
TRENDS IN FEDERAL REVENUE TO SUPPORT MASSHEALTH

PREPARED BY
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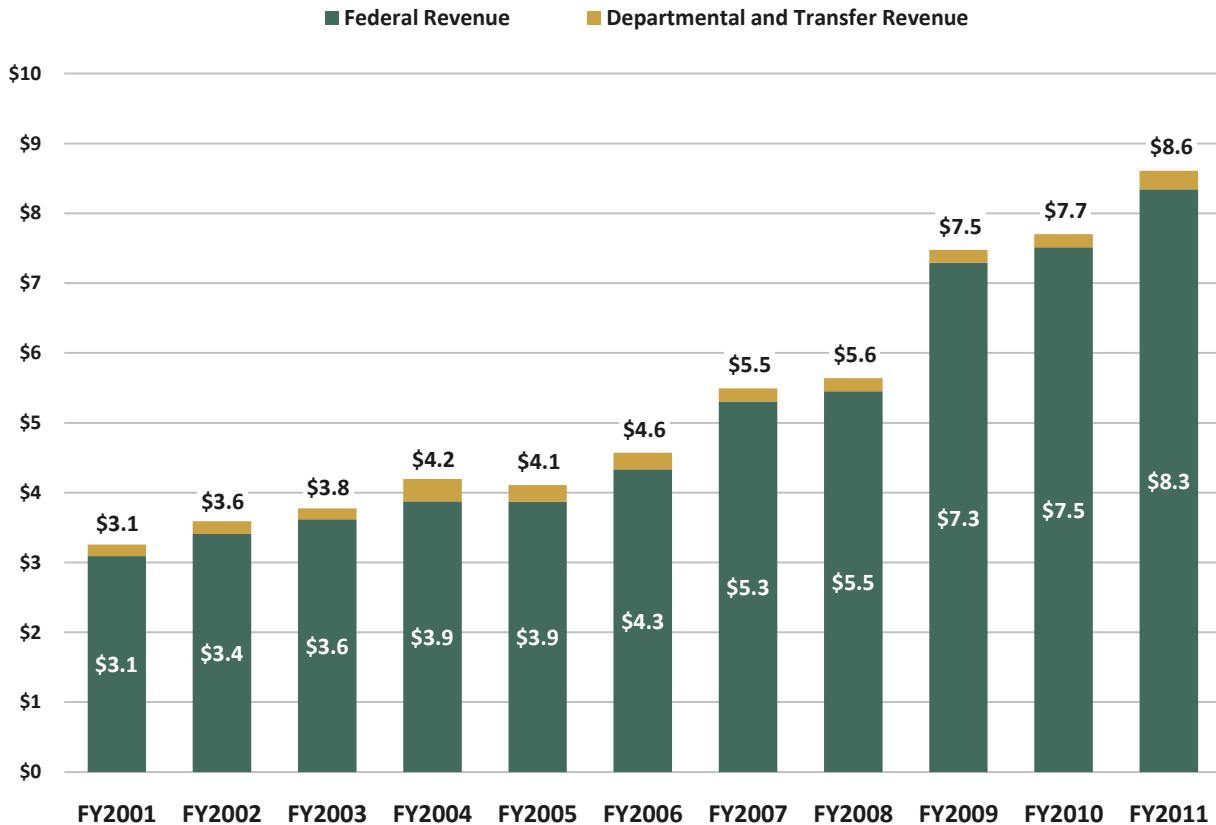


OVERVIEW

- MassHealth consists of the Medicaid program, authorized by Title XIX of the Social Security Act, and the Children’s Health Insurance Program (CHIP), authorized by Title XXI. The federal government generally reimburses the Commonwealth at a rate of 50 percent for most Medicaid expenditures and 65 percent for most CHIP expenditures. The state also receives a small amount of revenue from sources such as member premiums, recoveries from third party payers and estates, and drug rebates, as well as from transfers from other parts of the state budget. In State Fiscal Year (SFY) 2011, Massachusetts received \$8.6 billion in revenue for MassHealth, of which \$8.3 billion was federal reimbursement.
- MassHealth is the main source of federal revenue to Massachusetts, accounting for more than four of every five federal dollars in SFY 2011, a share that has grown steadily in the past decade.
- Increases in MassHealth spending and, therefore, in federal reimbursement over the past 10 years have largely been driven by increases in MassHealth enrollment.
- Federal Medicaid revenue grew over 20 percent from SFY 2006 to SFY 2007, largely attributable to Chapter 58, the Massachusetts Health Care reform law. From SFY 2008 to SFY 2009 federal Medicaid revenue grew by nearly 34 percent, driven by recession-related enrollment growth and temporarily enhanced federal reimbursement.
- Medicaid revenue also represents a significant portion of all state revenue, growing from just over one dollar in ten (11 percent) in SFY 2001 to one in five (20 percent) in SFY 2011. These figures are elevated in SFY 2009-2011 due to a combination of increasing MassHealth enrollment, enhanced federal Medicaid reimbursement, and declining revenue from other sources, particularly income taxes.

