



## FY10 House 1 Budget Recommendation:

### Policy Brief

Deval L. Patrick, Governor

Timothy P. Murray, Lt. Governor

# Health Care - H1 Revised

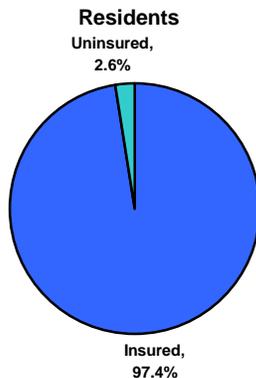
## Governor's Proposal

With the enactment of Chapter 58 of the Acts of 2006, Massachusetts embarked on a historic, first-in-the-nation initiative to expand health insurance coverage to virtually all of its residents. Health care reform expands health insurance coverage by:

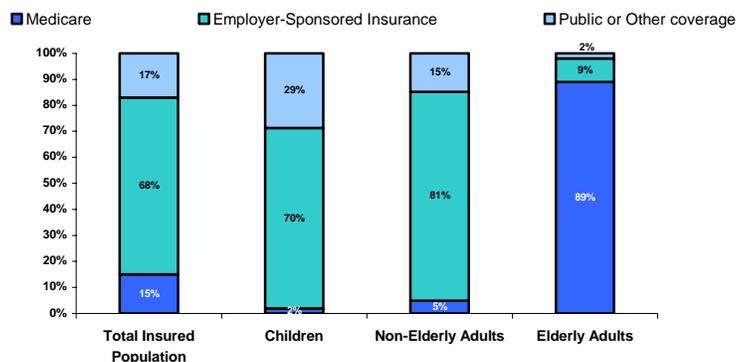
- requiring individuals who can afford health insurance to enroll in coverage;
- offering individuals a greater choice of affordable private health coverage plans through insurance reform and the creation of the Commonwealth Health Insurance Connector Authority;
- providing low-income individuals with new opportunities for affordable, government-subsidized coverage through Commonwealth Care and expanded Medicaid coverage; and
- obliging employers to do their "fair share" by offering health insurance to their employees or otherwise contributing to the cost of covering their employees through state health programs.

Health care reform has already been a dramatic success. The most recent state survey results indicate that over 97 percent of our state's residents were enrolled in health insurance in 2008, and numerous surveys confirm improvements in access to needed care.

Uninsurance Rate for all Massachusetts



Type of Health Insurance Coverage by Age Group



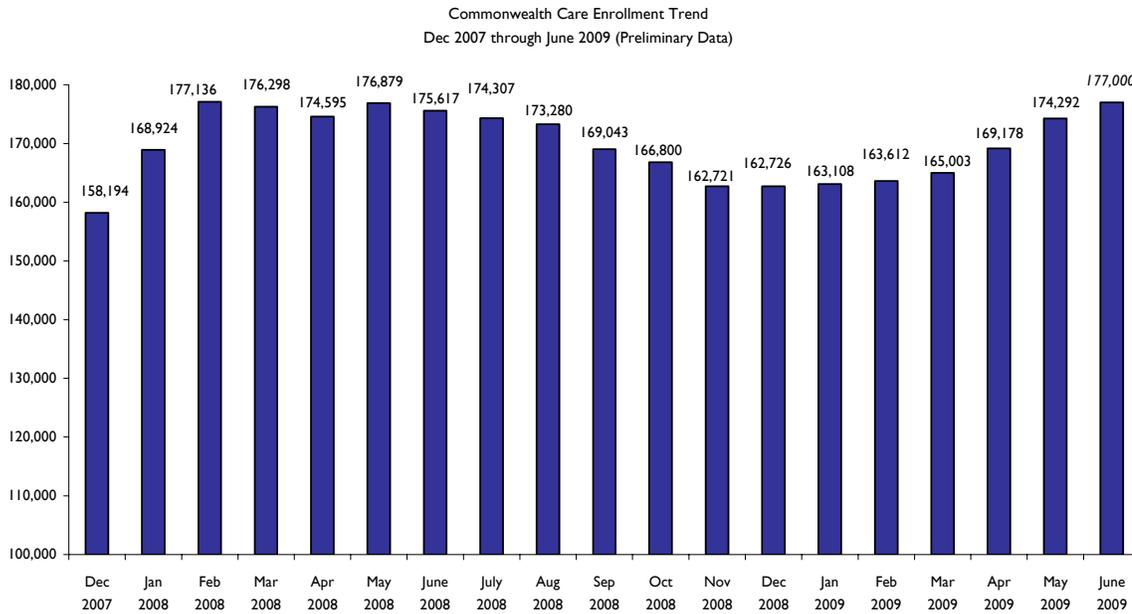
Source: Division of Health Care Finance and Policy, [Health Insurance Coverage in Massachusetts: Estimates from the 2008 Massachusetts Health Insurance Survey](#), December 2008. Prepared by the Urban Institute.

