



## Health Care Highlights of the 2009-11 Budget

Jon Peacock, updated Sept. 8, 2009

One of the key areas of the state budget for children and families is health care spending. This article provides an overview of the major provisions relating to health care in the 2009-11 budget bill and looks ahead to the challenges the state will face in 2011-13.

In general, our assessment of the health care items in the budget bill is very similar to our overall assessment of the budget:

- We were relieved that safety net programs for low-income families were protected.
- We are worried about the implications of substantial cuts in Medicaid reimbursement and in agency administration.
- There are a number of non-fiscal policy items, which are generally very positive (though we would have preferred to see them go through the regular legislative process).
- Federal stimulus funding played a key role in preserving existing programs, but the expiration of that funding in 2011 will make it very challenging to balance the next biennial budget.

The following is a summary of the key portions of the budget bill relating to health care.

### **Maintaining Coverage and Increasing Spending**

One of the very positive aspects of the budget bill is that it protects current eligibility standards and cost-sharing policies for the state's health care safety net programs – maintaining the progress Wisconsin made in approaching the goal of making health care accessible for all children. The budget also maintains and funds the state's commitment to expand coverage to childless adults, beginning on July 15, 2009. That plan had been authorized by the Legislature in the 2007-09 budget bill, but without any funding.

The state was able to protect Medicaid and BadgerCare Plus because of a large infusion of federal aid in the federal stimulus bill – in the form of a temporary increase in the federal share of Medicaid spending, known as the Federal Medical Assistance Percentage (FMAP). Wisconsin expects to get nearly \$1.3 billion from the FMAP increase, which will end on December 31, 2010.

Balancing the Medicaid budget and protecting existing programs was also aided by increased federal funding from the bill reauthorizing and increasing spending for the Children's Health Insurance Program (CHIP), and from the new hospital assessment that was initiated by the state budget repair bill enacted in February. That assessment, which was endorsed by the Wisconsin Hospital Association, is being used both to increase hospitals' Medicaid reimbursement rates and to fund the childless adult coverage.

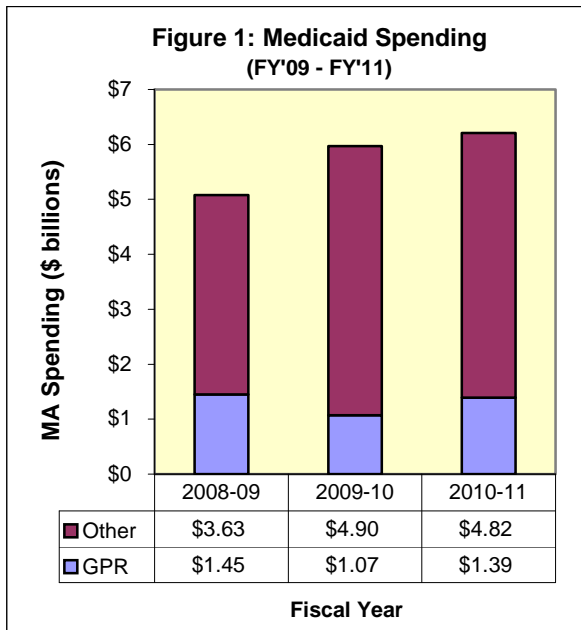


Figure 1 shows the trends for combined Medicaid and Badger Care spending. Total spending for those two programs (excluding SeniorCare) grows from a little less than \$5.1 billion in the just-completed fiscal year to almost \$6 billion in 2009-10 and to slightly over \$6.2 billion in 2010-11 – a 22 percent increase over 2 years. Yet, as the table illustrates, the state share dropped significantly in 2009-10 and to a lesser extent in 2010-11. That drop can be attributed in large part to the temporary increase in the federal share of Medicaid (FMAP) from the federal stimulus bill, which reduces the state share of Medicaid spending by about \$606 million in 2009-10 and nearly \$317 million in 2010-11.