TOTAL MASSHEALTH REVENUE FROM THE FEDERAL GOVERNMENT AND OTHER SOURCES

(BILLIONS)



SOURCE: Executive Office of Administration and Finance.

* Some categories of spending (e.g., for information systems) are reimbursed at a higher rate, but they represent a small fraction of total Medicaid spending. In addition, the federal match rate was enhanced in FY 2004 and from FY 2009-2011.

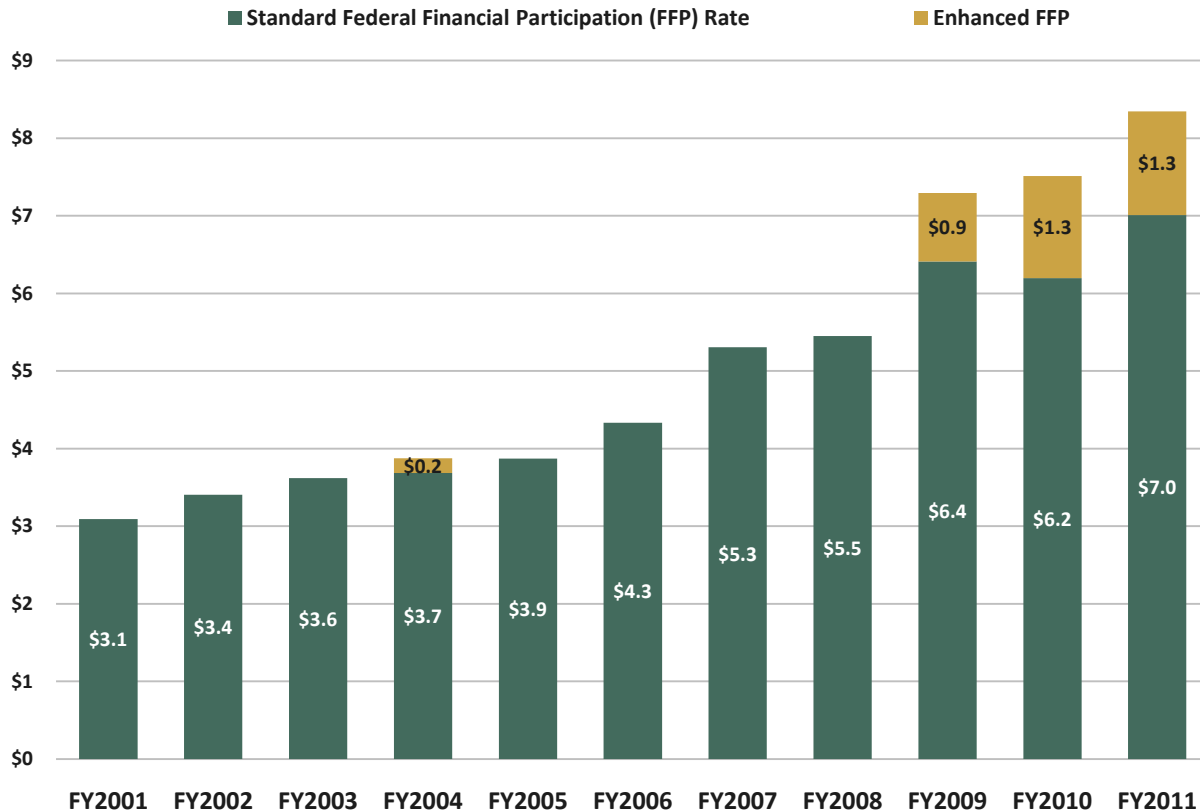
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In State Fiscal Year (SFY) 2011, Massachusetts received \$8.6 billion in revenue for MassHealth, of which \$8.3 billion was federal reimbursement.

