



Options for Managing Medicaid Funding and Cost Growth

CRC Report 376

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Introduction to Medicaid



Medicaid

- State operated, co-financed by state and federal governments
- Michigan has voluntarily participated since 1966
- Federal oversight through the Centers for Medicare and Medicaid Services (CMS)
- Federal regulations concerning:
 - Financing
 - Service delivery
 - Provider reimbursement rates
 - Eligibility



Mandated and Optional Services and Eligibles

Figure X-1
Matrix of Mandated and Optional Services and Eligibles

	Mandated Services	Optional Services
Mandated Eligibles	States <u>must</u> provide mandated services to mandated eligible persons	States <u>may</u> provide optional services to mandated eligible persons
Optional Eligibles	States <u>must</u> provide mandated services if they choose to include optionally eligible persons	States <u>may</u> provide optional services to persons they choose to include as optionally eligible



Michigan Medicaid Income Eligibility

Category	Eligibility (% FPL)	2012 Income Cutoff Family of 4
Infants Ages 0-1	185%	\$42,643
Children Ages 1-19	150%	\$34,575
Adults – Working, w/children	64%	\$14,752
Adults – Jobless, w/ children	37%	\$8,529
Adults – Working, Childless	35%	\$5,296*
Pregnant Women	185%	\$42,643
Aged, Blind, and Disabled	100%	\$23,050

* Two-person family



The Fiscal Problem



State Spending From State Resources Down in Most Categories

	FY2002 (millions\$)	FY2012 (2002 \$)	Real % Change
Medicaid	\$2,571.3	\$3,330.3	29.5%
Other Community Health	\$494.8	\$778.7	57.4%
Corrections	\$1,653.0	\$1,615.6	-2.3%
Human Services	\$1,230.1	\$968.5	-21.3%
K-12 School Aid	\$11,220.6	\$8,844.6	-21.2%
Community Colleges	\$320.2	\$238.0	-25.7%
Higher Education	\$1,940.9	\$1,059.7	-45.4%
Revenue Sharing	\$1,517.3	\$804.0	-47.0%
All Other Programs	\$5,138.6	\$4,375.4	-14.9%
Total State Spending	\$26,086.8	\$22,014.4	-15.6%

Source: Senate Fiscal Agency. "State Spending From State Resources Appropriations Totals Compared to Selected Budget Areas." October 2011



