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The Status of BadgerCare Cost-Cutting Initiatives Proposed by the Department of Health Services

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The cost-cutting changes that the Department of Health Services (DHS) has been seeking to make to BadgerCare have been evolving over the last few months, as DHS negotiates with federal officials regarding the requested waivers and plan amendments. This paper summarizes the status of those deliberations, based on information that has been shared with legislators and the Legislative Fiscal Bureau. It compares the anticipated effects of the original DHS proposals and the revised proposals that appear likely to receive federal approval, and it also summarizes the other proposed BadgerCare changes that appear to be further from resolution.

Background

The Wisconsin Department of Health Services (DHS) submitted proposals to the Centers for Medicare and Medicaid Services (CMS) that would affect BadgerCare coverage for more than 300,000 Wisconsinites. According to DHS estimates, the initial set of proposals was expected to cause more than 64,000 Wisconsinites, including over 29,000 children, to lose their BadgerCare coverage. Among those expected to remain in BadgerCare, some would have higher premiums, and an estimated 263,000 would go into an "Alternative Benchmark Plan," which would cover fewer services and would have much higher co-pays.

Most of the changes DHS has been seeking are in conflict with the federal health care reform law, which is known as the Affordable Care Act (ACA). It includes provisions referred to as "maintenance of effort" (MOE) requirements because they require states to maintain their current levels of eligibility (as well as maintaining other policies, such as premiums, that affect enrollment).

The budget repair and budget bills directed DHS to seek a federal waiver of the MOE requirements, and that waiver was submitted late last year. It encompassed nearly all of the changes to BadgerCare proposed by DHS. One change that does not require an MOE waiver is the proposal for the Alternative Benchmark Plan, which requires a different sort of federal waiver.

DHS announced in October 2011 that the projected shortfall in the Medicaid budget was about $550 million, including $220 million in state general purpose revenue (GPR). The proposed changes to BadgerCare were expected to save a little over half of that amount (about $116 million GPR), with other changes to Medicaid making up the balance. The shortfall was re-estimated in January 2012 and reduced to $92 million GPR, but DHS also lowered its estimate of the savings from the Medicaid changes to about $75 million. That leaves a net shortfall of just $17 million, which the department could close without any of the proposed cuts to BadgerCare, if the state would use the next round of federal performance bonus funding. However, DHS officials have indicated that they would still like to implement all of the proposed changes to BadgerCare.

Deliberations with Federal Officials

Over the course of the last few months DHS modified its proposals, as it became apparent that CMS would not waive the MOE requirements relating to children's coverage, but would allow Wisconsin to make a number of changes relating to adults with income over 133 percent of the federal poverty level (FPL). Table 1 shows the annual, monthly and hourly income for households at 133% of FPL.

Table 1: Income at 133 Percent of the Federal Poverty Level

Family Size	Annual Income	$s per Month	$s per Hour
One person	$14,856	$1,238	$7.14
Two	20,123	1,677	9.67
Three	25,390	2,116	12.21
Four	30,657	2,555	14.74
Five	35,923	2,994	17.27

State and federal officials seem to be close to an agreement on the following changes to BadgerCare:

- Sliding scale premiums for adults over 133% of FPL.
- Ending coverage of adults if they have access to employer-sponsored coverage and their portion of the premium would cost less than 9.5% of family income.
- Dropping adults for a year if they fail to make a premium payment.
- Stopping the payment of claims for all participants 10 days after their eligibility ends, instead of allowing them to continue on BadgerCare until the end of the month.

DHS has withdrawn a couple of its original proposals that would have adversely affected children, and has also dropped the proposed revisions relating to determining family size and income. The appendix describes the original and revised proposals in more detail.

Several aspects of the revised DHS proposals need to be approved by the Finance Committee:

- Imposing premiums on adults who are between 133% and 150% of FPL, rather than only those over 150%.
- Increasing premiums to 6.3% of family for adults at 200% of FPL.
- Applying premiums of 6.3% to 9.5% of income for childless adults over 200% of FPL. (Childless adults who came into the Core Plan below the 200% ceiling can stay in until the next anniversary date of their coverage.)
- In lieu of eliminating Transitional Medicaid (TMA), applying premiums of 3% to 9.5% of income for parents in TMA with income over 133% of FPL.

Table 2 compares the original and revised proposals with respect to the number of people who were expected to lose their BadgerCare coverage or to pay more in BadgerCare premiums or copays. That table also shows the number affected by the proposed increases in cost-sharing and the projected savings. The second half of Table 2 provides a brief summary of the substance of the original and revised proposals.

