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June 8, 2007 Joint Committee on Finance Paper #374

Demonstration Project to Provide MA Coverage to Low-Income, Childless Adults (DHFS -- Health Care Quality Fund)

Bill Section

[LFB 2007-09 Budget Summary: Page 242, #6 (part)]

CURRENT LAW

Medical Assistance Eligibility. Although medical assistance (MA) is a means-tested program, some groups of low-income individuals are not eligible for coverage. Generally, only pregnant women, children, and their parents and caretaker relatives, and individuals who are elderly, blind, or disabled may be eligible for MA. Individuals who do not meet these qualifications, such as childless, non-elderly adults who are not disabled, cannot qualify (regardless of their income) unless they have certain health conditions, such as tuberculosis, breast, cancer, or cervical cancer.

General Assistance Medical Program. Milwaukee County administers a general assistance medical program (GAMP), which provides health care coverage to certain low-income individuals who reside in Milwaukee County, are not eligible for any other public assistance programs that provide medical benefits, and do not have private health insurance. GAMP-covered services include, but are not limited to: (a) primary care and clinic services; (b) inpatient and outpatient hospital services; (c) pharmacy services; and (d) specialty care services. All services covered under GAMP must be services that are covered under the state's MA program. However, the program does not currently fund mental health or alcohol and other drug abuse treatment services.

As a means of providing indirect state support for Milwaukee County's GAMP program, DHFS makes supplemental MA payments to hospitals that have at least: (a) 13% of their annual operating costs attributable to MA recipients and low-income individuals covered by GAMP, of which at least two percent is attributable to services provided to GAMP participants; or (b) $5.0

million of its annual operating expenses attributable to services provided to MA recipients and GAMP participants, of which at least $3.5 million must be attributable to GAMP participants. In addition, a qualifying hospital must have an MA inpatient utilization rate of at least one percent, a contract with Milwaukee County to serve individuals covered by GAMP, and at least two obstetricians with staff privileges that have agreed to provide obstetrical care to MA recipients, unless the hospital predominately serves patients under age 18 or the hospital did not provide non-emergency obstetrical care as of December 21, 1987.

In 2005-06, seven hospitals in Milwaukee County received a total of $32.7 million ($7.0 million GPR, $18.9 million FED, and $6.8 million PR). The PR source of funding for these payments is an intergovernmental transfer (IGT) payment Milwaukee County makes to DHFS, which partially supports the state share of the costs of these supplemental payments to hospitals.

Wisconsin Chronic Disease Program. The Wisconsin chronic disease program (WCDP) provides payments to health care providers for disease-related services for individuals with chronic renal disease, adult cystic fibrosis, and hemophilia. Base funding for the WCDP in 2006-07 is $5,212,900 ($4,956,200 GPR and $256,700 PR). The PR is revenue the state receives as rebates from drug manufacturers.

To be eligible for benefits under the WCDP, an individual must be a Wisconsin resident and first apply for benefits under all other health care coverage programs for which the person may reasonably be eligible, including Medicare, BadgerCare, MA, and SeniorCare. Recipients with family income above the minimum levels established by rule must contribute to the cost of the program in the form of deductibles and coinsurance requirements.

County Mental Health Services. Under Chapter 51 of the Wisconsin statutes, each county is assigned the primary responsibility for the well-being, treatment, and care of persons with mental disabilities (persons with mental illness, developmental disabilities, and AODA treatment needs) who reside in the county and for ensuring that persons in need of emergency services who are in the county receive immediate emergency services.

Under standards established by rule, each county determines its own program and budget for these services. The statutes specify that each county is responsible for the program needs of persons with mental illness only within the limits of available state and federal funds and county funds required to match these funds. Thus, counties limit service levels and establish waiting lists to ensure that expenditures for services do not exceed available resources. For this reason, the type and amount of community-based services that are available to persons with mental illness varies among counties.

Under the state's community aids program, DHFS distributes state and federal funds to counties for community-based social, mental health, developmental disabilities, and substance abuse services. DHFS allocates community aids funding to counties on a calendar year basis and in a single amount that includes federal and state revenue sources. Counties receive both a basic county allocation, which counties may expend for any of these eligible services, and categorical allocations, which counties must expend for specific services and programs. For 2006, the

estimated basic county allocation totals $242,422,400 (all funds), representing 93% of all funds allocated to counties in that year ($261,118,400). From the remaining portion, counties receive funding earmarked for selected programs and specific services, including mental health services.

GOVERNOR

Increase funding for MA benefits by $19,474,500 ($6,153,700 SEG from the proposed health care quality fund and $13,320,800 FED) in 2008-09, and provide 6.0 positions (3.0 FED positions and 3.0 SEG positions), beginning in 2008-09, to reflect the net effect of expanding MA eligibility to childless adults under a demonstration project. .