CONTRIBUTION OF ENHANCED FEDERAL MATCH TOWARDS FEDERAL REVENUE FOR MASSHEALTH

(BILLIONS)

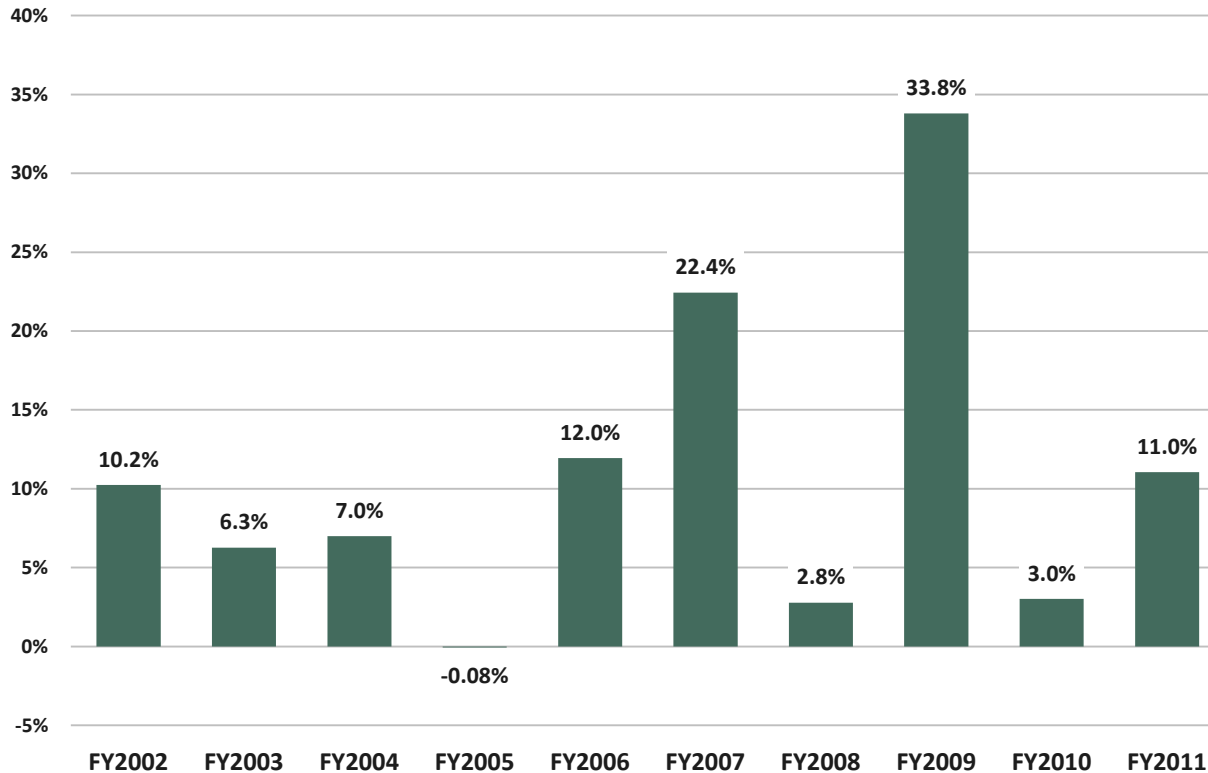


Federal Medicaid reimbursement was boosted in SFY 2009-2011 by the enhanced matching rates that were part of the American Recovery and Reinvestment Act (ARRA), the federal stimulus law, which added about \$900 million in SFY 2009 and \$1.3 billion in both SFY 2010 and 2011. A smaller temporary federal enhancement in SFY 2004 added \$200 million in revenue that year.

source: Executive Office of Administration and Finance

ANNUAL CHANGE IN FEDERAL REVENUE

(PERCENT ANNUAL CHANGE)



