



State of Wisconsin  
Department of Health Services

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Jim Doyle, Governor  
Karen E. Timberlake, Secretary

Joint Committee on Finance

Testimony of Secretary Karen E. Timberlake

Department of Health Services

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Senator Miller, Representative Pocan, and members of the Joint Committee on Finance, thank you for the opportunity to provide you with an update about our plan to achieve approximately \$208 million GPR/\$633 million AF in savings in the Medicaid budget, as directed by the Governor and Legislature in the 2009-11 biennial budget, and to review current enrollment and expenditure trends.

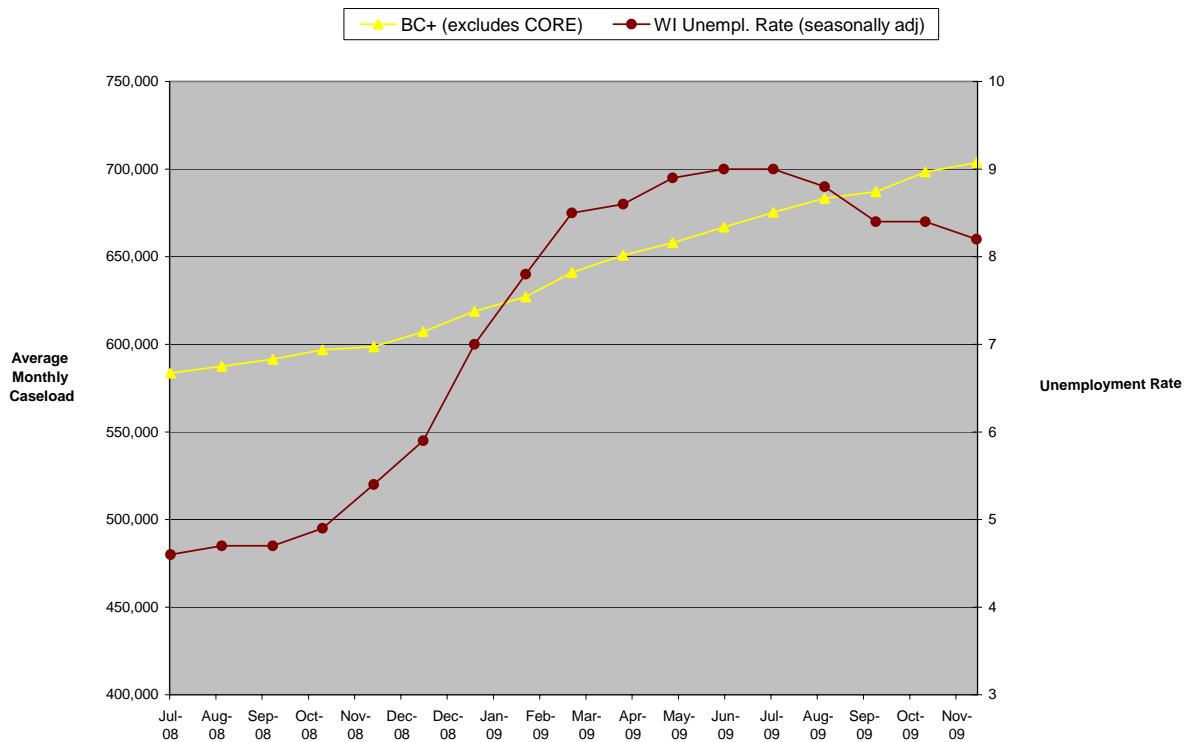
Badger Care Plus and other components of the Medicaid program, known collectively as ForwardHealth, serve as the health care safety net for Wisconsin's most vulnerable citizens. Medicaid currently provides essential health and long term care services for more than one million low income children, families, seniors and people with disabilities across Wisconsin. In an average month, the Medicaid program processes over two million claims to approximately 30,000 providers. The Medicaid budget totals \$12.4 billion in state and federal funding over the biennium, and is the second largest in GPR funding among state programs.