Despite growing fiscal and enrollment pressures rooted in a severe economic downturn, the Administration's revised fiscal year 2010 budget reflects a continuing commitment to health care reform and the recognition that MassHealth and Commonwealth Care are core components of the safety net for low-income residents of our state. While MassHealth and Commonwealth Care are not exempt from the types of difficult budget choices forced by declining tax revenues and found throughout revised House 1, this fiscal blueprint increases funding for these programs above fiscal year 2009 levels and maintains eligibility for all adults and children who are currently qualified including Aliens with Special Status (legal, documented immigrants who are currently ineligible for federal reimbursement). To maintain eligibility in the face of a \$1.5 billion decrease in available tax revenues, our revised fiscal year 2010 budget prioritizes savings opportunities in these programs and eliminates dental coverage for adult enrollees.

**Commonwealth Care**

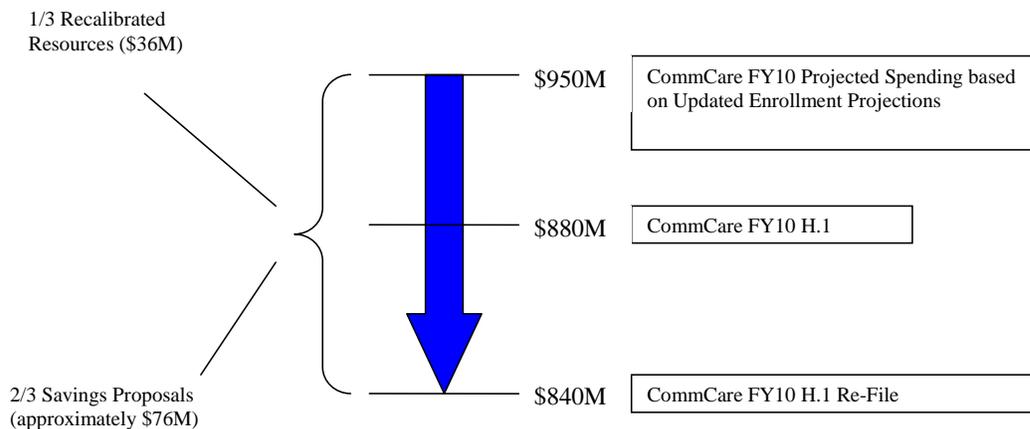
Commonwealth Care was created by the enactment of health care reform. It offers subsidized health insurance to adults whose incomes are at or below 300 percent of the federal poverty level and who are not eligible for other government-subsidized or employer-sponsored coverage.

After over a year of stable or slightly declining membership, enrollment in Commonwealth Care has begun to increase significantly in the past three months. As of June 1, 2009, there are approximately 177,000 adults estimated to be enrolled in Commonwealth Care.



Source: The Commonwealth Connector Authority, June 2009.