Table 3 provides a more detailed summary of the anticipated effects on BadgerCare participation for each of proposed changes, and it compares the original and revised plans.

Table 2: Comparison of Original and Revised DHS Proposals for BadgerCare Changes

Policy or impact	Original DHS Proposals	Revised DHS proposals*	Proposals that seem to be near approval **
Total # expected to lose BadgerCare coverage	64,748	22,835	About 17,300
a) parents	33,750	17,756	16,040[1]
b) children	29,120	2,940	
c) childless adults	1,392	1,755	
d) pregnant women & newborns	486	384	
Total with higher premiums (& still enrolled)	72,315	33,678	33,678
Affected by Alternative Benchmark Plan	About 263,000	About 305,000	???
Total # affected[2]	More than 330,000	More than 330,000	???
Total spending cut from MOE-related changes	$225,760,000	$91,074,000	
a) State GPR share	$90,215,000	$36,473,600	
b) Lost federal match	$135,545,000	$54,600,400	
Proposals: (See the Appendix for further explanation of the proposals)			
Increased premiums	Flat premium of 5% of income for all families over 150% of FPL, regardless of whether the full family is covered or just the kids. (Now there are no premiums for children under 200% of FPL.)	Sliding scale premiums for adults, starting at 3% of income at 133% of FPL, rising to 6.3% at 200% of FPL. No premiums for kids under 200% of FPL.	As proposed by DHS (in their revised plan).
Revised definition of family income and size	Counts the income of all adults in a household (except grandparents) but wouldn't count the expenses of unrelated adults	Proposal withdrawn	No change (from current law)

[1] The figures in this column exclude the effects of the proposed changes related to residency documentation.

[2] This is the sum of the people losing coverage, those affected by the Alternative Benchmark Plan, and the childless adults paying more premiums

Eligibility restrictions for people with offers of employer coverage	For parents over 100% of FPL & kids over 133% of FPL, they would be excluded if they have access to a major medical plan with premiums less than 9.5% of family income. Expected to decrease enrollment by almost 28,000.	This policy would apply to parents over 133% of FPL, but not to children. (Childless adults are already excluded if they have an offer of employer-sponsored coverage.)	As proposed by DHS (in their revised plan).
Eligibility of 19 to 26 year olds (parents, caretaker relatives and pregnant women)	Excluded if their income is above 100% of FPL & they could potentially be covered by a parent's employer-sponsored plan.	DHS hasn't withdrawn the proposal but says it isn't the subject of active negotiations.	Approval appears unlikely
Elimination or revision of Transitional Medical Assistance (TMA)	Would eliminate TMA. Expected to make more than 6,700 children and adults lose BadgerCare coverage and increase premiums for more than 72,000.	It's unclear whether DHS is still seeking to eliminate TMA; but it has asked to at least be able to apply premiums to adults in TMA above 133% of FPL	??? This is a new proposal that hasn't yet been the subject of much discussion with federal officials.
Express enrollment for pregnant women and BC+ kids	Eliminated for kids	Proposal withdrawn	No change (from current law)
Faster termination of eligibility	End the practice of continuing coverage until the end of the month in which eligibility is lost.	Same	As proposed by DHS
Suspension of eligibility for missing a premium	If a family misses a premium, the parents & kids would be suspended for 12 months (compared to 6 mos. now, for parents only)	Would not apply to children below 200% of FPL. If family fails to pay a premium, only parents are suspended.	As revised by DHS
Ending retroactive eligibility	End the current practice of allowing people to be covered for services they receive up to three months before applying	Same	???
Documentation of residency	Would be required in all cases.	Same	???

***** This column includes only the proposals that the Fiscal Bureau and DHS say are currently the subject of active negotiations with CMS.

****** The last column is our subjective assessment of the things that appear to be close to approval, and doesn't include proposals that might be approved later.