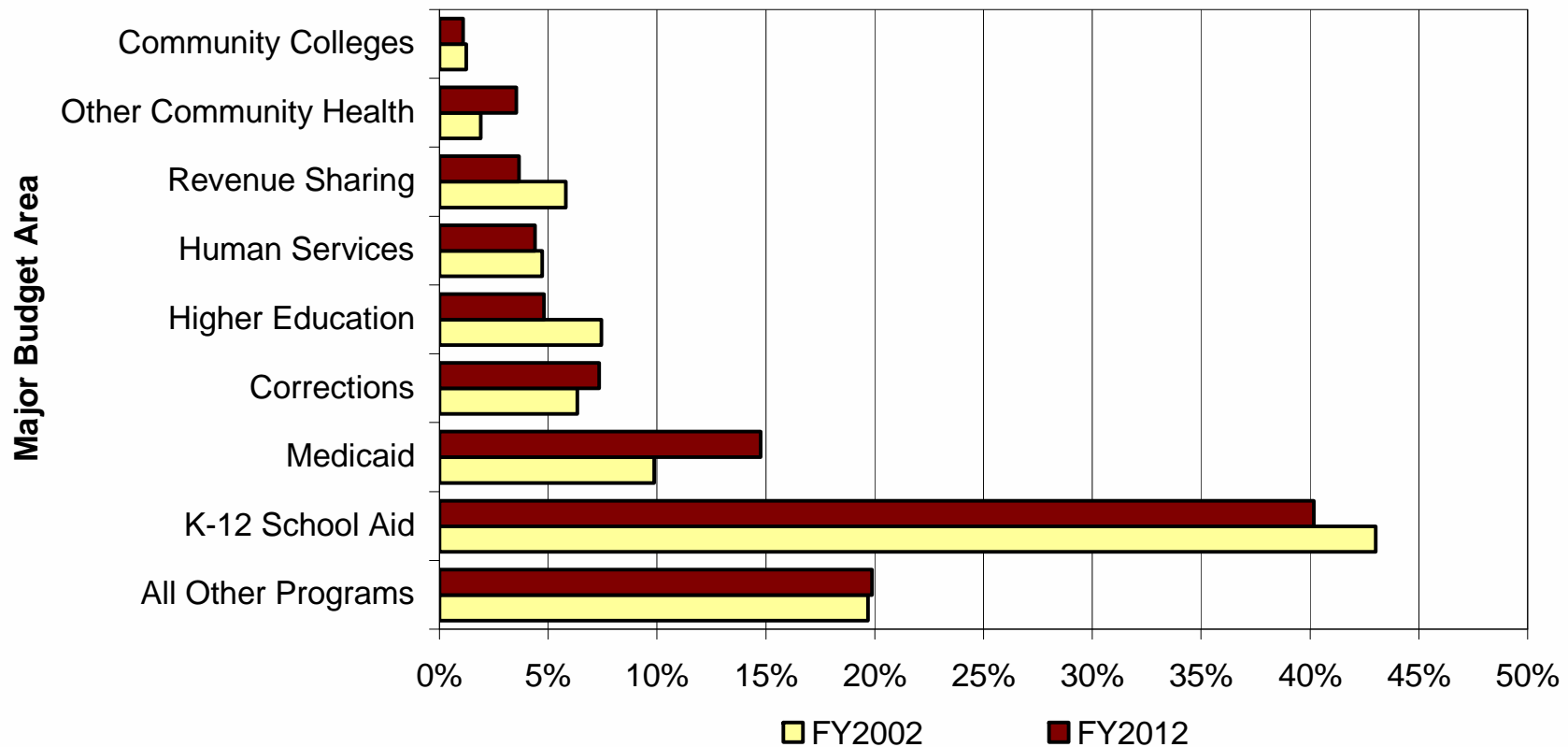
Select Budget Indicators

	<u>FY 2002</u>	<u>FY 2012</u>	<u>Percent Change</u>
Medicaid Caseload	1,211,816	1,920,000	58.4%
Prison Population	47,270	43,455	-8.1%
K-12 Pupil Count	1,647,459	1,552,300	-5.8%
Comm. Col. Students	116,802	177,277	51.8%
University Students	241,205	262,615	8.9%
Michigan Per Cap Income	30,193	35,597	17.9%
U.S. CPI-U	178.9	229.1	28.1%

Source: Senate Fiscal Agency. "State Spending From State Resources Appropriations Totals Compared to Selected Budget Areas." October 2011



Few Budget Areas Gaining Greater Share of State Spending from State Resources



Source: Senate Fiscal Agency. "State Spending From State Resources Appropriations Totals Compared to Selected Budget Areas." October 2011



Medicaid Financing



Federal Funding

- Federal government matches state spending
- Federal Medical Assistance Percentage (FMAP) based on state's relative per capita income
 - Amount reimbursed for eligible claims
- By statute, ranges from 50% to 83%
- MI's FMAP is 66.14% in FY2012
 - 1.95 multiplier



Non-Federal Funding

- Permissible sources:
 - Intergovernmental transfers
 - Certified public expenditures
 - Provider donations
 - Provider taxes
 - Legislative appropriations



Provider Taxes

- 19 permissible classes
- Three criteria must be met:
 1. The tax must be uniformly imposed
 2. Tax must be broad-based
 3. Does not hold providers harmless
- Tax revenue is combined with federal match and redistributed among providers – enhances the reimbursement rate



Provider Taxes in Michigan: Public Health Code, PA 368 of 1978

- Implemented in 2003
- Called QAAP (Quality Assurance Assessment Programs) in MI
- Nursing Homes and Long Term Care Units
 - For units with >40 beds- approx 6%
 - For units with <40 beds- \$2.00 fee per non-Medicare patient day
- Hospitals- currently at 4.3% of net patient revenues
- Tax revenue and federal funds are combined and then,
 - 86.8% is redistributed to Medicaid providers
 - 13.2% offsets GF/GP revenue appropriated to Medicaid



Most of Michigan's Medicaid Providers Benefit from the Provider Tax

- Estimates from SFA:
 - 90% of nursing homes pay less in taxes
 - 2/3 of hospitals pay less in taxes
 - Of 14 health systems- Beaumont Health System and Trinity Health pay more
 - To break even, nursing homes must serve ~30% Medicaid patients and hospitals ~15% total patient days to Medicaid



