8	1.0
Total	$146.8	$160.4	$153.4	$183.1	$6.6	$22.7	$29.3

Average Monthly Caseload

	Act 16		Current Estimate		Difference	
	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03
Medical Assistance						
Aged	42,251	40,793	43,794	43,778	1,543	2,985
Blind/Disabled	97,325	97,306	99,304	101,043	1,979	3,737
AFDC-Related	148,846	152,280	169,949	199,478	21,103	47,198
Other	143,987	154,044	146,961	155,559	2,974	1,515
Total	432,409	444,423	460,008	499,858	27,599	55,435
BadgerCare						
Children	26,485	28,231	27,923	34,406	1,438	6,175
Adults	60,319	64,325	62,447	68,972	2,128	4,647
Total	86,804	92,556	90,370	103,378	3,566	10,822