

FY 2021 GOVERNOR'S BUDGET: MassHealth and Health Reform – Governor proposes to hold steady

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Note: This is a part of a series examining key stories from the latest Fiscal Year (FY) 2021 budget proposal. Subsequent reports will take a deeper look at some of other budget stories. Find these reports on the [Budget Resources](#) landing page or join [MassBudget's email list](#).

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The Commonwealth subsidizes health insurance for about 1.8 million people through its MassHealth program, including about half of the state's children. The state budget also funds payments to health providers – such as hospitals serving large numbers of low-income patients and nursing homes – to help pay for care. The Governor's Fiscal Year (FY) 2021 budget proposal includes a total of \$17.94 billion for a range of MassHealth programs and related spending (see table below).

The Governor's budget proposal assumes that MassHealth caseload will remain stable over the course of the year. He proposes \$16.77 billion for the MassHealth program, and \$173.5 million for MassHealth administration. The MassHealth program is funded by a combination of state and federal revenues, however, and although there is some variation, overall the federal government reimburses the state for slightly more than 50 percent of spending on MassHealth. For this reason, the **gross MassHealth spending** on the program (as presented in the budget) is significantly more than the actual net MassHealth cost to the state, accounting for the federal reimbursement.



The Governor has stated that the FY 2021 “**net MassHealth spending**” total for the programmatic portion of MassHealth in his proposal is \$6.74 billion. However, this calculation atypically accounts for more than just netting off federal revenue. In this instance the Governor nets off \$8.61 billion in federal revenues from the state budget total, and then an additional \$1.41 billion in “**departmental revenue**” from such sources as assessments, drug rebates, and recoveries from commercial health insurance payments.

The Governor’s FY 2021 budget is also particularly notable because — unlike in some past years — it does *not* include major health reform initiatives. Instead, the Governor has proposed [separate legislation](#) to re-align overall health care spending to emphasize behavioral health and primary care.

MASSHEALTH (MEDICAID) AND HEALTH REFORM			
	FY 2020 Current Budget	FY 2021 Governor	Notes
MassHealth (Medicaid)			
MassHealth Programs	16,895,143,597	16,772,131,778	
MassHealth Administration	166,706,936	173,534,922	
Subtotal	17,061,850,533	16,945,666,700	
Spending to Trusts			
Medical Assistance Trust	505,785,000	430,710,000	Timing of funding to Medical Assistance Trust does not align with state fiscal year
Safety Net Provider Trust	169,100,000	167,370,000	
Subtotal	674,885,000	598,080,000	
Other Health Subsidies			
Commonwealth Care Trust	116,456,444	164,376,888	Expanded Medicare Savings Plan continues to replace funding for Prescription Advantage
Prescription Advantage	15,101,313	14,952,309	
Subtotal	131,557,757	179,329,197	
Other Administration and Operations			
Center for Health Info. & Analysis	27,831,406	31,320,586	
Information Technology	119,419,685	156,661,242	
Health Connector Operations	24,035,479	15,000,000	
Health Policy Commission	10,386,682	10,001,120	
Other Health Finance	1,370,793	1,060,793	
Subtotal	183,044,045	214,043,741	
TOTAL	18,051,337,335	17,937,119,638	

MassHealth Program and Administration

According to the Governor’s materials, the budget totals reflect about \$60 million to support behavioral health initiatives, particularly in primary care and outpatient settings. Yet overall, the Governor’s budget increases MassHealth programmatic net spending by only about 0.5 percent above FY 2020 estimated net spending.

There are several strategies the budget uses to constrain the program’s growth to this low rate. The Governor anticipates savings in MassHealth of:

- \$230 million gross (\$159 million net) from “cash adjustments”. These move FY 2021 program costs into other budget years. The FY 2021 budget proposes paying one week’s worth of FY 2021

costs out of the FY 2022 budget. Similarly, the Administration “pre-paid” a portion of FY 2021 costs at the end of FY 2020 so that those costs (\$100 million) also do not show up in the FY 2021 budget. These proposals have no impact on the actual costs of MassHealth services provided during the twelve months of the 2021 fiscal year, but simply move the payments for those services into the budgets of other fiscal years.