Table 3: Number Expected to Lose Coverage as a Result of Specific Changes

Policy or impact	Original DHS Proposals	Revised DHS proposals*	Changes that seem to be near approval**
Premiums			
• parents	6,169	6,289	6,289
• children	12,109		
• childless adults	945	1,308	1,308
Restricting eligibility for people w. offers of employer-sponsored insurance			
• parents	16,588	7,108	7,108
• children	11,274		
Restricting eligibility of young adults			
• parents	2,851		
Counting income of all adults			
• parents	2,258		
• children	229		
• pregnant women & newborns	102		
Requiring documentation of state residency			
• parents	1,716	1,716	
• children	2,940	2,940	
• childless adults	447	447	
• pregnant women & newborns	384	384	
Ending Transitional Medicaid			
• parents	4,168	2,643	2,643
• children	2,568		

* *This column includes only the proposals that the Fiscal Bureau and DHS say are currently the subject of active negotiations with CMS.*

** *The last column is our subjective assessment of the things that appear to be close to approval, and doesn't include proposals that might be approved later. We included the new proposal relating to premiums for people in Transitional MA though the prospects for that proposal are less certain.*

Conclusion

The revised changes to BadgerCare proposed by DHS would reduce the number of people expected to lose their coverage to 22,835, compared to more than 64,000 who would have

lost coverage from the initial DHS proposals. At the urging of the Center for Medicare and Medicaid Services, DHS has removed almost all of the portions of the proposed changes that would reduce participation of children in BadgerCare.

Although state and federal officials appear to be near agreement on a number of the major parts of the BadgerCare changes that require a maintenance of effort (MOE) waiver, the resolution of a number of issues is still unclear. The fate of the following proposals is uncertain:

- Requiring increased documentation of residency. (It's estimated that this increase in paperwork would reduce enrollment by nearly 5,500 people, including 2,940 children.)
- Establishing an Alternative Benchmark Plan, with fewer services covered and much higher co-pays (and no cap on co-pays for families over 150% of FPL).
- Excluding young adults who might be able to get coverage from a parent's employer-sponsored insurance.
- Ending retroactive eligibility.

The revised version of the MOE-related changes proposed by DHS would reduce the state share of BadgerCare by about $36.5 million GPR in the current biennium. That doesn't included the savings that will result if the Alternative Benchmark Plan is approved, which could cut the state share of BadgerCare spending by roughly $20 million per year.

Although the $36.5 million figure is significantly below the amount DHS was striving to cut last fall, it is well above the amount DHS needs to save to get the Medicaid budget back into balance. In fact, the state could achieve that goal by using the federal performance bonus funds that it will receive at the end of 2012 for BadgerCare's success in improving enrollment among low-income children.

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Appendix: Explanation of the Original and Revised DHS Proposals for BadgerCare Changes

This appendix describes the changes proposed by DHS last fall and approved by the Joint Finance Committee at its November 10, 2011 meeting. It also describes the current status of each BadgerCare change DHS was seeking and compares the estimated cost savings from the original proposals with the current estimates for the revised proposals.

Benefit and Co-pay Changes

- **Alternative Benchmark Plan** – DHS is seeking a waiver and plan amendment to enroll children and adults with income over 100% of the federal poverty level (FPL) in a new Benchmark Plan, with reduced benefits and much higher co-pays. The co-pays would be capped at 5% of household income for individuals under 150% of FPL, but would be uncapped for people over that income level.
    - *Current status*: DHS is still seeking this change, but its status is unclear. Although the department initially hoped to implement this in January 2012, Secretary Smith recently said that the MOE-related changes are on a faster track and are the department's chief priority at this time.

- *Original savings estimate*: $26.2 million GPR and $39.3 million FED
- *Current savings estimate*: roughly $20.2 million GPR and $30.3 million FED (This is a WCCF estimate that assumes a July 1, 2012, start-up date and a 16% increase in people affected by this change, because the revised MOE-related changes will cause less of a reduction in enrollment than initially anticipated.)

Changes Requiring a Federal Maintenance of Effort (MOE) Waiver

The language in the budget repair and budget bills requires DHS to seek a waiver from the provisions in the federal health care reform law that restrict the ability of states to reduce eligibility or make changes that suppress enrollment (such as increasing premiums). Nearly all of the changes summarized below either require a waiver of the MOE requirements, or would have required an MOE waiver if the state hadn't decided to narrow the scope of its initial proposals.

The budget bill provides that if the state did not get an MOE waiver by December 31, 2011, DHS would be required to reduce eligibility of parents and childless adults to 133% of the federal poverty level (from the current 200%), which would eliminate coverage of an estimated 53,000 adults, beginning on July 1, 2012. DHS has indicated that because federal officials gave Wisconsin preliminary approval before that date for some of the changes it is seeking, the state would not end coverage in July for those 53,000 adults.

The following description of the DHS proposals begins each item with a summary of the original proposal, followed by a brief explanation of the status of that portion of the proposals (as of March 12, 2012), and then a comparison of the projected cost-savings from the original and current DHS proposals.