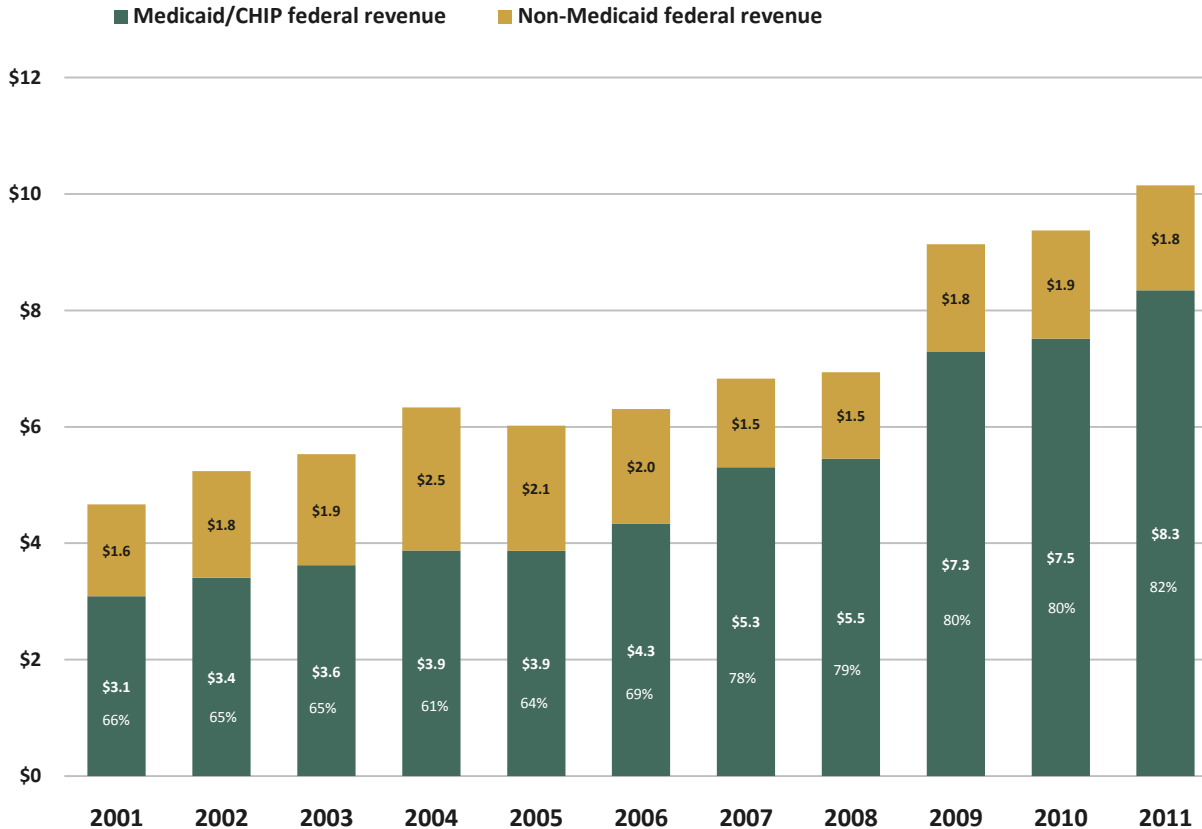
SOURCE: Executive Office of Administration and Finance.

The large growth in revenue in SFY 2007 is largely attributable to Chapter 58, the Massachusetts Health Care reform law. Coverage expansions under Chapter 58 boosted MassHealth enrollment and created the Commonwealth Care program, which receives federal match under Title XIX.

The increase in SFY 2009 was driven by the growth in MassHealth and Commonwealth Care enrollment resulting from recession-related increases in unemployment, and by the enhanced reimbursement the federal government paid to states as financial assistance to cope with this rapid enrollment growth.

MASSHEALTH IS THE MAIN SOURCE OF FEDERAL REVENUE TO MASSACHUSETTS

(BILLIONS)