Much of the growth in the total spending level has been driven by general increases in the cost of health care services and by rapidly rising caseloads, which are being propelled higher by the recession. The total increase in state and federal spending that is attributable to simply maintaining Medicaid and BadgerCare Plus is \$1.1 billion over the biennium. Yet an even larger part of the budget growth relates to the new assessment for hospitals and ambulatory surgical centers, which results in a net spending increase of nearly \$1.4 billion.

### Finding \$600 million from “rate reforms”

Notwithstanding the increased federal funding and the hospital assessment, there is also bad news for Medicaid in the budget bill. Of particular note is that Act 28 directs DHS to cut \$205 million of state General Fund spending for Medicaid and BadgerCare Plus spending over the next two fiscal years, and a total of about \$600 million in combined state and federal funds. The department worked with providers in developing a “rate reform” plan that is intended to maintain current coverage levels, continue expansion of coverage to the uninsured, and avoid across-the-board cuts to providers.

The department unveiled a proposed plan in mid-July, and then – after another round of meetings and some minor revisions – announced the final plan on September 2, 2009. DHS projects that it will save \$202 million GPR. These are the major elements of the final plan:

- Almost \$212 million of savings from managed care, including \$39.5 million in 2010-11 from entering into a competitive bidding situation in Southeast Wisconsin, with the goal of reducing costs and increasing quality.
- Other sources of managed care savings include capping administrative costs at 14%, (saving \$25.7 million), not distributing a small rate increase approved in the budget (\$18.5 million), accelerating the January payment to take advantage of the higher federal match rate in 2010 (\$9.8 million), and delaying the June 2011 payments (moving \$94 million into the following biennium).

- More than \$142 million in pharmacy cost-savings, including \$63 million expected to come from the transition from brand to generic drugs, and \$45 million from alternative maximum allowable charge (MAC) pricing.
- About \$72 million from long term care, including \$15.3 million from updating acuity status of residents on a more frequent basis, and \$19 million from a one-month delay in Family Care payments.
- \$48.8 million in physician savings, of which \$21 million is identified as "evidenced-based health care initiatives," which are intended to align payment with value rather than volume.
- An estimated \$50 million in administrative savings, including \$20 million from a one-month delay in claims payments.
- \$25.2 million in hospital savings, which include \$18 million identified as "critical access hospital payment reform."

A large portion of the savings, about \$157 million total (all funds), comes from one-time measures. That includes \$23.8 million GPR that is saved by moving certain January 2011 payments ahead a month, thereby taking advantage of the increase in federal cost sharing for Medicaid, which ends on December 31, 2010. In addition, the bill delays \$133.5 million of payments until July 2011, moving them into the next biennium. Although the use of one-time measures reduces the long-term cost-cutting that is accomplished, the remainder of the plan still reduces GPR spending for Medicaid by about \$90 million GPR in the second year of the biennium, which is the key figure when we look ahead to the challenge of balancing the 2011-13 biennial budget.

Further information about the preliminary plan can be found in a [PowerPoint presentation](#) on the department's website at:

### **Other Medicaid and BadgerCare Plus Changes**

The following are some of the other provisions relating to Medicaid and BadgerCare Plus that were either enacted in the budget bill or were vetoed by the Governor:

- *New BC+ buy-in option* – The bill creates a narrow new eligibility category for coverage under the BadgerCare Plus Benchmark Plan for certain people who lose their insurance because of the bankruptcy of a family member's employer, if the individual received coverage through a voluntary employment benefit association.
- *Quality of care reforms* – The Governor vetoed a Senate amendment that would have required DHS to implement quality of care improvements; however, an emphasis on improving quality will be a significant part of the DHS plan to re-bid the HMO contracts in Southeast Wisconsin.
- *Charging counties for certain patients in mental health institutes* – The bill charges counties for the state share of the Medicaid costs for caring for children and elderly patients at the state mental health institutes. Those charges are partially offset by increased funding for county community support programs, but there is still a net cost for counties of at least \$2.8 million, and a net GPR savings for the state of almost \$8.3 million.

