

Budget Brief

August 2012

MassHealth and Health Reform Funding in the FY 2013 General Appropriations Act

On June 28, 2012, the legislative Conference Committee charged with reconciling the House and Senate budget proposals released a final version of the Fiscal Year (FY) 2013 budget, and it was approved by the legislature the following day. The Governor signed the budget on July 8th, vetoing some provisions, which the legislature had until the end of the formal legislative session on July 31st to override. In the final days of the session, legislators also approved a carry-over of some FY 2012 revenue for use in the FY 2013 budget, including \$11.0 million for MassHealth that we include in our analysis below.

The approved FY 2013 budget, or General Appropriations Act (GAA), contains a total of \$12.67 billion in funding for

MassHealth and other programs that provide health care for low- and moderate-income residents in Massachusetts, an increase of 4.6 percent over current FY 2012 spending. While this is a higher rate of growth than the rate of overall budget growth, it is lower than it would have been without the adoption of various strategies that are expected to lower costs for MassHealth and other programs. The GAA also includes funding for new initiatives, including investments intended to improve the health delivery system and restoration of coverage for a limited set of dental services. This budget brief details the highlights in this year's budget for MassHealth and health reform programs, and describes the savings assumptions on which it relies.

MassHealth and Health Reform (Millions of Dollars)

		FY 2012 Current Appropriation*	FY 2013 Governor**	FY 2013 General Appropriations Act**
MassHealth (Medicaid)	MassHealth	10,432.27	10,950.86	10,999.72
	MassHealth Administration	89.22	89.72	89.96
	Sub-Total	10,521.5	11,040.6	11,089.7
Commonwealth Care Trust Fund	General Fund Transfer***	745.01	737.12	740.27
	Tobacco Tax Transfer	120.00	192.90	120.00
	Sub-Total	865.0	930.0	860.3
Other Health Finance and Safety Net Funding	HHS Information Technology	81.76	100.48	91.92
	Division of Health Care Finance and Other Initiatives	37.66	29.23	29.23
	Prescription Advantage	21.60	19.00	18.50
	Medical Assistance Trust Fund	394.03	394.03	394.03
	Delivery System Transformation Initiatives Trust Fund	186.91	186.91	186.91
	Health Insurance Technology Trust Fund	0.50	0.00	0.00
	Sub-Total	722.5	729.6	720.6
Total Spending		12,108.96	12,700.24	12,670.54
State Budget Total****		34,234.67	35,230.40	35,222.74

*FY 2012 Current Appropriations include all enacted supplemental budgets through June, 2012.

**The FY 2013 Governor totals are adjusted to reflect the distribution of \$1.0 million in funding related to collective bargaining agreements and the FY 2013 GAA total includes \$11.0 million carried forward from FY 2012 in a separate supplemental budget passed shortly after enactment of the GAA.

***General Fund Transfer for FY 2012 includes a \$728 million transfer from the General Fund, as well as \$17 million in FY 2011 revenues carried forward for use in FY 2012.

****This total includes all line item appropriations, operating transfers, and direct spending from statutorily designated taxes, as well as a reduction to account for municipal participation in the state's Group Insurance Commission, and an adjustment to account for tuition retained by state universities and colleges. These adjustments allow for more accurate year-to-year comparisons.

MassHealth

MassHealth programs provide health coverage for about 1.35 million people, including about 368,000 disabled adults and elderly individuals, and more than 540,000 children. Since the start of the recent recession in December 2007 MassHealth enrollment has increased by about 227,000, and it is expected to grow slightly in FY 2013. The administration estimated that maintaining current services with no changes to programs and accounting for expected enrollment growth would require baseline spending on MassHealth programs (excluding administrative costs) of \$11.47 billion in FY 2013. To lower costs, the Governor's House 2 budget proposal, released in January 2012, relied on a variety of savings strategies and cuts that

resulted in net savings of about \$516.3 million below the baseline (\$544.4 million in savings offset by \$28.1 million in new spending initiatives). During House and Senate budget deliberations the legislature adopted most of the Governor's proposals and added additional savings and spending provisions. The result is a total appropriation for MassHealth programs of \$11.00 billion—about \$467 million below the projected baseline—that relies on the savings assumptions and spending initiatives outlined below. Budget writers also assumed that the state will be able to draw down additional federal reimbursement for some expenditures, resulting in additional savings of \$90.0 million to the state. (For a full list of appropriations, see Appendix at the end of this fact sheet.)