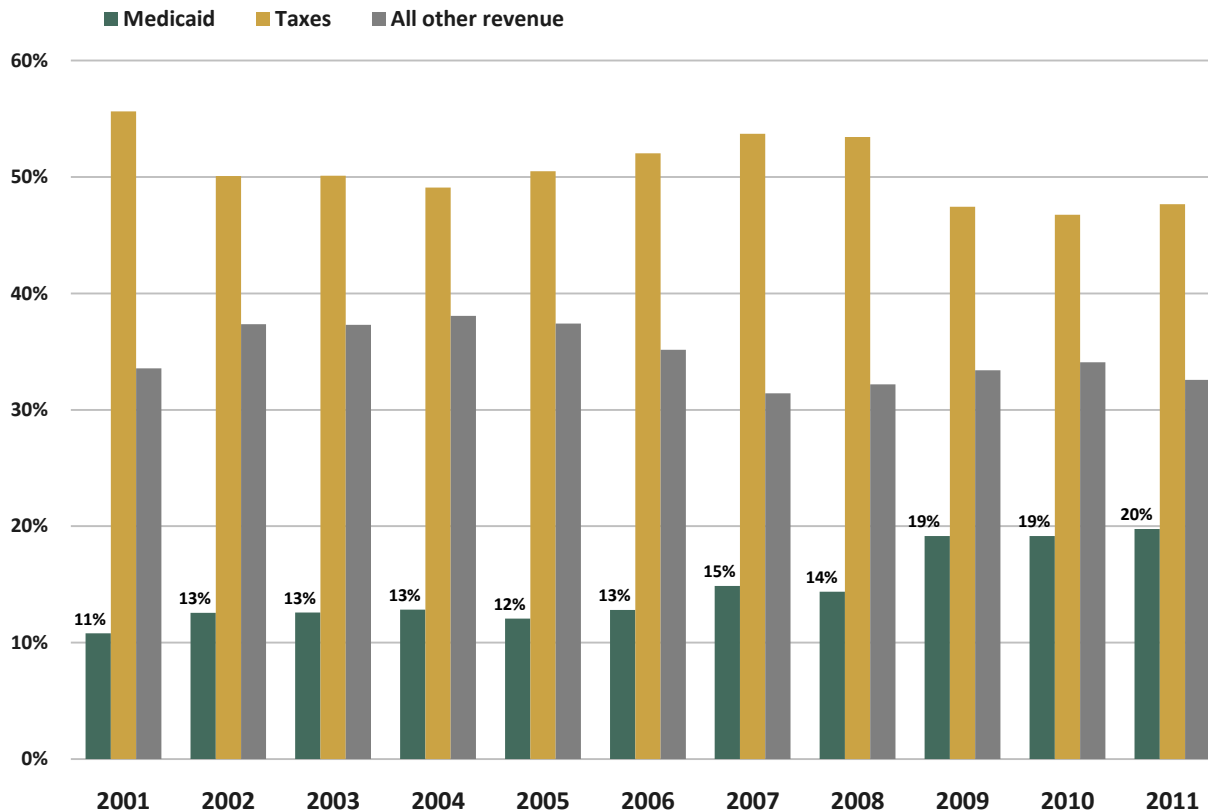


Massachusetts receives federal reimbursement for other programs, but Medicaid is the primary source of federal revenue. In SFY 2011, MassHealth accounted for more than four of every five dollars of federal revenue received.

SOURCE: Comptroller of the Commonwealth (non-Medicaid federal revenue) , Executive Office of Administration and Finance (Medicaid revenue)

MASSHEALTH REVENUE IS AN IMPORTANT COMPONENT OF TOTAL STATE REVENUE

REVENUE SOURCE AS A SHARE OF ALL STATE REVENUE



Medicaid revenue represents a significant portion of total state revenue. Over the period SFY 2001-2011, Medicaid revenue grew as a share of all state revenue from just over one dollar in ten (11 percent) to one in five (20 percent). The elevated figures in SFY 2009-2011 are due to a combination of increasing MassHealth enrollment, enhanced federal matching rate for Medicaid reimbursement, and declining revenue from other sources, particularly income taxes. This share will likely decline in SFY 2012 with the expiration of the enhanced federal match, but will remain elevated because other revenue sources have not yet returned to pre-recession levels.

SOURCE: Executive Office of Administration and Finance (Medicaid revenue); Comptroller of the Commonwealth (all other revenue)

