Stabilizing MassHealth Funding: Options to Break the Recurring Cycle of Expansion and Contraction

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About the Massachusetts Medicaid Policy Institute

The Massachusetts Medicaid Policy Institute (MMPI) — a program of the Blue Cross Blue Shield of Massachusetts Foundation — is an independent and nonpartisan source of information and analysis about the Massachusetts Medicaid program, "MassHealth." MMPI's mission is to promote the development of effective Medicaid policy solutions through research and policy analysis.

About the Center for Health Law and Economics, University of Massachusetts Medical School

The University of Massachusetts Medical School's Center for Health Law and Economics is a sought-after partner among public agencies, non-profit organizations and foundations striving for health care system improvement and health policy analysis. CHLE's collective expertise lies at the intersection of health law and health policy, and includes health law and economics, policy impact analysis, and structuring new policy, legal and financial frameworks.

About Bailit Health Purchasing

Bailit Health Purchasing, LLC is a health care consulting firm dedicated to working with public agencies and private purchasers to expand coverage and improve health care system performance for consumers, purchasers and taxpayers.

Executive Summary

MassHealth provides health care coverage to a significant portion of Massachusetts' low-income residents. Since eligibility depends on an individual's income, demand for the program fluctuates with economic activity in the state. When times are good and employment is high, the eligible population declines. When state economic growth slows and people lose their jobs (and their employer-based health insurance coverage), the low-income population needing health care coverage from MassHealth grows. A major policy problem is that available funding for the program also depends on economic activity in the state as a whole. As the economy weakens, revenues available to cover the state share of the cost of MassHealth shrink, just as the need for coverage increases.

When this occurs, the Administration and the Legislature are forced to make difficult decisions to keep program spending within the state's means — decisions that are made more difficult because, being the state's Medicaid program, MassHealth is an entitlement program with joint state and federal funding. As such, it is required by federal law to cover certain populations and certain services, regardless of state funding limitations.

The imperative to cut when the economic downturn inevitably comes is further complicated by the reverse phenomenon. As economic conditions improve, the need for MassHealth coverage decreases, just as state revenues increase. When this has happened in the past, Massachusetts has not only reversed many of the cuts and program changes made in the previous downturn, but has also taken steps to expand MassHealth by raising the income-eligibility limit, covering new population groups, and expanding the services covered. All of this makes the inevitable cuts required during the next economic downturn even harder to achieve.

The volatility resulting from this boom and bust cycling of the MassHealth program has widespread negative impacts on the quality and continuity of care for MassHealth members and potential applicants, for Medicaid providers and managed care organizations, and for staffing at the Executive Office of Health and Human Services (EOHHS) and other state agencies involved in the Massachusetts health care sector. While enrollment volatility is mostly among adults and families — groups whose income eligibility is most sensitive to changing economic conditions — the cycle of programmatic cutbacks significantly affect seniors and people with disabilities because they remain eligible for many years and depend on the program to meet greater, more costly health care needs. Year-to-year fluctuations in resources restrict MassHealth's ability to effect long-term improvements in the effectiveness and efficiency of coverage for these groups of members.

This year, once again, the state is struggling to balance its books with respect to MassHealth, with the need to cut 7 percent of total program spending in state fiscal year (FY) 2012 alone.

This requires MassHealth to reduce spending by $770 million — an unprecedented amount for the program to achieve within a single year. During the current economic downturn, the federal government raised its matching rates[1] for all states on the condition that no eligibility cuts would be made. Enhancing matching rates with these contingencies is indeed an effective federal approach to stabilizing the continuity of Medicaid enrollments when state revenues plummet. The loss of this stabilizing funding in FY 2012 was, in fact, a major factor in explaining why the need for spending reductions is so large this year.

The options to cut MassHealth program spending in the short term are limited to those that can be achieved within one state fiscal year, including:

- reducing eligibility by limiting populations the state has opted to make eligible to receive MassHealth[2]
- reducing the amount of time allowed for members to return annual eligibility redetermination paperwork, resulting in some MassHealth members having their coverage interrupted temporarily
- reducing benefits covered at state option (such as dental services)
- reducing provider payments (limited to *federally permitted* reimbursement rate freezes or cuts)
- improving service utilization management (e.g., introduction of new prior authorization requirements)

If MassHealth is unable to reach its targeted $770 million spending reduction, cuts may be needed in other areas of the state budget as MassHealth spending crowds out other public investments such as education, transportation, and infrastructure.

MassHealth also has a longer-term focus on improving the program's efficiency and the quality of services its members receive. Initiatives aimed at these goals typically require a number of years to develop and implement, however. The long-term projects include care management and integration programs (e.g., care coordination for PCC Plan members, the Patient Centered Medical Home Initiative, integration of care and financing for dual eligible members), payment reforms (e.g., reduced payment for preventable hospital readmissions, bundled payment methods), and other incentives to reduce service costs (e.g., policies and contracts that reduce use of higher-cost sites and services in favor of lower-cost ones, funding primary care and community-based supports to reduce the need for more costly medical care). These projects require skilled and experienced staff resources and financial investments in the short term,

1 Federal matching rates are formally referred to as Federal Medical Assistance Percentage (FMAP) rates.

2 In recent years, Medicaid programs have been limited in their ability to modify eligibility for the program as enhanced federal funding has been conditioned on states' maintaining the eligibility standards a state had in place as of July 2009.

with better patient care and control of the program's costs as an expected payoff in the future. MassHealth's commitment to these initiatives acknowledges the importance of payment and delivery system reform to the future stability of the program, but the agency staff's ability to focus on these complex and longer-term projects is hampered by the need to solve immediate budget issues, reprocure dozens of major provider contracts, and maintain operations for a program that serves one in five residents of the state.