MassHealth Savings and Spending Initiatives in the FY 2013 GAA

Baseline Spending on MassHealth Programs (Millions of Dollars)		\$11,467.0
SAVINGS		
Payment Reforms	<p>The FY 2013 GAA assumes savings from payment reforms proposed by the Administration</p> <ul style="list-style-type: none"> • Implementation of a new Primary Care Clinician Plan behavioral health carve-out contract and use of value-based purchasing with MCOs is expected to yield \$40.0 million in savings. • Two modifications to acute hospital payments aimed at promoting more effective care are expected to achieve \$9.6 million in savings: <ul style="list-style-type: none"> – Additional rate reductions for hospitals with higher than average rates of potentially preventable readmissions. – Similar to Medicare, bundling of outpatient services received 72 hours before admission into inpatient payment rates. • A payment reform pilot, with incentives for MCOs to work with providers to develop “shared savings” payment models, will also be implemented through MassHealth MCO contracts. 	(\$49.6)
Long-Term Care Changes	<p>The GAA relies on initiatives to strengthen community long-term care services that are projected to achieve a total of \$36.8 million in savings. These include:</p> <ul style="list-style-type: none"> • A nursing facility diversion program to help transition members out of nursing facilities. • A shift in payment for home health care to an episodic rate for members receiving home health for longer than 60 days. • Introduction of new prior authorization requirements for some community long-term care services. • Adjustment of Senior Care Options (SCO) capitation rates to reflect an expected change in case-mix following implementation of outreach mailing about the option of enrolling in SCOs. 	(\$36.8)
Rate Cuts	<p>House 2 initially proposed \$82.9 million in savings from rate cuts in several different areas. The GAA includes many, but not all, of these and adds one additional cut, for a total of \$54.2 million in savings.</p> <p>Hospital Rates</p> <ul style="list-style-type: none"> • The GAA assumes savings from certain adjustments to in-patient hospital rates, including paying out-of-state hospitals a median Medicaid rate rather than the standard state-specific rate. <p>Long-Term Care Rates</p> <ul style="list-style-type: none"> • House 2 proposed to discontinue higher supplemental rate payments to nursing homes that were made in FY 2012, and to eliminate other increases for special provider contracts, for savings of \$30.8 million. However, the Conference Committee restored \$30.2 million in order to maintain the FY 2012 level of supplemental rates, and earmarked \$2.8 million of that amount for a Pay-for-Performance program at nursing homes (4000-0640), leaving savings of \$600,000. • The Conference Committee also added a prohibition on the reassignment of nursing home beds during a patient's temporary absence, coupled with a reduction in the minimum rate paid for these beds to \$30 per day, for additional savings of \$4.5 million. 	(\$30.4) (\$5.1)

SAVINGS (continued)

Rate Cuts (continued)	<p>Pharmacy Rates (\$18.0)</p> <ul style="list-style-type: none"> The GAA assumes savings from changes in pharmacy regulations that will align them with federal standards, such as adoption of federal upper payment limits for certain drugs. <p>Other Rates (\$0.7)</p> <ul style="list-style-type: none"> The budget does not include the Governor's proposal to save \$3.0 million by restructuring rates for a medical respite program for the homeless at McInnis House, and instead contains language (in 4000-0300) maintaining FY 2012 rates in FY 2013. Changes to payments for in-nursing home dental care, for savings of \$700,000.
Academic Detailing	The GAA provides \$500,000 in a separate Department of Public Health line item (4510-0716) not summarized here for expansion of an Academic Detailing program designed to promote cost-efficient drug prescribing practices among providers who serve high numbers of MassHealth members. The GAA assumes these efforts will yield \$3.0 million in savings to MassHealth. (\$3.0)
Hospice	The GAA includes language (outside section 120) requiring MassHealth Basic and Essential plans to cover hospice care, for projected savings of \$1.2 million. (\$1.2)
HIV	The GAA's appropriation for the MassHealth HIV program is \$1.0 million less than proposed by the Governor and Senate. (\$1.0)
Integrity	The GAA assumes that continued efforts to promote program system integrity and prevent fraud will yield \$44.0 million in savings. (\$44.0)
Cash Management	The GAA assumes that \$75.0 million budgeted for Pay-for-Performance payments to hospitals in FY 2013 will instead be paid in FY 2012, and it assumes the use of cash management strategies to save another \$256.1 million. (\$331.1)