The Administration’s revised fiscal year 2010 budget includes \$840 million for Commonwealth Care, a 5.6 percent increase over current fiscal year 2009 projections. This state budget contribution for fiscal year 2010 would accommodate moderate additional growth in the program and continue to offer coverage to Aliens with Special Status. On top of holding health plan rate increases to 0%, the Administration’s budget envisions a series of cost-savings and resource initiatives designed to accomplish these objectives within tight overall budget constraints and escalating Commonwealth Care enrollment pressures. These initiatives include \$76 million in cost-savings (mainly from changing policies regarding auto-assignment and auto-reenrollment in health plans and dental coverage for Plan Type 1 enrollees) and \$36 million from recalibrating other resources (e.g., using approximately \$10 million in contributions from the Connector’s administrative budget).



**MassHealth**

The Massachusetts Medicaid (MassHealth) program provides health insurance to more than one million low- and moderate-income Massachusetts children, adults, seniors and people with disabilities. Health care reform expanded MassHealth eligibility coverage to children with incomes up to 300 percent of the federal poverty level and broadened eligibility for the Insurance Partnership Program to individuals up to 300 percent of the federal poverty level. It also restored certain benefits that had previously been cut.

The Administration’s revised fiscal year 2010 budget includes \$8.806 billion for MassHealth. Excluding spending that was previously off-budget, MassHealth’s fiscal year 2010 budget totals \$8.52 billion (1.2% percent over estimated fiscal year 2009 on-budget spending). Through eligibility expansions and enrollment of eligible individuals through the Virtual Gateway, a more streamlined member-tracking system, MassHealth has seen caseload increases in recent years. The fiscal year 2010 budget continues to fund projected enrollment growth in the MassHealth program. It also continues funding for the Essential Community Provider Trust Fund and invests in care management and proactive, coordinated primary care based on the “Medical Home” model.

|                 | FY06      | FY07      | FY08      | FY09      | FY10      |
|-----------------|-----------|-----------|-----------|-----------|-----------|
| <b>HMO</b>      | 329,723   | 349,407   | 373,684   | 403,381   | 426,580   |
| <b>PCC</b>      | 290,351   | 294,035   | 303,623   | 315,197   | 324,462   |
| <b>TPL</b>      | 150,463   | 158,556   | 161,185   | 164,174   | 166,203   |
| <b>SENIORS</b>  | 121,946   | 124,607   | 125,690   | 127,439   | 128,541   |
| <b>FFS</b>      | 149,862   | 168,238   | 174,542   | 180,732   | 185,991   |
| <b>Total</b>    | 1,042,345 | 1,094,844 | 1,138,725 | 1,190,923 | 1,231,777 |
| <b>% Change</b> | 5.5%      | 5.0%      | 4.0%      | 4.6%      | 3.4%      |

