

MMPI Budget Bulletin

Initial Review: The FY 2006 Massachusetts Medicaid Budget Governor's Bill (House 1)

Introduction

On Wednesday, January 26, 2005, the Romney Administration released its FY 2006 House 1 Budget. House 1 is the Governor's proposed spending plan for the Commonwealth's next fiscal year, Fiscal Year 2006, beginning July 1, 2005 and ending June 30, 2006. The proposed FY 2006 House 1 Budget totals \$23.22 billion, up 2.4 percent from projected spending of \$22.67 billion for the current fiscal year. The Medicaid portion of the budget is \$7.29 billion, a 5.6 percent increase over projected spending of \$6.91 billion in the current fiscal year. Total Medicaid spending accounts for 28.6 percent of the proposed budget, a small increase over this year's 28.0 percent.

Following are highlights of the FY 2006 House 1 Budget that concern the Massachusetts Medicaid program, known as MassHealth, based on currently available information.

1. Highlights of FY 2006 House 1 MassHealth Budget Proposal

Table 1: General MassHealth Budget Highlights

Category of Comparisons	FY 2006 Proposed (\$ millions)	FY 2005 Projected (\$ millions)	Percent Difference
MassHealth Line Item Appropriation Totals*	\$ 6,639.6	\$ 6,533.9	+1.6%
MassHealth Reversion Estimate**		– \$ 200.0	
MassHealth Line Items ***	\$ 6,639.6	\$ 6,333.9	+4.8%
Off-Budget Adjustments ****	\$ 652.6	\$ 573.9	See Table 3 for details
Total MassHealth Spending	\$ 7,292.2	\$ 6,907.8	+5.6%
MassHealth Enrollment	1,013,230	973,230 [†]	+3%

* FY 2005 Appropriations include all line items approved by Legislature plus \$4.5 M in prior appropriations continued.
 ** As a general rule, Medicaid must return all unspent monies appropriated by the Legislature to the General fund at the end of each fiscal year.
 *** FY 2005 anticipated spending is after estimated \$200M Reversion.
 **** See Table 3 for Details of projected FY 2006 and FY 2005 Off Budget Adjustments.
 † as of 12/31/04

All data in all tables in this report are from information provided by Commonwealth of Massachusetts documents or staff.

General MassHealth Program Highlights

- House 1 projects MassHealth total expenditures will be \$7.29 billion in FY 2006, an increase of \$384 million, or 5.6 percent, from FY 2005 total anticipated costs of \$6.91 billion. This increase compares to a 2.4 percent increase over FY 2005 spending in the total House 1 budget.
- Total MassHealth projected spending for FY 2006 is 28.6 percent of the state's budget, up from 28.0 percent in FY 2005. Approximately one-half of the state's spending on Medicaid is federally reimbursed.
- The House 1 FY 2006 Line Item Budget for MassHealth is \$6.64 billion, an increase of 1.6 percent over the FY 05 MassHealth appropriation, and 4.8 percent over projected FY 2005 spending. Because total spending for FY 2005 is expected to be less than the Legislature's appropriation, House 1 also anticipates a \$200 million reversion from MassHealth to the General Fund for FY 2005.
- House 1 projects that MassHealth enrollment rate will grow by approximately 40,000 new enrollees. (Though not included in House 1 Budget documents, this number was obtained in discussions with state budget staff.)

Specific MassHealth Line Item Highlights

Some MassHealth line items have been reduced significantly, and some have been substantially increased. A major reason for some of the larger reductions (or relatively small increases) is the anticipated decline in drug expenditures for MassHealth members who are also eligible for the new Medicare Part D drug benefit that begins in January 2006. These reductions are largely offset by a new state contribution to the federal financing of this benefit (the so-called “clawback”). Many of the increases reflect expected increases in enrollment and health care costs. In addition, two significant programs – MassHealth Essential and the Medicare Buy-In – are now included in line items where previously they had been funded “off-budget.” The large increase in the Senior Care Options account reflects FY 2005 expenditures that fell well short of what was appropriated for the program; the proposed amount for FY 2006 is only 4.2 percent over the FY 2005 appropriation.

Table 2. Selected MassHealth Accounts from FY 2006 House 1 Budget

Acct. #	Description	FY 2006 proposed (\$millions)	FY 2005 Projected Spending (\$ millions)	Change from FY 2005 to FY 2006 House 1
4000-0300	EOHHS/MassHealth Admin.	\$ 123.7	\$ 121.7	+1.7%
4000-0301	Auditing & Utilization Review*	\$ 1.5	\$ 0.0	New
4000-0320	MassHealth Retained Revenues	\$ 291.0	\$ 333.5	-12.7%
4000-0352	Enrollment Outreach Grants*	\$.3	\$ 0.0	New
4000-0430	CommonHealth	\$ 75.2	\$ 78.6	-4.2%
4000-0500	Managed Care Plans	\$ 1,997.2	\$ 2,279.4	-13.3%
4000-0600	Senior Care Plans	\$ 1,784.0	\$ 1,697.7	+5.1%
4000-0620	Senior Care Options (SCO)	\$ 86.8	\$ 23.3	+272.8%
4000-0700	Indemnity/TPL	\$ 1,498.1**	\$ 1,204.8	+24.3%
4000-0870	MassHealth Basic	\$ 56.4	\$ 107.5	-47.6%
4000-0875	Breast & Cervical Cancer Trtmt.	\$ 5.0	\$ 2.8	+76.3%
4000-0880	Family Assistance Plan	\$ 26.4	\$ 40.6	-34.9%
4000-0890	Employer Premium Assistance	\$ 36.0	\$ 21.3	+68.4%
4000-0891	Employer Insurance Partnership	\$ 6.3	\$ 5.0	+27.2%
4000-1400	MassHealth HIV	\$ 6.9	\$ 7.3	-5.4%
4000-1405	MassHealth Essential (O.S.)	\$ 155.9***	\$ 129.4	+20.5%
4000-1420	Medicare Part D Contribution*	\$ 120.0	\$ 0.0	New

O.S.=Outside Section
 * House 1 presents these appropriations as new programs for FY 2006.
 ** Includes \$238 million for the Medicare Buy-In program, previously off-budget
 *** MassHealth Essential was funded in an O.S for FY 2005 and until 10/1/05 per House 1 proposal. The 20.5% increase in MassHealth Essential combines the \$119.4 M appropriation plus \$36.5 M of FY 2006 projected Off Budget spending for the program. See Table 3 for details.