Total Savings and Cuts	(\$520.9)
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SPENDING INITIATIVES

MassHealth Operations Improvements	The GAA includes a new MassHealth Operations line item (4000-1602) to fund improvements to the eligibility and enrollment infrastructure, in response to increases in enrollment. The appropriation of \$1.0 million is half the amount the Governor and Senate proposed. Between the start of FY 2009 and the first quarter of FY 2012, MassHealth enrollment increased by 13.4 percent, while the number of full-time equivalent employees declined by 9.5 percent. \$1.0
Health Reform Implementation	The budget includes a new line item (4000-1604) to support implementation of federal health reform provisions in Massachusetts, but appropriates only \$750,000 for it, well below the \$3.2 million proposed by the Governor and Senate. \$0.75
Infrastructure and Capacity Building	The budget includes \$20.0 million for infrastructure and capacity building grants for hospitals that are not eligible for funds from the DSTI Trust (see "other health financing" section below), and \$3.0 million for similar activities at community health centers. Language added by the Senate provides an additional \$3.0 million for "critical access community hospitals." \$26.0
Dental	The budget funds certain dental services for adults (composite fillings for front teeth) at a cost of \$3.0 million for half of FY 2013 (the full-year cost is \$6.1 million). \$3.0
Pediatric Hospital Rates	The budget contains language requiring higher rates for certain pediatric hospitals and specialty units that serve severely ill children, at a cost of \$14.8 million (\$3.0 million of which was added in a supplemental budget passed at the end of the session). \$14.8
PCA Funding	The year-end supplemental budget also added \$8.0 million to the MassHealth Fee-for-Service line item to pay for the FY 2013 cost of higher rates and other benefits for Personal Care Attendants who provide services in the home to disabled MassHealth members. The pay increases were contained in a contract that was ratified in the first days of the new fiscal year. \$8.0

Total Spending Initiatives	\$53.55
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FY 2013 GAA SPENDING ON MASSHEALTH PROGRAMS	\$10,999.7
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MassHealth Policy Provisions

In addition to the savings and spending provisions discussed above, the budget also contains a number of policy provisions that affect MassHealth and health reform programs:

- The MassHealth administrative line item (4000-0300) includes a provision allowing the state to recognize telehealth remote patient monitoring by home health agencies as a service to clients that is otherwise reimbursable by Medicaid.
- Section 213 directs MassHealth to implement the Systematic Alien Verification (SAVE) federal database for verifying immigrant eligibility by July 31, 2013.
- Section 145 extends the date by which an advisory committee that was created in the FY 2011 budget to examine different MassHealth delivery systems must complete its report, from September 30, 2011 to October 1, 2012, and extends the scope of the report to include Accountable Care Organizations.
- Section 210 directs the state Office of Health and Human Services (HHS) to contract for a study of MassHealth children with complex care needs, including an analysis of whether these needs will be met under the state's medical home model. The section prohibits HHS from awarding compensation for the study.
- Section 182 directs the Inspector General (IG) to use funds from the Health Safety Net (which reimburses hospitals and community health centers for a portion of the costs of care provided to uninsured patients) for a study and review of the Massachusetts Medicaid program, including a review of eligibility requirements and utilization. (Similar language included in recent budgets has reauthorized an ongoing audit of hospital charges for uncompensated care that began in FY 2005.)
- Section 184 directs the Division of Health Care Finance and Policy to study the cost and frequency of utilization of dental services in emergency room settings.
- Section 185 requires MassHealth to report to the Office of Administration and Finance and the legislature concerning implementation of the savings strategies included in the budget.