Statutory Provisions

Require DHFS to request a waiver from the U.S. Department of Health and Human Services (DHHS) to permit DHFS to conduct a demonstration project to provide health care coverage for primary and preventive care services to adults under the age of 65 who have family incomes up to 200% of the federal poverty level (FPL, which, in 2007, is $25,540 for a single adult), and who are not otherwise eligible for MA, BadgerCare, or Medicare, and who did not have coverage under the health insurance risk-sharing plan (HIRSP) within six months before applying to participate in the project.

Provide that if the waiver is granted and in effect, DHFS may promulgate rules defining the health care benefit plan, including more specific eligibility requirements and cost-sharing requirements. Specify that DHFS could promulgate the plan details as emergency rules without a finding of emergency. Specify that if a waiver is granted and in effect, the demonstration project would begin on January 1, 2009, or on the effective date of the waiver, whichever is later.

Modify current DHFS appropriations to: (a) authorize DHFS to fund services under the disease aids program from the MA benefits appropriation; and (b) authorize DHFS to fund benefits under the demonstration project with PR funds the state receives from Milwaukee County under the general assistance medical intergovernmental transfer program.

In addition, modify current provisions relating to HIRSP that exempt certain groups of MA recipients from the general provision that prohibits MA recipients from being eligible for HIRSP, to include individuals participating in the demonstration project for childless adults. Consequently: (a) current HIRSP enrollees would be eligible to participate in the demonstration project, but they would only be eligible to participate six months after they terminate their HIRSP coverage; and (b) individuals eligible for the MA demonstration project would be eligible for HIRSP coverage.

Funding

Under current law, DHFS provides Milwaukee County relief block grant funds for providing health care services to individuals who meet certain eligibility criteria for the GAMP program. Under the bill, the amount that DHFS would otherwise provide in relief block grant

funds to Milwaukee County would be offset by amounts paid for individuals in Milwaukee County under the demonstration project to provide health care coverage for eligible adults.

In addition, the bill assumes that all mental health services under this expansion would not be covered under MA, but would instead be delivered by counties. As a result, the services would be eligible for federal matching funds, which, under the bill, would be passed through to the counties. The bill would also combine the expansion of coverage for childless adults with a simplification of the Wisconsin Medicaid cost reporting (WIMCR) program by: (a) paying counties no more than their costs of providing services under WIMCR; and (b) making changes to how DHFS implements WIMCR. These changes are addressed in a separate issue paper on the WIMCR program.

The bill also provides that recipients under the current chronic disease program would be eligible for the MA benchmark plan, (which would be created under provisions in the bill relating to BadgerCare Plus), except that these individuals would not be eligible for mental health benefits, which would be provided by counties as described previously. The funding for the chronic diseases program would be used to fund the expansion of services to childless adults, and would be eligible for federal matching funds.

The demonstration project would begin enrolling individuals and providing benefits in January, 2009.

DISCUSSION POINTS

1. The proposal has several goals, including: (a) expanding MA health care services to childless adults who currently have no health care coverage; (b) expanding the scope of publicly-funded health services that individuals who are enrolled in general relief-medical programs (both in Milwaukee County and in other areas of the state) and the WCDP program currently receive; and (c) increasing federal MA matching funds to support health services by using base funding from current non-MA sources, including all county-funded mental health services, GAMP payments, and payments the state makes under the WCDP program.

2. DHFS would need to obtain a waiver of federal MA law to implement the proposal, since low-income, non-disabled childless adults are not defined in federal MA law as a population that states' MA programs may cover. Many of the details of the proposal would be negotiated between DHFS and the Centers for Medicare and Medicaid Services (CMS), including the extent to which CMS would provide MA matching funds to fund health care costs for low-income, childless adults, the scope of services that would be available to this population, participant cost-sharing requirements, and the permissible sources of state matching funds for these services.

3. Other states have received CMS approval to cover certain childless adults under a waiver. However, CMS requires states to meet a "cost neutrality test," which means that every additional federal dollar spent must be offset by a similar reduction in other federal MA spending. Some states have met this requirement by reallocating unexpended federal disproportionate share hospital payments to support their eligibility expansions. Others have offered more restrictive

benefits, imposed enrollment caps, or imposed increased cost- sharing requirements than what would otherwise be allowed under federal law for MA recipients.

At this time, the administration does not know how it would demonstrate to CMS that the proposal would meet the cost neutrality test. As a result, it is uncertain how CMS would respond to the proposal if it were enacted as proposed in SB 40.

4. Table 1 shows the administration's estimates of the net costs of implementing the Governor's proposal in the 2007-09 biennium, by source of funding.