- **Restricting eligibility for people with access to private coverage** – DHS proposed eliminating eligibility for people who are currently insured or who have offers of employer coverage if the employee or household contribution for the private coverage costs less than 9.5% of household income. This would have applied to adults over the poverty level and to kids over 133% of poverty.

    - *Current status*: CMS indicated that it could approve this change for adults over 133% of the poverty level, but not for children, and DHS has agreed to change its proposal to make it acceptable to CMS. Those changes are a big improvement, but the new restrictions on adult eligibility would still be a very substantial hardship for many low-income families. The table below provides three examples of how the revised policy change would affect various families that have access to employer coverage, assuming their share of the cost is 9% of their income. Although the figures in the table help to illustrate how the proposed policy would price health insurance out of reach for many low-income Wisconsin families, the higher premiums will often be just a small part of their increased costs. Keep in mind that the co-pays and deductibles in the employer plan will often be considerably more expensive than the premiums, and the affected families will have a combination of the increased premiums for covering the parents, potentially large co-pays and deductibles for the employer-sponsored coverage, and substantially increased co-pays for kids still in BadgerCare (if the Alternative Benchmark Plan is approved).

Table 4: Possible Premium Increases for Adults Who Shift to Employer Coverage

Family Size	Annual income	Hourly Income	Poverty Level	Current Premium (per month in BC+)	New Premium (if employee share is 9%)	Annual Increase
three: 1 parent & 2 kids	$26,000	$12.50	136%	0	$195	$2340
four: 2 parents & 2 kids	$35,000	$8.41 x 2	152%	$20	$263	$2910
five: 2 parents & 3 kids	$45,000	$10.82 x 2	167%	$54	$338	$3402

- *Original savings estimate*: $12,290,000 GPR and $18,470,000 FED
- *Current savings estimate*: $1,159,600 GPR and $1,778,400 FED

- **Increasing premiums** – The original proposal would have allowed DHS to increase premiums to up to 5% of household income for coverage of adults and children in families above 150% of the poverty level. In addition to increasing premiums for adults between 150% and 200% of poverty, it would also have initiated premiums for kids in that income range, who are currently exempt from premiums. For a single parent with two kids and a household income between 150% and 160% of the poverty level (for example, about $14 per hour and $29,000 per year), the proposal would have increased the premium by about $110 per month, or more than $1,300 per year. Increased premiums put insurance out of the reach of many low-income households, causing a sharp increase in the uninsured and an increase in uncompensated care costs that are shifted to other consumers.
  - *Current status*: The proposal has been changed in several respects. First, premiums won't be applied to children in families below 200% of FPL (a change that was projected to knock more than 12,000 children out of BadgerCare). Second, the premiums for adults will begin at 133% of FPL and will be changed to a sliding scale, ranging from 3% of income at 133% of FPL to 6.3% at 200% of FPL. Third, the revised proposal would apply premiums of 6.3% to 9.5% of income for childless adults over 200% of FPL. (Under current law, about 500 childless adults who were enrolled in the Core Plan when their income was below the 200% ceiling are allowed to remain enrolled, without any premium, until the next anniversary date of their coverage.) Finally, it's assumed that the higher premiums would take effect on July 1, 2012, rather than April 1, 2012.
  - *Original savings estimate*: $41,125,000 GPR and $61,875,000 FED
  - *Current savings estimate*: $15,560,000 GPR and $23,340,000 FED
- **Ending Transitional Medicaid** – The department proposed eliminating the Transitional Medical Assistance (TMA) category of eligibility, which is a welfare reform initiative that enables families below the poverty level to remain in the same category of BadgerCare coverage for 12 months after their income increases above the poverty level. Eliminating it would adversely affect roughly 81,000 BadgerCare participants. A minority of them would lose their BadgerCare coverage (e.g., adults over 200 percent of FPL, and some adults and kids who gain access to employer-sponsored insurance), while others will have increases in premiums and co-pays

(which could price the coverage out of their reach) and possibly also reductions in health care covered.