Commonwealth Care

The Commonwealth Care Trust Fund (CCTF) primarily funds health coverage provided through the Commonwealth Care program for low-income people who do not qualify for MassHealth; in addition, \$30.0 million is typically transferred each year to the Health Safety Net Trust Fund to support care for the uninsured and this year another \$500,000 goes to wellness subsidies for small employers. The CCTF is funded mainly by direct annual transfers from the General Fund and from a portion of cigarette tax revenue that is diverted from the General Fund, and it also receives revenue from assessments on employers who do not provide health insurance and penalties paid by taxpayers who did not buy insurance deemed to be affordable. There are currently about 187,000 enrollees in the Commonwealth Care program, which recently reinstated certain

legal immigrants (those in the country less than five years) who had been excluded from the program until the state Supreme Judicial Court found the exclusion unconstitutional. Total enrollment in the Commonwealth Care program is expected to grow to slightly more than 200,000 in FY 2013.

Last January the administration estimated that about \$973 million would be required to support FY 2013 costs for Commonwealth Care, after taking into account the expected growth in enrollment. Subsequently, however, the Connector announced that an aggressive procurement process had resulted in lower-than-expected payment rates for the managed care organizations (MCOs) that provide coverage to program participants (in fact, the per-enrollee premium will be lower for all MCOs than it was in FY 2011). The drop in premium rates lowered the cost estimate for Commonwealth Care by about \$70.0 million, and accordingly the combined General Fund and tobacco tax transfer to the CCTF in the FY 2013 GAA dropped from the initial estimate of \$930.0 million included in House 2 to \$860.3 million. The FY 13 CCTF transfer amount is essentially level with the FY 12 transfer (taking into account into account FY 2011 revenue that was carried over for use in FY 2012), and includes about \$500,000 for the costs of restoring some dental coverage for certain Commonwealth Care participants, in line with the MassHealth dental restoration described above.

Other Health Financing

• *DSTI*

The FY 2013 GAA includes a transfer of \$186.9 million from the General Fund to a new Delivery System Transformation Initiatives Trust (DSTI) Fund that will provide incentive payments to seven safety net hospitals for activities to improve health delivery and payment systems, such as investments in technology to support new payment models and the development of care models for chronic conditions. The DSTI Fund was created in a recent FY 2012 supplemental budget, which also authorized a transfer of \$186.9 million in FY 2012. Earmarks in a MassHealth line item (4000-0500) provide a total of \$26.0 million for similar activities at hospitals that are not eligible for DSTI payments and at community health centers.

• *Health Safety Net*

The Health Safety Net (HSN) program, which provides health care for uninsured patients, will receive its regular transfer of \$30 million from the CCTF; this amount is added to \$320 million in off-budget revenue from assessments paid by hospitals and insurers.

• *Prescription Advantage*

The FY 2013 GAA includes a decrease in funding, compared with FY 2012, for the Prescription Advantage program. The drop reflects an expectation of reduced utilization of the program due to changes made by the federal health reform law that will increase Medicare coverage for drug costs that have been covered by Prescription Advantage, shifting these costs from the state to the federal government.