This paper discusses options within state government control for reducing the reactive swings in MassHealth funding and scope of services that come with each economic downturn. Of course, Medicaid is not the only portion of the state budget that is strained during difficult economic times. This paper advocates for the importance of a stabilizing mechanism specifically for MassHealth because of:

- its entitlement nature, which limits the state's spending discretion;
- its size, accounting for about 30 cents of every state budget dollar;
- the concurrent loss of federal Medicaid revenue resulting from any cuts made to the program;
- the impact of cuts on the health care sector, an economic engine of the state's economy; and
- the impact on a program that over 20 percent of state residents depend upon for their health care needs.

A stabilizing mechanism would also benefit other health and human service agencies, hospitals, other health care providers, and businesses that may otherwise be called on to absorb some of the consequences of decreasing Medicaid funds.

The timing is propitious for opening such a discussion. Not only is there the potential of a period of economic stability ahead, starting in 2014 there is also increased federal financing for Medicaid under the federal health care reform law, the Affordable Care Act (ACA). Policymakers could use this opportunity to end the cycle of expanding and retracting MassHealth based on annual budget fluctuations by developing a strategy to ensure the long-term stability of the program.

Any mechanism to stabilize MassHealth funding should uphold, at a minimum, the following cross-cutting principles to provide the greatest potential for success in meeting its ultimate goal. The mechanism should:

- improve MassHealth's ability to conduct long-term planning, including improved forecasting, and implement comprehensive program improvements and reforms;
- include a well thought-out governance structure that provides oversight and assigns clear accountability for the implementation and use of the mechanism;

- be transparent, providing clear and understandable information on the mechanism and its allowable use; and
- apply lessons learned from past experience by Massachusetts and other states with similar mechanisms meant to stabilize spending or dedicate funds.

We present three potential options for stabilizing mechanisms, which could be considered separately or in combination:

- **Establish a Medicaid Stabilization Fund**: This Fund could serve as a MassHealth- specific "rainy day fund." A portion of additional federal money flowing to the state under the ACA, plus any appropriated but unexpended MassHealth dollars from a given fiscal year, could be retained in the Fund. In better economic times, a targeted amount could also be set aside and deposited in the Fund. The Fund would only be accessible to the program under specified adverse economic circumstances. Thus, it would not be available to provide for additional benefits or rate increases otherwise unaffordable in a fiscal year, absent a federally required mandate. *The use of a Medicaid Stabilization Fund would be limited to costs related directly to caseload increases and maintenance of effort relative to rates and benefits and, in limited circumstances, amounts may be spent on up-front investments required to implement initiatives that can reduce the overall costs of MassHealth or have been proven elsewhere to slow the rate of growth in Medicaid.* In addition, during better economic times, a minimum contribution to the Medicaid stabilization fund should be required before any eligibility or benefit expansions can be considered for the program.
- **Adopt Multi-year Budgeting for MassHealth**: MassHealth now makes its fiscal plans in an annual timeframe, making each year's budget dependent on that year's economic conditions and available revenues and limiting financial management options to only those that have spending impacts in a matter of months. A multi-year budget is currently the practice in over 20 other states. Adopting this practice for just the MassHealth program could allow MassHealth time to invest in improvements and infrastructures that would ultimately have a bigger impact on containment of costs. *Multi-year budgeting would provide MassHealth the necessary time to plan and implement program improvements and reforms that produce much greater returns on investments relative to the quality and costs of MassHealth services, but necessarily take longer to execute and require up-front investments*.[3]
- **Create a Public Authority**: Public authorities currently administer health coverage programs in Massachusetts, Maine, and Oklahoma. Converting administration of MassHealth from an executive branch agency to a public authority could allow more flexibility for longer-term financial arrangements and the program stability that comes with it. This stability, in turn, could

3 Care must be taken, of course, not to project such planning too far into the future and to keep a sharp eye out for any shortfalls in the cost-savings projected for such innovations in health care organization and delivery.

make possible more ambitious payment and delivery system reforms that, over time, could improve the management of the program and slow its cost trajectory.

Some policymakers have argued for states to be given more latitude in managing their Medicaid program budgets through "block grants." This option is not explored here, as it cannot be adopted by the state without federal intervention.[4]

4 While block grants would allow states to make changes to the program outside federal rules, block grants could also expose the state to significant financial risk. As the state experiences economic downturns and the resulting increased need for Medicaid coverage, it is unclear if the formula for annual increases in block grant allotments would be able to keep up with such need. For an in-depth analysis of the implications of block grant proposals on Massachusetts and other state Medicaid programs see http://www.kff.org/medicaid/upload/8173.pdf and http://www.kff.org/medicaid/upload/8185.pdf.