- *Medicaid support for Birth-to-Three program* – The bill directs DHS to seek a waiver allowing home or community-based Medicaid services to children served by the Birth-to-Three program. Assuming the waiver is approved, the state would save about \$1.5 million, and counties would receive about \$3.6 million in federal funds.
- *Medical home pilot project* – A measure added to the bill by the Joint Finance Committee requires DHS to develop a pilot project that increases reimbursement to physicians services provided as part of a Patient-Centered Medical Home recognized by the National Committee on Quality Assurance.
- *Family planning* – The bill expands the [Family Planning Waiver](#) to low-income men, who will be able to get family planning health care such as sexually transmitted infections testing and treatment.

## Dental Issues

Although the versions of the budget bill recommended by the Governor and Joint Finance Committee didn't make many changes relating to oral health care, the Assembly and Senate adopted a number of amendments on dental issues. The Conference Committee approved those amendments, but the Governor vetoed a couple of them. The dental amendments and their final resolution follow:

- *Dental education study* – A Senate amendment that was accepted by the Governor directs the State Building Commission to study the feasibility of the state having a role in expanding access to dental education.
- *Milwaukee dental clinic grant* – Another Senate amendment would have provided \$600,000 for a one-time grant to the Milwaukee Health Services clinic for dental services and equipment, but a veto reduced the grant to \$200,000.
- *Delivery of dental services in SE WI* – An Assembly amendment would have required DHS to use a fee-for-service (FFS) model for delivery of dental services in southeast Wisconsin, beginning Jan. 1, 2010. The Governor vetoed that change, thereby preserving DHS flexibility, but there is still a good chance that the department will switch over to the FFS system in southeast Wisconsin.
- *Marquette dental school and dental services* – The Governor also vetoed an Assembly amendment that would have provided \$171,800 GPR per year to restore base level funding for dental service grants, including funding to support dental services provided by the Marquette School of Dentistry.

## Disability Issues

The following synopsis of budget measures relating to care for people with disabilities comes from the website of the Disability Awareness Wisconsin Network. They note that the budget:

- Provides funds to increase the number of long-term support waiver slots for children with disabilities by 1,000 over four years;
- Continues to expand Family Care statewide, but over three years instead of two;
- Maintains the ratio for the Family Care Ombudsman program of 1 advocate for every 2500 consumers and makes it available to IRIS participants;

- Reduces state funding to Independent Living Centers by 56% or over \$500,000, but restores their base funding level in the next budget;
- Creates a Transportation Manager in non-Family Care counties;
- Increases funding for elderly and disabled transportation by \$1 million;
- Creates a Resource Center to treat female inmates with mental illness;
- Fails to increase the wages and benefits for direct care workers;
- Creates the WI Quality Home Care Authority for home care workers hired by consumers;
- Maintains funding to the Lifespan Respite Care Program; and
- Restructures Southern Wisconsin Center and encourages 70 residents to voluntarily return to the community within two years.

### **Insurance Policy Policy**

The final budget bill contains a number of non-fiscal policy measures relating to insurance coverage, including the following:

- *Autism coverage requirement* – The bill requires insurance policies to cover autism spectrum disorder (incorporating the version of the bill developed in the Assembly health committee).
- *Expanding coverage of dependents* – It includes the provisions of SB 70 requiring health insurance coverage for certain dependents until age 27.
- *Pre-existing conditions* – In the past, Wisconsin law did little to restrict how insurance companies defined and excluded claims based on what they contended were pre-existing conditions. The bill significantly narrows the options for excluding claims – by defining pre-existing conditions as things that occurred in the past year and are reflected in writing in the person’s medical record.
- *Changing insurance policies* – The bill expands consumer choice by requiring insurance companies to allow people to change their health insurance policy within the same company without additional underwriting.
- *Uniform application form* – The bill also requires the development and use of a uniform application form for health insurance, and requires regular reporting of policy denials and rescissions.
- *Contraceptive Equity* – It requires insurance plans that cover prescription drugs to also include coverage for prescription contraceptives.
- *Prescription protection* – The bill helps ensure that no woman is refused her birth control prescription at the pharmacy counter by requiring all pharmacies to have someone available to dispense birth control prescriptions.