Appendix

Line Item	Name	FY 2012 Current Appropriation*	FY 2012 Estimated Spending**	FY 2013 Governor H.2***	FY 2013 General Appropriations Act***	Cat. ****
1599-2004	Health Care Cost Containment Reserve	1,900,000	1,900,000	-	-	F
1599-2009	Hale Hospital Reserve	2,400,000	2,400,000	-	-	F
4000-0265	Primary Care Workforce	1,000,000	1,000,000	-	-	F
4000-0300	HHS and MassHealth Administration	86,484,473	86,484,473	86,981,146	87,224,888	A
4000-0301	MassHealth Auditing and Utilization Reviews	1,736,425	1,736,425	1,739,619	1,736,313	A
4000-0309	MassHealth Field Auditing Taskforce	1,000,000	1,000,000	1,000,000	1,000,000	A
4000-0320	MassHealth Recoveries Retained Revenue	225,000,000	225,000,000	225,000,000	225,000,000	M
4000-0430	MassHealth CommonHealth Plan	130,439,637	76,332,519	73,165,558	73,165,557	M
4000-0500	MassHealth Managed Care	3,879,010,669	3,980,487,347	4,164,475,376	4,167,475,376	M
4000-0600	MassHealth Senior Care	2,550,602,264	2,566,654,470	2,763,630,662	2,756,130,662	M
4000-0640	MassHealth Nursing Home Supplemental Rates	318,300,000	318,692,354	288,500,000	318,700,000	M
4000-0700	MassHealth Fee-for-Service	2,029,206,633	1,809,829,381	1,939,680,126	1,968,522,476	M
4000-0870	MassHealth Basic Coverage	157,016,626	170,608,370	179,909,689	178,759,689	M
4000-0875	MassHealth Breast and Cervical Cancer Treatment	4,770,999	4,734,599	5,248,099	5,248,099	M
4000-0880	MassHealth Family Assistance Plan	218,925,814	209,233,330	213,894,591	213,894,591	M
4000-0890	MassHealth Premium Asst and Insur Partnership	58,181,956	30,987,873	30,481,392	30,481,392	M
4000-0895	Healthy Start Program	13,800,000	13,818,028	15,850,244	15,850,244	M
4000-0950	Children's Behavioral Health Initiative	214,743,708	214,743,708	221,705,516	221,549,097	M
4000-0990	Children's Medical Security Plan	12,600,000	14,150,718	13,298,695	13,298,695	M
4000-1400	MassHealth HIV Plan	18,541,135	17,940,665	19,744,723	18,744,723	M
4000-1405	MassHealth Essential	389,757,408	493,458,055	505,998,457	505,998,456	M
4000-1420	Medicare Part D Phased Down Contribution	211,370,985	285,913,498	285,153,027	285,153,027	M
4000-1602	MassHealth Operations (NEW)	-	-	2,000,000	1,000,000	M
4000-1604	Health Care System Reform (NEW)	-	-	3,125,000	750,000	M
4000-1700	HHS Services Information Technology Costs	81,762,075	81,762,075	100,475,637	91,917,894	IT
4100-0060	Division of Health Care Finance and Policy	21,157,507	21,157,507	22,029,517	22,029,516	F
4100-0061	All Payer Claims Database	4,000,000	4,000,000	4,000,000	4,000,000	F
4100-0360	Health Care Quality and Cost Council Ret Rev	100,000	100,000	100,000	100,000	F
4100-0062	Health Safety Net Claims Migration (NEW)	6,000,000	6,000,000	-	-	F
4100-0082	Health Safety Net Claims Migration (NEW)	-	-	2,000,000	2,000,000	F
7006-0029	Health Care Access Bureau Assessment	1,100,000	1,100,000	1,100,000	1,100,000	F
9110-1455	Prescription Advantage	21,602,546	21,602,546	19,000,869	18,500,869	Ph
1595-1067	Delivery Systems Transformation Initiatives Trust (NEW)	186,907,667	186,907,667	186,907,667	186,907,667	T
1595-1068	Medical Assistance Trust Fund (operating transfer)	394,025,000	394,025,000	394,025,000	394,025,000	T
1595-1069	Health Insurance Technology Trust Fund	500,000	500,000	-	-	T
1595-5819	Commonwealth Care Trust Fund (operating transfer)	745,011,822	745,011,822	737,122,286	740,272,286	T
	Commonwealth Care Trust Fund (cigarette tax transfer)	120,000,000	120,000,000	192,900,000	120,000,000	T

* FY 2012 Current Appropriation reflects funding in the General Appropriation Act, as well as supplemental funding approved through June, 2012. It also includes FY 2011 revenue made available in FY 2012 for the Commonwealth Care Trust Fund and Nursing Home Supplemental Rates.

** Estimated FY 2012 spending reflects spending estimates for MassHealth programs and supplemental spending expected during the year, taking into account expected transfers among funds.

*** House 2 totals reflect the distribution of \$1.0 million in funding related to collective bargaining agreements, and the FY 2013 GAA total includes \$11.0 million (in 4000-0700) carried forward from FY 2012 in a separate supplemental budget passed shortly after enactment of the GAA.

**** "Cat." refers to the category in the chart on page 1 of this brief. M=MassHealth; A=Administration; F=Finance; Ph=Prescription Advantage; T=Trust; IT=Information Technology