TABLE 1

MA Childless Adults Demonstration Project -- Summary of Costs
Funding for 2007-09 Biennium

Type of Cost	State	Federal	County	Total
Benefits				
WCDP	$2,600,000	$3,700,000	$0	$6,300,000
GAMP	3,500,000	4,800,000	0	8,300,000
Currently uninsured who would receive county mental health/AODA service	4,300,000	8,900,000	2,100,000	15,300,000
	0	0	0	0
Currently uninsured who would not receive county mental health/ AODA services	2,900,000	4,100,000	0	7,000,000
Administration	1,400,000	1,400,000	0	2,800,000
Total costs (January, 2009 through July 2009)	$14,700,000	$22,900,000	$2,100,000	$39,700,000

5. For the purpose of developing the cost estimate, DHFS assumed that the enrollees would be eligible for a "benchmark plan," with an average cost of $190 per member per month, and an average premium of $15 per month, for an average net cost of $175 per month. DHFS adjusted these figures to reflect the availability of funding from other sources, including the WCDP and county-funded mental health and AODA programs for individuals who currently participate in these programs.

6. The bill would extend MA eligibility in the form of full-benefit health-care services (except mental health and AODA services, which would continue to be provided through counties) to: (a) childless adult individuals who are currently uninsured but receiving mental health services from counties; (b) childless adults who are currently uninsured and not receiving any mental health services at the county level; and (c) individuals currently enrolled in the GAMP and WCDP programs.

The administration estimates that approximately 40,000 individuals would be enrolled in the demonstration project by June, 2009. The administration's caseload estimates are based on estimates of the current number of uninsured childless adults and current annual participation in the GAMP, WCPD, and county mental health programs.

7. Table 2 shows the administration's estimates of how many individuals would be enrolled in the program once it was fully implemented. The table identifies the number of individuals that are projected to enroll in the plan, and the percentage of total eligible enrollees that those individuals comprise for each group. The actual enrollment could vary significantly from the administration's current projections, depending on the terms of the waiver agreement DHFS negotiates with CMS.

TABLE 2

Demonstration Project at Full Enrollment

	Individuals	As a % of Total Eligibles
Currently in GAMP annually	15,000	100%
Currently in WCDP annually	7,600	100
Currently uninsured who would receive county mental health/AODA services	23,200	90
Currently uninsured who would not receive county mental health/AODA services	24,300	69
Total	70,100	84%

8. According to the 2005 Wisconsin Family Health Survey, 28% of Wisconsin residents with income below 100% of the FPL and 19% with income below 200% of the FPL were uninsured for part or all of 2005. The survey suggested that approximately 235,000 Wisconsin adults (ages 18 to 65) were uninsured for all of 2005.

9. Expanding publicly-funded health care coverage to low-income, childless adults would increase access to care and improve the overall health status of the target population.

10. In addition, it could be argued that some of the individuals in the target population have greater need for assistance than individuals who are already covered under the state's MA and BadgerCare programs. Currently, adults with dependent children in families with countable income up to 185% of the FPL who meet other nonfinancial eligibility requirements are eligible to enroll in BadgerCare. However, a childless adult with the same income does not currently qualify for coverage under BadgerCare. The Governor's proposal, if approved by CMS, would eliminate the current difference in treatment between parents with children and childless adults with respect to eligibility for state-funded health care coverage.

11. Finally, it is frequently argued that increasing health care coverage to individuals who currently have no insurance would reduce the amount of uncompensated care health care providers render, and thereby reduce the amount of costs that health care providers shift to private-pay sources.

12. On the other hand, some are concerned that the expansion of publicly-funded health programs would "crowd out" private health care coverage, resulting in increasing public costs of these programs without corresponding increases in coverage. Specifically, it is argued that, as the state expands the availability of a publicly-funded health care plan for able-bodied, low-income individuals, employers with low-wage workers have less of an incentive to offer their employees employer-sponsored health care benefit plans, since employers can avoid the cost of funding such a plan by instead encouraging their employees to enroll in the state's publicly-funded programs. Further, employees may have little incentive to participate in their employers' health plans if the state's program provides better coverage, or requires employees to pay less in out-of-pocket costs, than their employers' plans.

Under this argument, the state's efforts should be to reduce the cost of health care for employers, employees, and consumers, rather than to expand publicly-funded programs.

13. The administration responds to this concern by indicating that: (a) recipients would be required to pay premiums and copayments, which may make the plan less attractive than a plan offered through an employer; (b) the program would likely provide premium assistance to help low-income individuals pay the employee contribution of their employer-sponsored insurance; and (c) individuals who were enrolled in the health insurance risk- sharing plan (HIRSP) for less than six months prior to application would not be eligible for the demonstration project.

14. The administration estimates that the full annualized cost of implementing the demonstration project would total approximately $172,800,000 ($62,200,000 (state), $100,800,000 FED, and $9,800,000 (county)). Table 3 identifies these cost estimates. The figures identified as GAMP and WCDP costs reflect current base funding for these programs, rather than increased costs.