TRENDS IN COMPONENTS OF MASSHEALTH REVENUE FROM ALL SOURCES



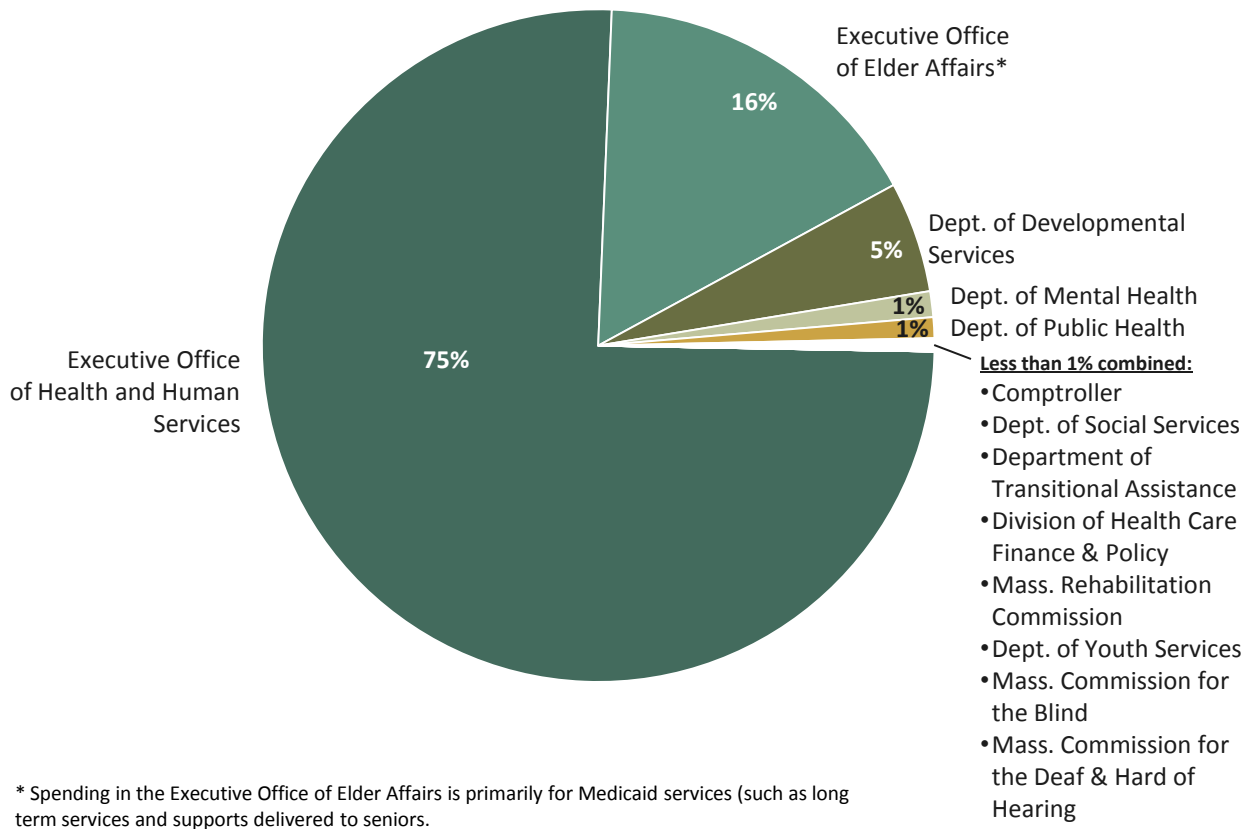
source: Executive Office of Administration and Finance

Increases in MassHealth spending in recent years have largely been driven by increased enrollment. As a result, revenue received from all sources for MassHealth spending has also been driven largely by increases in enrollment.

Non-enrollment related revenue come from activities such as third party recoveries estate recoveries, and supplemental payments to hospitals. Also included are Disproportionate Share Hospital (DSH) payments, reimbursements for Designated State Health Programs (DSHP) under the MassHealth Section 1115 Waiver, and other agencies' spending that qualifies for Medicaid reimbursement.

FEDERAL MEDICAID AND CHILDREN'S HEALTH INSURANCE PROGRAM REVENUE BY STATE DEPARTMENT

(TOTAL = \$8.3 BILLION IN SFY2011)



* Spending in the Executive Office of Elder Affairs is primarily for Medicaid services (such as long term services and supports delivered to seniors).

SOURCE: Executive Office of Administration and Finance

Total federal reimbursements are more than one-half of MassHealth spending because some state activities in the Commonwealth's budget accounts beyond those labeled "MassHealth" qualify for federal reimbursement as Titles XIX and XXI programs. An estimated \$631 million flowed to the Departments of Developmental Services, Mental Health, and Public Health in SFY2011 for programs and facilities they administer that serve people eligible for MassHealth and that therefore qualify for reimbursement under the Medicaid or Children's Health Insurance Program state plan or under a waiver.