Legislative Appropriations to Department of Community Health

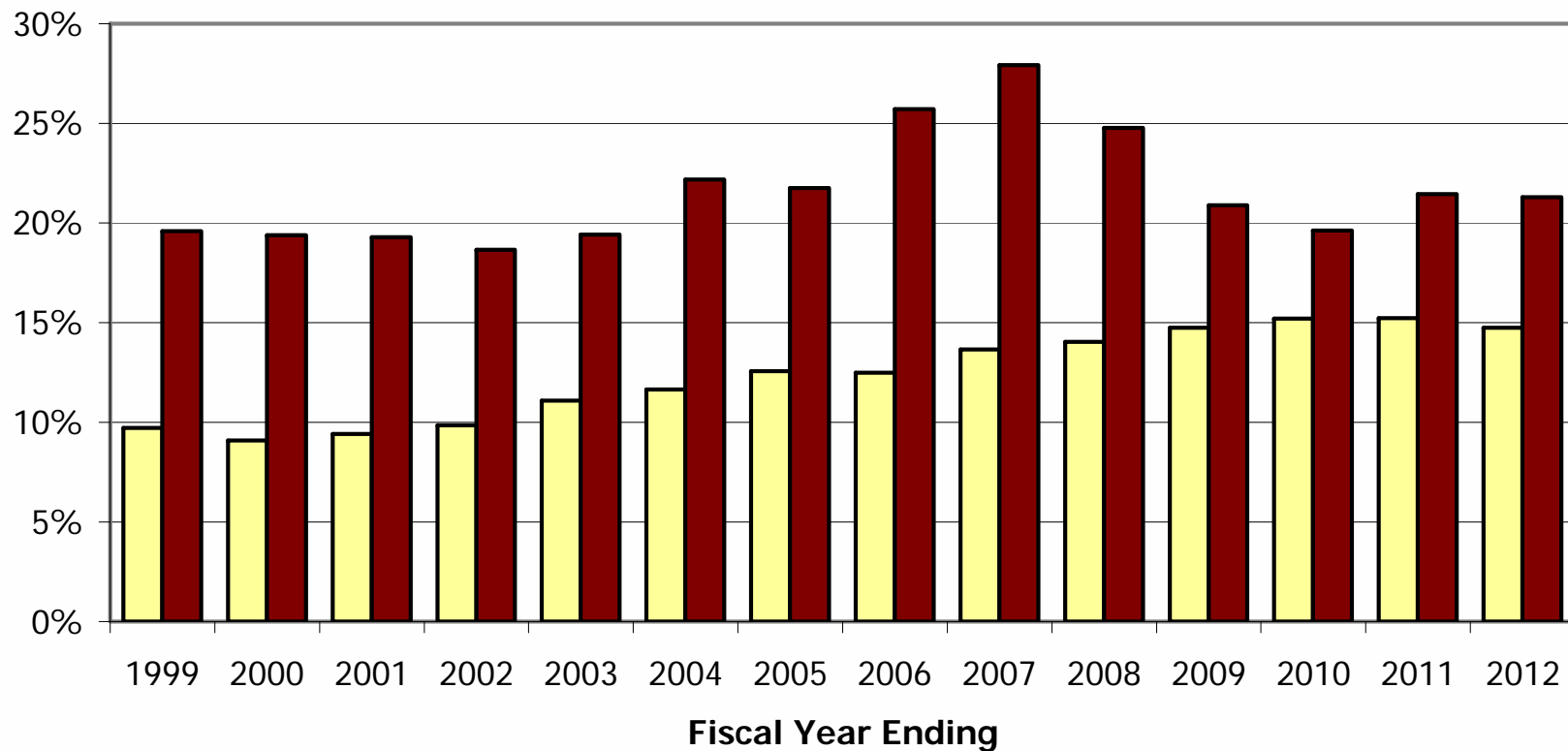
- HMO/PIHP Use Tax – no longer active
- Paid Health Claims Assessment-
 - Effective January 1, 2012
 - Places a 1.0% tax on eligible paid health claims
 - Revenue restricted for Medicaid
- Tobacco Tax- Revenues from 31.9% of cigarette tax and 75.0% of tax on other tobacco products
- Other general fund/general purpose appropriations
 - 45.3% of own-source Medicaid spending is unspecified GF/GP dollars
 - Medicaid spends 21.3% of the state's GF/GP



Medicaid Expenditures



Medicaid Spending as a Percent of Total State Spending Is Growing



■ Medicaid State Spending as Percent of Total ■ Medicaid GF/GP Expenditures as Percent of GF/GP

Source: Data from Senate Fiscal Agency documents



Bulk of Spending is For Health Plan Services

- Health Plan Services (Medicaid HMOs) 34.9%
- All Long-Term Care 18.9%
- Community Mental Health 18.3%
- Hospital Services 10.9%
- Medicare Part D 4.7%
- Medicare Premium Payments 3.5%
- Pharmaceutical 2.9%
- Physician Services 2.6%