- *Current status*: DHS has proposed a new option that presumes TMA will be retained. The department is seeking CMS approval to apply the new schedule of BadgerCare premiums to adults in TMA if the family income is over 133% of FPL. We believe that CMS is likely to approve that version of the proposal. According to the LFB paper, DHS has withdrawn the original proposal to eliminate TMA.
- *Original savings estimate*: $12.6 million GPR and $18.9 million FED
- *Current savings estimate*: $8.32 million GPR and $12.48 million FED

- **Broadening definition of family unit** – This change would count the income of all adults (except grandparents) in the definition of the household, though the newly counted adults (such as a live-in boyfriend) would not be counted for purposes of household size. This change would make some families ineligible, and it would increase premiums for others. It would add significantly to the workload of caseworkers and complicate the state's online application system by creating different family sizes and incomes for purposes of Medicaid (and BadgerCare) and other public benefit programs.
  - *Current status*: DHS has withdrawn this part of its proposals.
  - *Original savings estimate*: $6.2 million GPR and $9.5 million FED
  - *Current savings estimate*: No savings

- **12-month suspension of eligibility for failing to pay a premium** – An adult who misses a premium is currently suspended from BadgerCare for 6 months. The proposed change would extend the length of the suspension to 12 months, and it would broaden the suspension to include children in families with incomes above 150% of the poverty level (rather than just to adults). In light of the premium increases that would result from the previous two changes, missed payments and suspensions would become far more common.
  - *Current status*: The revised proposal would limit the 12-month suspensions to adults. Children below 200% of FPL would continue to be exempt because they do not have to pay premiums. If parents missed a family premium, kids would not be suspended.
  - *Original savings estimate*: $700,000 GPR and $1,100,000 FED
  - *Current savings estimate*: $334,000 GPR and $502,000 FED

- **Ending retroactive eligibility** – This would end the current practice of allowing people to be covered for services they receive up to three months before applying. This would be a very expensive change for providers and some families, and is likely to increase the amount of uncompensated care, which is a cost that often gets shifted onto other health care consumers.
  - *Current status*: This proposal hasn't changed and is still being "actively negotiated" with CMS.
  - *Original savings estimate*: $2.7 million GPR and $4 million FED
  - *Current savings estimate*: $2.7 million GPR and $4 million FED

- **Ending presumptive eligibility** – Presumptive or "express" eligibility now allows children and pregnant women to be enrolled on a temporary basis, while their application

is pending, in order to ensure they get timely care. DHS contends this will no longer be needed because the state is moving to what the department calls "real-time eligibility;" although some of the latest proposals (like the next item) would move the enrollment process in the opposite direction. If this is ended for pregnant women (as appears to be the intent), and not just for kids, that would be a blow to the state's efforts to help more women get timely prenatal care throughout their pregnancy and thereby combat infant mortality and reduce spending for low birth weight babies.

- *Current status*: DHS has withdrawn this part of its proposals.
- *Original savings estimate*: $200,000 GPR and $400,000 FED
- *Current savings estimate*: No savings

- **Requiring documentation of state residency** – This provision would beef up the current state residency requirement for eligibility by requiring documentation from program applicants. It would increase administrative costs and significantly slow the enrollment process, undermining the department's stated goal of implementing "real-time eligibility." In addition, this could significantly impede the enrollment of some applicants, such as the homeless.
  - *Current status*: This proposal is still on the table, but it's unclear whether CMS will approve it. One very modest change is that tribal IDs could be used.
  - *Original savings estimate*: $6 million GPR and $8.9 million FED
  - *Current savings estimate*: $6 million GPR and $8.9 million FED

- **Restricting eligibility of young adults** – This change would require young adults from the ages of 19 through 26 to be covered under their parents' health insurance plan, not BadgerCare. It presumes (incorrectly, we believe) that all young adults have parents who are willing and able to add them to their private insurance, and that the adult child lives in the same area as their parent. If approved, this wouldn't affect many young adults now because the cap on childless adult coverage has substantially reduced the number of people served; however, it could have a dramatic effect in 2014 and thereafter, if this restriction still applies when Medicaid eligibility is extended to all adults under 133% of the poverty level.
  - *Current status*: According to the new LFB paper, DHS reports that although it has not withdrawn this item, it is not the subject of active negotiations.
  - *Original savings estimate*: $3.6 million GPR and $5.3 million FED
  - *Current savings estimate*: No savings currently assumed by the Fiscal Bureau

- **Speeding up eligibility terminations** – This proposal would end the practice of continuing coverage until the end of the month in which eligibility is lost. It applies to children as well as adults. This change seems to presume that decisions that a person is ineligible will always be accurate (so time to remedy mistakes isn't needed), and to presume that a person whose income increases can immediately enroll in other coverage.
  - *Current status*: This proposal has received preliminary approval from CMS. The proposal is unchanged, but the cost-savings estimates are reduced because the Fiscal Bureau assumes that implementation would begin in January 2013, rather than July 2012.
  - *Original savings estimate*: $4.8 million GPR and $7.1 million FED
  - *Current savings estimate*: $2.4 million GPR and $3.6 million FED