### **Challenges Ahead**

The next biennial budget is sure to be another very tough one for the financing of Medicaid and BadgerCare Plus, for a number of reasons:

- *Temporary federal relief* – The FMAP increase, which is the substantial boost in the federal match rate for Medicaid provided by the federal stimulus bill, is scheduled to

expire at the end of 2010. Wisconsin expects to use \$317 million of FMAP funds for Medicaid and SeniorCare in the first half of fiscal year 2010-11. Replacing that funding will require \$634 million in the 2011-13 biennium.

- *Rapidly climbing enrollment* – The recession is causing many Wisconsin residents to lose their jobs, and causing some employers to eliminate or reduce their health care benefits. The result has been very rapid growth in BadgerCare Plus, with average enrollment growth of about 10,000 children and parents each month from January through July 2009. It's unclear when that growth will finally level off or even decline, but it appears very likely that average enrollment in this biennium will be substantially higher than the state estimated just a few months ago.
- *Short-term savings* – The cost containment strategies or rate reforms outlined above include a number of measures that will increase efficiency and could yield increased savings over time, but there are also a few measures, such as deferring payments, that yield only short-term savings. Thus, not all of the \$600 million that is saved will carry forward into the next biennium, and that factor is likely to contribute to the 2011-13 structural deficit. However, that problem will be diminished if the rate reforms have the desired effect of increasing efficiency.

The good news for the state is that the increased federal match rate absorbs some of the cost of growing caseloads over the next year or so, and the FMAP formula in the stimulus bill could raise the federal share again in states where unemployment rates continue to increase. Also, the Children's Health Insurance Program Reauthorization Act (CHIPRA) contains performance bonus funding for states like Wisconsin that have large enrollment increases among lower income children whose coverage is financed with Medicaid funds (provided that the state also manages to satisfy a number of standards for improving enrollment and retention). That legislation will help Wisconsin protect and improve BadgerCare Plus.

Unfortunately, the recession is likely to suppress employment rates for a long time, since jobs are generally the last economic indicator to rebound from an economic downturn. Thus, it seems highly unlikely that BadgerCare Plus enrollment will decline much, if at all, in 2011. Wisconsin and other states will have great difficulty replacing the lost federal funds if Congress doesn't extend the FMAP increases. And fiscal problems could arise even before then, if enrollment continues its rapid growth.

## **Conclusion**

Enactment and implementation of BadgerCare Plus has allowed Wisconsin to take tremendous strides in improving access to health insurance for children and parents. Despite an extremely difficult budget situation, lawmakers managed to protect BadgerCare Plus, and they used a new hospital assessment to fund the expansion of coverage to low-income childless adults.

The recession makes the improved health care safety net all the more important, but it also strains the state's ability to sustain those gains. Some of those strains are illustrated by the \$205 million of GPR cuts (roughly \$600 million all funds) that DHS is required to find in the Medicaid budget.

Fortunately, the federal economic stimulus bill and the new law reauthorizing the Children's Health Insurance Program (CHIP) gave states increased funding and other tools that should

enable Wisconsin to maintain BadgerCare Plus for at least the next couple of years and move even closer to the goal of making health insurance accessible to all children in the state.

On the other hand, if the job picture does not improve significantly by 2011, and if Congress doesn't extend the fiscal relief provided to states through the FMAP increase, Wisconsin and other states will have to face another round of extremely difficult budget choices in the 2011-13 biennium.

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September 8, 2009