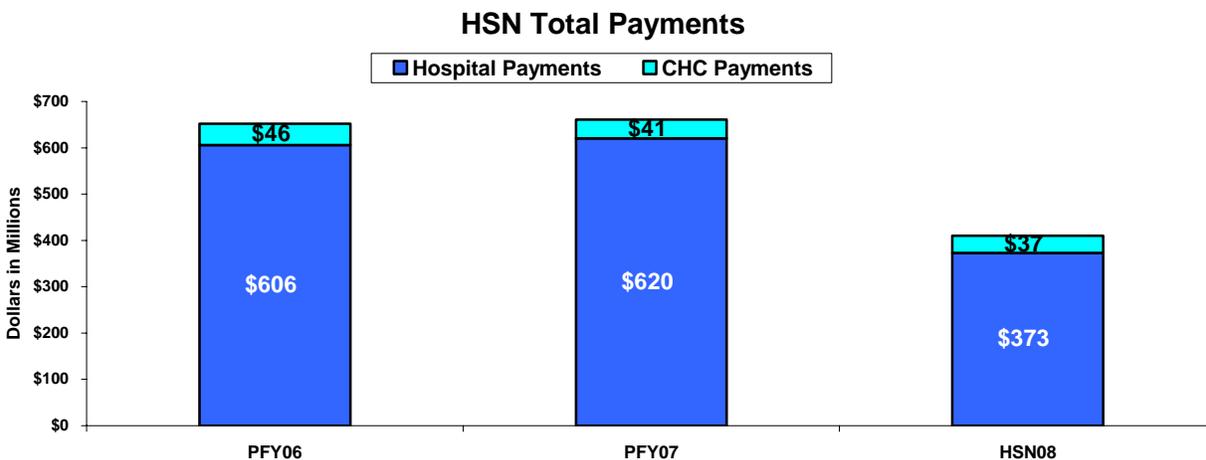
The revised fiscal year 2010 MassHealth budget reflects a total of \$521 million in gross savings (\$260 million in net savings). With the help of additional federal matching funds for state Medicaid spending under the federal recovery act, our revised budget blueprint largely maintains MassHealth spending anticipated in the initial House 1 filing. However, the recent dramatic decrease in state tax revenues has required some cuts beyond those included in the initial House 1 – comprised mostly of the elimination of adult dental benefits. The budget also includes \$13 million in gross (\$7.5 million net) targeted investments needed to achieve many of these savings. When accounting for off-budget reductions, gross savings total \$538 million (\$269 million net). Categories of savings include limiting rate increases, expanding pay-for-performance, service program changes (providing coordinated care in appropriate settings), utilization management (e.g., expedited claims review), pharmacy savings, adult dental benefit reduction, and other savings (e.g., elimination of Community First, certain grants and other pilot programs).

| Savings Initiative Title                                | Gross Amount            |                                | Gross Variance between Original H.1 and H.1 refile |
|---|-------------------------|--------------------------------|--|
|   | FY10 Original (January) | Gross Amount FY10 Refile (May) |  |
| <b>On-Budget Savings</b>                                |                         |                                |  |
| Rates   | \$ (178)                | \$ (202)                       | \$ (24)  |
| Pay-for-Performance (P4P)                               | \$ (62)                 | \$ (62)                        | \$ -   |
| Service Program changes                                 | \$ (38)                 | \$ (38)                        | \$ -   |
| Payment and Pricing Strategies                          | \$ (43)                 | \$ (43)                        | \$ -   |
| Utilization Management                                  | \$ (31)                 | \$ (31)                        | \$ -   |
| Pharmacy  | \$ (20)                 | \$ (20)                        | \$ -   |
| Benefits (Adult Dental)                                 | \$ (105)                | \$ (105)                       | \$ (105)   |
| Other   | \$ (10)                 | \$ (33)                        | \$ (23)  |
| <b>Subtotal On-Budget Savings</b>                       | <b>\$ (382)</b>         | <b>\$ (534)</b>                | <b>\$ (152)</b>                                    |
| <b>On-Budget Investments</b>                            |                         |                                |  |
| Specialty Hospital Rate Adjustment                      | \$ 12                   | \$ -                           | \$ (12)  |
| Pay-for-Performance (P4P) Administration                | \$ 3                    | \$ 3                           | \$ -   |
| Primary Care/Medical Home/Care Management               | \$ 10                   | \$ 10                          | \$ -   |
| <b>Subtotal On-Budget Investments</b>                   | <b>\$ 25</b>            | <b>\$ 13</b>                   | <b>\$ (12)</b>                                     |
| <b>Total Savings and Investments On-Budget</b>          | <b>\$ (357)</b>         | <b>\$ (521)</b>                | <b>\$ (164)</b>                                    |
| <b>Off-Budget Savings</b>                               |                         |                                |  |
| CCTF Savings  | \$ (17)                 | \$ (17)                        | \$ -   |
| <b>Subtotal Off-Budget Savings</b>                      | <b>\$ (17)</b>          | <b>\$ (17)</b>                 | <b>\$ -</b>  |
| <b>Total Savings and Investments On- and Off-Budget</b> | <b>\$ (374)</b>         | <b>\$ (538)</b>                | <b>\$ (164)</b>                                    |

**Health Safety Net**

Overseen by the state's Division of Health Care Finance and Policy, the Health Safety Net (HSN) ensures access to essential health care services for low- and moderate-income uninsured or underinsured residents, by making payments to hospitals and community health centers for allowable services provided to this population.