- \$63 million gross (\$61 million net) from programmatic changes and “program integrity”. Although undefined, the Administration notes that MassHealth has had a successful record of developing a range of initiatives that prevent overcharges by MassHealth providers.
- \$30 million (\$15 million net) associated with rate adjustments for nursing facilities, although a portion of this would be reinvested in the program if nursing homes improve their compliance with remission of a required assessment. The budget includes language in an [outside section](#) to provide an incentive for compliance.

The Governor also anticipates that program operations, including restructuring MassHealth into a system of Accountable Care Organizations will help hold down costs, and that the state’s ability to assess penalties on drug manufacturers for excessive pricing could bring in as much as \$19.0 million in new fines. This estimated new fee revenue, however, is contingent upon the implementation of provisions in the Governor’s proposed health care legislation that have not yet been passed by the Legislature.

ConnectorCare and the Health Connector

ConnectorCare, the publicly-subsidized commercial health insurance available for eligible lower-income Massachusetts residents through the Mass. Health Connector, is funded through the Commonwealth Care Trust. The budget includes a transfer of \$82.3 million to this trust from tobacco excise revenue. This transfer is \$26.1 million less than the transfer in FY 2020, in part due to the impacts of sales restrictions imposed on vaping.



One of the other funding sources for ConnectorCare is what is known as the **Employer Medical Assistance Contribution**, or EMAC. Most employers that contribute to unemployment insurance must pay this contribution to support health insurance that is provided by the Connector, including health coverage for people receiving unemployment insurance. Starting in 2017, the Legislature added a temporary (two-year) supplemental assessment to the EMAC on employers with employees covered under either MassHealth or receiving subsidized commercial coverage through ConnectorCare. The temporary EMAC sunsets on

December 31, 2019, reducing revenue by a total of \$109 million, with \$11.7 million of that reduction affecting FY 2021 funding for this trust fund.

To make up the difference for these revenue reductions, the Governor proposes an appropriation of \$92.1 million to the Commonwealth Care Trust Fund. However, the Governor also anticipates that this amount may be more than is necessary and is assuming that the fund will only need \$82.1 million of that total.

Glossary

- **Departmental revenue:** One of the four categories of revenue that support the state budget (the other three are taxes, federal, and other transfers from off-budget funds such as lottery receipts.) Departmental revenues include fees, fines, and assessments, and particularly relevant to MassHealth, also include health insurance premiums, manufacturers' rebates for pharmaceuticals, and reimbursements or recoveries from commercial insurers.
- **Employer Medical Assistance Contribution (EMAC):** The EMAC is an assessment on employers to support the costs of health care including the costs of health coverage for people receiving unemployment insurance. Starting in 2017 the Legislature added a temporary EMAC supplemental assessment to help pay for employees who are covered under either MassHealth or receiving subsidized commercial coverage through ConnectorCare. This temporary (two-year) supplemental assessment to the EMAC expired on December 31, 2019.
- **Gross MassHealth spending:** MassHealth spending as presented in the state budget, including the direct cost to the state and spending that is reimbursed by federal reimbursement. See also "net MassHealth spending."
- **Net MassHealth spending:** MassHealth spending from state-only sources, and not including the amounts that are reimbursed by federal revenues. In FY 2021, the Administration presents its net MassHealth spending number excluding both federal revenue and the total departmental revenue collected by the Executive Office of Health and Human Services. See also "departmental revenue" and "gross MassHealth spending."
- **Outside section:** Sections 4 and higher of budget legislations, which typically include proposed temporary or permanent changes to statutory language. Outside sections are sometimes referred to as "budget riders."