Off Budget Spending and Adjustments in House 1

House 1 off-budget spending and adjustments for MassHealth include the items listed in Table 3.

Table 3. House 1 Projected FY 2006 and FY 2005 Off-Budget Spending and Adjustments

Item Descriptions	FY 2006 Expenditures	FY 2005 Expenditures
Off Budget Spending	(millions of dollars)	
Health Care Quality Improvement Trust Fund	\$288.5	\$288.5
MassHealth Essential*	\$ 36.5	\$129.4
Medicare Buy-In**	\$ 0	\$231.8
Subtotal Off Budget Spending	\$325.0	\$649.7
Other Adjustments		
FY 2004 Accounts Payable Spending		\$251.8
FY 2005 Accounts Payable Spending	\$327.6	-\$327.6
Subtotal Other Adjustments	\$327.6	-\$ 75.8
Total Off Budget Spending and Adjustments	\$652.6	\$573.9
See Table 1. "FY 2006 Projected House 1 Off Budget Adjustments" is the summary of this information.		
* House 1 proposes to move MassHealth Essential on-budget as of 10/1/05. The line-item budget for the remainder of the year is \$119.4 million.		
** House 1 proposes to move Medicare Buy-In costs on-budget (4000-0700) in FY 2006.		
Health Care Quality Improvement Trust Fund expenditures relate to nursing home and pharmacy costs.		

New initiatives proposed in House 1

- \$1.5 million for additional auditing activities and program integrity initiatives in the MassHealth budget (4000-0301).
- \$250,000 for MassHealth Enrollment Outreach grants (4000-0352).
- \$120.0 million to support federally mandated payments associated with Medicare Part D. This "clawback" payment is offset by a reduction in several MassHealth line items for prescription drug spending for MassHealth members who are also Medicare beneficiaries (4000-1420).
- The enrollment cap for MassHealth Essential (4000-1405) has been increased from 36,000 to 44,000.

Outside Sections related to MassHealth

There are a limited number of provisions relating to MassHealth in the outside sections of House 1. Several instruct state agencies to maximize third party and federal reimbursements. Most notable, Section 83 changes the schedule of rate reviews for nursing homes from annual to biennial. If adopted, this section would effectively freeze nursing home rates for a year, and subsequently direct the Executive Office of Health and Human Services to update the rates every two years.

2. Other Considerations

Enrollment Growth

House 1 assumes MassHealth enrollment will increase by about 40,000 in FY 2006, or about 3+ percent. This compares to recent enrollment increases of about 2.7 percent over the last six months (through December 31, 2004) and nearly 5 percent over the last 12 months.

In November 2004, Governor Romney stated that there are approximately 106,000 people eligible for MassHealth who are uninsured, based on data collected between March and August 2004. The Romney administration has projected that approximately 40,000 of these individuals will enroll by the end of FY 2005. House 1 assumes an additional 20,000 unenrolled eligible individuals will be enrolled during FY 2006. Other individuals joining and leaving the MassHealth rolls will also have some impact on overall FY 2006 enrollment levels.

3. Outlook

At the press conference announcing his budget, Governor Romney stated that his administration had “tamed the Medicaid beast.”¹ From FY 2004 to FY 2005, total MassHealth spending (on and off budget) is projected to rise 9.7 percent, from \$6.3 billion to \$6.9 billion. This spending increase is in the context of an enrollment increase of about 5 percent. The enrollment increase in FY 2006 is projected to be around three percent. In this light, keeping the overall spending increase to 5.6 percent, while ambitious, seems a reasonable projection given existing cost control initiatives (drug cost containment programs, the implementation of the Virtual Gateway, purchasing reforms, disability reviews). There are a number of factors connected to the assumptions that underlie this budget, variation in which would upset the projections. Among the possibilities that warrant monitoring are:

- Enrollment increases may exceed the projected three percent if, for example, planned outreach by the Commonwealth and other groups is more successful than anticipated, and more of those who are uninsured and eligible for MassHealth enroll in the program.
- Increased enrollment might also result from a “woodwork effect” as the Medicare Part D drug benefit begins, as people who enroll in Part D also discover they are eligible for MassHealth. In addition, the calculation of the state’s “clawback” payment is still an estimate and may fluctuate over time.
- Though the federal government has approved the extension of the MassHealth waiver, the complete terms and conditions have yet to be finalized.

MMPI will update this bulletin as the state budget process proceeds.

Additional Resources for Budget Information

Massachusetts Public Budgets

www.state.ma.us/legis/

Massachusetts Taxpayers Foundation

www.masstaxpayers.org

Health Care for All

www.hcfama.org

Massachusetts Budget and Policy Center

www.massbudget.org

Massachusetts Legal Services

www.masslegalservices.org

Massachusetts Law Reform Institute

www.mlri.org

This bulletin was researched and written by Thomas Taylor of Managed Results, Inc. and Robert Seifert of MMPI

¹ A. Dembner, “Proposal Assumes Healthcare Costs Will Rise Just 5.6%.” *Boston Globe*, January 27, 2005.