TABLE 3

Total Projected Annual Costs at Full Implementation

	State	Federal	County	Total
GAMP	$13,100,000	$18,300,000	$0	$31,400,000
WCDP	7,600,000	10,700,000	0	18,300,000
Uninsured w/ MH-AODA	20,300,000	42,100,000	9,800,000	72,200,000
Uninsured w/o MH-AODA	21,200,000	29,700,000	0	50,900,000
Total Expansion Costs	$62,200,000	$100,800,000	$9,800,000	$172,800,000

HIRSP Participants and the Demonstration Project

15. HIRSP offers health insurance to Wisconsin residents who either are unable to find adequate health insurance coverage in the private market due to their medical conditions or who have lost their employer-sponsored group health insurance. The health benefits offered under HIRSP are not as extensive as the benefits offered under MA and have much higher premium and cost-sharing requirements.

16. An argument could be made that the provision that prevents individuals who are currently enrolled in HIRSP, or who have had HIRSP coverage within six months before they apply for the MA demonstration project from enrolling in the project, is unfair to current low-income HIRSP enrollees, and should be deleted from the bill. The administration included the provision to prevent individuals who currently receive coverage under HIRSP from instead enrolling in the demonstration program, as a way to prevent this type of "crowd-out" from occurring.

If this provision were deleted from the bill, it is estimated that the annual cost of the demonstration project would increase by approximately $5.5 million ($2.3 million GPR and $3.2 million FED), based on an assumption that 2,600 current HIRSP enrollees would choose to participate in the demonstration project (2,600 enrollees x $175 per month per enrollee x $12 months per year). However, due to the assumed January, 2009, start-up date, the estimated additional cost in 2008-09 would be much less -- approximately $2.2 million ($0.9 million GPR and $1.3 million FED).

Effect on Counties

17. The plan would not include coverage of mental health or AODA treatment services. Enrollees would continue to receive these services through county health and human services departments. The proposal would not create new mental health service obligations for the counties, but rather, permit the state to claim federal MA matching funds for mental health and AODA treatment services individuals already receive.

18. Under the administration's projections, counties, in aggregate, would expend approximately $9.8 million annually for mental health services provided to participants in the demonstration project. As a result, counties would save approximately $13.5 million annually, in aggregate, as these costs would instead be supported with federal MA matching funds. In effect, counties would provide the same services that they currently provide, but the services provided to individuals in the demonstration project would be eligible for federal matching funds.

19. Under the proposal, Milwaukee County would only be required to fund medical costs to the GAMP program at the level of their current IGT contribution, which is approximately $5.5 million less than the amount of county tax levy expended for the program currently. Milwaukee County's current tax levy support for these services is approximately $12.5 million, and the County currently provides $5 million for their contribution to the IGT program. Under the proposal, Milwaukee County would save $5.5 million annually.

20. If the Committee wishes to approve the Governor's proposal, funding in the bill should be increased by $1,120,300 SEG (or GPR) and reduced by $343,500 FED in 2008-09. This change reflects a technical correction to the administration's original calculations of the costs to provide the services to recipients that are currently uninsured and not in GAMP or WCDP.

21. Due to the uncertainty over CMS' approval of this proposal, the Committee may wish to direct DHFS to proceed with negotiations with CMS to implement the demonstration project, but defer funding and statutory changes until the Committee receives additional information on the conditions that CMS would establish for the program. Since, under the Governor's budget, the program would not begin until January 1, 2009, statutory and funding changes to implement the proposal could be approved under separate legislation.

ALTERNATIVES TO BILL

1. Adopt the Governor's recommendation. However provide an additional $1,120,300 SEG and reduce funding by $343,500 FED in 2008-09 to reflect the administration's revised estimate of the cost of this proposal, as described in Discussion Point 20.

ALT 1	Change to Bill Funding	Change to Base Funding
SEG	$1,120,300	$7,274,000
FED	- 343,500	12,977,300
Total	$776,800	$20,251,300

2. Delete the provision. Direct DHFS to submit a waiver request to CMS to conduct a demonstration project to provide health care coverage for primary and preventive care services to adults under the age of 65 who have family income up to 200% of the FPL, who are not otherwise eligible for MA, BadgerCare, or Medicare. Require DHFS to submit a report to the Joint Committee on Finance and the appropriate standing committees of the Legislature that identifies: (a) the terms and conditions of the CMS-approved waiver; and (b) proposed legislation, including proposed funding changes, that is consistent with the provisions approved by CMS.

ALT 2	Change to Bill Funding	Change to Base Funding
SEG	- $6,153,700	$0
FED	- 13,320,800	0
Total	- $19,474,500	$0

3. Delete provision.

ALT 3	Change to Bill Funding	Change to Base Funding
SEG	- $6,153,700	$0
FED	- 13,320,800	0
Total	- $19,474,500	$0

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