Options for Closing the Shrinking Medicaid Deficit

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Back in October 2011, the Wisconsin Department of Health Services (DHS) estimated that the state was facing a shortfall in the budget for Medicaid and BadgerCare of about $550 million during the 2011-13 biennium: almost $220 million in state General Purpose Revenue (GPR) and $330 million of matching federal funds. Since then, the size of the projected deficit has fallen by more than 60 percent, without accounting for the newer cost-saving measures. This short paper provides a summary of the evolving deficit estimate and offers several options for closing that shortfall.

Sizing up the Medicaid shortfall

In January 2012, DHS issued a new estimate of the Medicaid shortfall. Thanks to a number of different factors – including projections of a lower caseload and reduced spending per enrollee – the estimated deficit was reduced by $127 million GPR, dropping to about $92 million. In early April, the estimate was reduced again, to $82 million, as shown in Table 1.

Table 1: Key Medicaid shortfall figures (for the 2011-13 biennium)

Deficit projections	**State GPR Funds**
Nov. 2011 estimate of the Medicaid deficit	$220 million
Revised January 2012 deficit projection	$92 million
Revised April 2012 deficit projection	$82 million
Proposed cost cutting changes (excluding BadgerCare)	
November estimate of administrative changes to Medicaid	$104 million
Current estimate of those Medicaid cost savings	$69 million
Revised estimate of net Medicaid deficit	**$12.4 million**

Last fall when DHS projected the $220 million GPR deficit, it proposed making a wide variety of administrative changes to Medicaid, which the department estimated would save about $104 million GPR. DHS proposed cutting the remaining $116 million GPR by making changes to BadgerCare, including $90 million GPR from a number of policy changes that conflict with state statutes relating to premiums, eligibility, and enrollment procedures. The department proposed cutting the other $26 million GPR (of the $116 million) by establishing an Alternative Benchmark Plan for families in BadgerCare who have incomes above the poverty level.

When DHS reduced its estimate of the Medicaid shortfall in January 2012, it also lowered the projected savings from the administrative changes to Medicaid. The department recently revised that figure to $69.3 million GPR. Assuming that savings can be achieved, it reduces the Medicaid deficit to just $12.4 million GPR.

Options for closing the remaining Medicaid deficit

Notwithstanding the significantly reduced estimates of the Medicaid deficit, the DHS Secretary argues that the state should proceed with the planned cuts. The budget bill delegated to DHS

the authority to decide what policy changes and cuts to make, regardless of the status of the Medicaid budget (and even if the department's policy changes conflict with state statutes).

It is unclear at this point exactly how much can now be saved by the portions of the proposed BadgerCare cuts that are likely to win federal approval. However, here's a rough overview of the possible BadgerCare cuts:

- *Changes relating to eligibility and premiums* – According to DHS, the changes that were approved by federal officials on April 27, 2012, and which take effect on July 1, 2012, are expected to save about $28 million GPR in the current biennium (and will cut about $42 million of federal matching funds). Since some of the changes will apply gradually as BadgerCare participants come up for renewal, the spending cut will increase in the next biennium.

- *The Alternative Benchmark Plan* – DHS has proposed a reduced benefit package and much higher co-pays for families above the poverty level. The department initially hoped to apply those changes in January 2012 and save $26 million GPR. Now it's clear that the timetable will be much later than that, but the number of people affected will be larger because revisions to the other policy changes will result in a greater number of people remaining in BadgerCare. Taking those factors into account, we think the potential savings in the next fiscal year could exceed $10 million, but that depends on when the Alternative Benchmark Plan is approved and whether the state is allowed to eliminate co-pays for families over 150 percent of the poverty level. Approval of the DHS plan would increase co-pays for more than 300,000 BadgerCare participants.

In lieu of making about $30 million to $40 million (GPR) of cuts to BadgerCare, there are a number of ways that the much smaller Medicaid deficit could be eliminated. Here are a few options:

- *Using the state's performance bonus funding* – In each of the last two years, Wisconsin has received federal bonuses of more than $23 million (per year) for BadgerCare's success in improving access to health care for low-income children. The state should receive similar bonuses in 2012 and 2013.[1] If the December 2012 bonus, which is likely to exceed $20 million, were used for Medicaid – rather than lapsing it to the General Fund, as the Walker Administration intends – that would eliminate the anticipated Medicaid deficit (based on the latest projections). Since tax revenue growth over the last few months has been well ahead of the January 2012 projections,[2] it appears that the state could choose not to lapse the bonus funds without adversely affecting the General Fund balance.

- *Undoing one or more of the recent tax cuts* – Last year the Legislature approved new tax cuts that reduce revenue by about $210 million in the current biennium, primarily by cutting taxes for corporations and the wealthy. Senator Jon Erpenbach and Rep. Jon Richards proposed a bill that would have repealed one of those tax changes and would

[1] The House Energy and Commerce Committee voted recently to eliminate the funding for the performance bonuses, but that proposal is not expected to be approved by the Senate.

[2] Over the first 10 months of the 2011-12 fiscal year, General Fund tax revenue has increased 4.3% compared to the same period in 2010-11, which is far ahead of the 2.2% growth for the fiscal year that was predicted in January.

have precluded DHS from making the planned changes to BadgerCare. Specifically, that bill (SB 538) would have generated about $40 million per year by repealing a new tax loophole created in the state budget that allows large, multistate corporations with subsidiaries to retroactively claim business losses for up to 20 years.

- *Implementing a narrower change to BadgerCare* – One portion of the proposed changes to BadgerCare has not generated much opposition. It would modify Transitional Medical Assistance (TMA), which is a longstanding provision of federal law that requires states to continue coverage for 12 months without premiums when a family's income increases above the poverty level. DHS initially proposed eliminating TMA, but the revised plan retains it, while assessing premiums for the adults – based on the family's current income. That change is expected to reduce state GPR spending by about $8.3 million, which would cover two-thirds of the latest estimate of the Medicaid shortfall.

Conclusion

The latest figures indicate that the state's 2011-13 Medicaid deficit has declined to only about $12 million, after one factors in the most current DHS estimate of the savings it expects to achieve from administrative changes to Medicaid. DHS plans to cut spending by more than that, at least $28 million, by making changes to BadgerCare that are expected to have the following effects for working families with low-wage jobs and for the state's health care system:

- More than 17,000 adults are expected to lose their BadgerCare coverage.
- At least 30,000 adults who remain in BadgerCare will have higher premiums.
- More than 300,000 BadgerCare participants would have much higher co-pays and would get a narrower set of health services covered.
- State spending could be cut by $30 million to $40 million during the 2012-13 fiscal year (assuming the proposed Alternative Benchmark Plan is also approved and is implemented soon), which would cost the state upwards of $45 million in federal matching funds.
- There would be a substantial increase in uncompensated care, which would result in a shift in costs to people who have private insurance. (Those increased expenditures would not draw down any of the federal matching funds noted above.)

There are a number of ways to eliminate the small remaining shortfall without causing those severe consequences. The simplest of those is to use the federal performance bonus funds that the state can expect to receive in December 2012. The bonus funding, which rewards states like Wisconsin that have done an especially good job in enrolling very low-income children, should be more than enough to close the anticipated deficit and avoid the devastating impacts to working families.

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