- **Total (FY2012) \$11.7 billion**

Note: Selected line items. Data calculated from Senate Fiscal Agency documents



Medicaid Cost Drivers

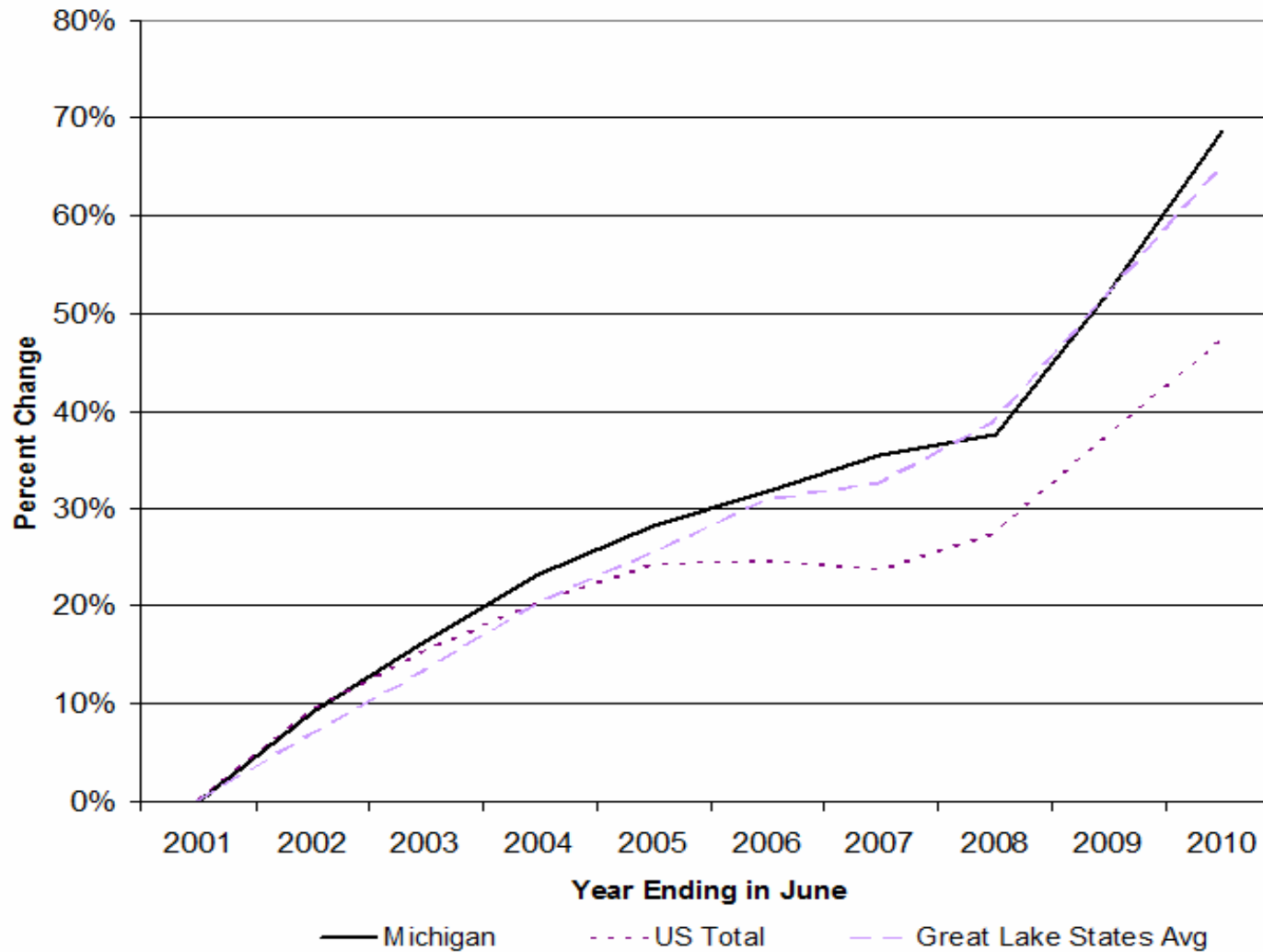


Major Medicaid Cost Drivers

- Provider reimbursement rates
- FMAP
- Enrollment
- Case mix
- Utilization



Enrollment





Disabled and Elderly the Most Costly Beneficiaries

In Michigan,

- Disabled-
 - Enrollment = 16%
 - Spending = 41%
- Elderly-
 - Enrollment = 7%
 - Spending = 22%
- Disabled + Elderly = 23% of enrolled and 63% of costs
- Nursing facility services-
 - Utilization = 2.6%
 - Spending = 16.4%



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Policy Solutions



Revenue Solutions

- Provider Taxes
 - Increase rates
 - Expand the base of the tax to more classes
 - Issue: Michigan is near 25% max allowable
- Broad-based Taxes
 - Expanding sales, income, or other taxes
 - Tobacco tax and other excise taxes
 - Local revenues



Expenditure-Side Solutions

- Two types of solutions:
 - Benefit and/or provider changes
 - Cost containment



Benefit/Provider Changes

- Eligibility changes
- Eliminate optional benefits and programs
- Increase cost sharing (decrease utilization)
- Pharmaceutical controls
- Decrease/freeze provider payments or increase provider taxes



Cost Containment

- Managed care
- Pharmaceutical controls
- Program integrity
- New health programs and policies
- Market reforms and long-term changes



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