Our efforts to promote enrollment in health insurance coverage have resulted in decreased Health Safety Net utilization and payments. As compared to Uncompensated Care Pool fiscal year 2007, Health Safety Net payments decreased dramatically by 38 percent in Health Safety Net 2008 (from \$661 million to \$410 million).



Source: Division of Health Care Finance and Policy, Health Safety Net 2008 Annual Report, December 2008

For current budget planning, Health Safety Net spending assumptions for fiscal year 2009 and fiscal year 2010 are based on spending assumptions submitted in connection with the recent renewal of the Commonwealth's Medicaid waiver for fiscal years 2009-11. Based on these spending assumptions:

- The Health Safety Net would have a \$32 million surplus in fiscal year 2009, as a general fund contribution of \$48 million is larger than needed to fund this spending (given surpluses in the Health Safety Net and spending pressures in other health care programs, the Administration has recently proposed reducing the fiscal year 2009 general fund contribution from \$63 million to \$48 million)
- The fiscal year 2010 budget does not include a general fund contribution to the Health Safety Net, as assessments from insurers and providers and offset funding (totaling \$390 million) are sufficient to fund spending consistent with waiver assumptions.

| Health Safety Net Trust Fund- Sources |                      |                      |                      |
|---------------------------------------|----------------------|----------------------|----------------------|
|                                       | FY08                 | FY09                 | FY10                 |
| Assessments & Offsets                 | \$380,000,000        | \$390,000,000        | \$390,000,000        |
| General Fund Contribution             | \$ 49,600,000        | \$ 48,000,000        | \$ -                 |
| Previous Year Balance Transfer        | \$ 24,000,000        |                      |                      |
| <b>Total Sources</b>                  | <b>\$453,600,000</b> | <b>\$438,000,000</b> | <b>\$390,000,000</b> |

| Health Safety Net Trust Fund- Uses* |                       |                       |                       |
|-------------------------------------|-----------------------|-----------------------|-----------------------|
|                                     | FY08                  | FY09                  | FY10                  |
| Hospital Payments                   | \$ 372,600,000        | \$ 368,658,801        | \$ 346,000,000        |
| CHCs                                | \$ 37,000,000         | \$ 31,341,199         | \$ 29,000,000         |
| Demos (Admin)                       | \$ 6,000,000          | \$ 6,000,000          | \$ 6,000,000          |
| <b>Total Uses</b>                   | <b>\$ 415,600,000</b> | <b>\$ 406,000,000</b> | <b>\$ 381,000,000</b> |
| <b>Sources less Uses</b>            | <b>\$38,000,000**</b> | <b>\$ 32,000,000</b>  | <b>\$ 9,000,000</b>   |

\* Health Safety Net payments for fiscal years 2009 and 2010 based on waiver spending projections.

\*\* Carried as a reversion on state balance sheet for fiscal year 2009 to minimize need for further emergency spending cuts to other health care programs.

The Administration does acknowledge that there is uncertainty around Health Safety Net fiscal year 2009 and fiscal year 2010 program costs. In particular, it is difficult to predict fiscal year 2010 Health Safety Net costs given economic uncertainty and lags in data, and it is possible that demand might exceed waiver spending assumptions. Thus, the budget currently retains \$32 million of fiscal year 2009 funding in excess of waiver spending assumptions within the Health Safety Net Trust Fund as a "cushion" that can be applied to support actual spending needs. We will continue to closely monitor the Health Safety Net and, based on updated information, refine our projections of its fiscal year 2009 and 2010 needs.