Since Governor Doyle launched the BadgerCare Plus expansion in 2008 with a goal of providing access to affordable health insurance for all eligible children, the program has led to a dramatic increase in access to health care for Wisconsin citizens.

Wisconsin now has the second lowest uninsured rate in the nation, thanks to a combination of coverage expansions under BadgerCare Plus as well as a continuing, strong tradition in this state of employer-sponsored health insurance. The Governor's efforts to insure more children and make the program more accessible have been hugely successful, especially during this difficult economic time.

With unemployment rates in Wisconsin doubling over the past year, more families in Wisconsin have become eligible for and are in need of safety net programs, like BadgerCare Plus, to assist them in difficult times.

**Table 1: BC Plus Caseload & Unemployment Rate**



The overwhelming majority of people who have enrolled in BadgerCare Plus since February 2008 are pregnant women, children and families with incomes under 200% of the federal poverty level (FPL), which equates to less than \$44,100 a year for a family of four.

The University of Wisconsin Population Health Institute recently found that 94% of all children with family incomes under 150% of the FPL, earning under \$33,072 for a family of four, are enrolled and accessing health care through BadgerCare Plus.

The UW study also found that enrollment of low-income parents—those with incomes under 150% of FPL (\$33,075 for a family of four)—grew from 67% to 85%, indicating that by closing gaps between existing programs and simplifying the application process, low income families are better able to access BadgerCare Plus. Additionally, low-income children and adults are maintaining their coverage with fewer disruptions (program exits declined by 20% for children and 17% for adults). By reducing the rate at which children and families drop and then regain coverage, we expect to see enhanced continuity of care and better health outcomes.

**Medicaid Savings Required Through the 2009-11 Biennial Budget**

During the 2009-11 biennial budget process, the Governor and Legislature established a significant savings target for the Medicaid program. The Governor’s Budget set the savings target at \$415 million AF; the Legislature later increased it to \$633 million AF. These savings must be realized as one important part of the solution to the current biennium’s fiscal pressures. At the same time, we are committed to realizing these savings to the greatest extent possible in ways that improve the quality and efficiency of the Medicaid program.

At the Department, our development of a plan to realize these savings is known as the ForwardHealth Rate Reform project. We have worked to identify savings in the program in a thoughtful way, using the best data available and ideas from providers and other stakeholders. The Governor directed us to do so while preserving eligibility and coverage levels for the vulnerable populations the program serves. We also needed to ensure that our providers continue to be reimbursed at a level that enables them to participate in the program.

The approach we have taken to identifying Medicaid savings differs markedly from that taken in other states. Other states have implemented painful across the board provider rate reductions and benefits reductions to address their fiscal problems.

- Washington reduced inpatient and outpatient hospital rates by 4% and physician, dentist, MCOs, and nursing home rates by 5% in FY 10. It also significantly increased premiums and annual deductibles in its state health plan for low income individuals.
- California enacted 7% across the board cuts to service providers, eliminated certain optional Medicaid benefits for members, and ended health care coverage to more than 920,000 children and teens.
- Iowa implemented across-the-board cuts of 10% and closed one of the state's four mental health facilities.
- Michigan enacted 8% across the board cuts to service providers.
- In Minnesota, HMOs saw a 4.5% reduction, hospitals a 1% reduction, and physicians a 6.5% reduction with certain exceptions.

The Governor rejected this approach because difficult economic times are when Medicaid services are most needed by people in Wisconsin. Instead, the goals of our rate reform effort have been to:

- Protect eligibility, coverage, and access to essential services for low-income children and their families, and elderly, blind and disabled children and adults.
- Avoid across the board cuts.
- Identify short term solutions and longer term systemic improvements.
- Ensure that no one provider group is singled out for rate reductions.
- Align payments with value and quality rather than volume.

The ForwardHealth Rate Reform effort, led by Jason Helgerson, the State's Medicaid Director, was launched in late March and was focused on involving a broad range of partners in the process. Specific outreach activities included an all-provider conference call, eight advisory groups comprised of over 200 providers, consumers, advocates, and other stakeholders, and a Web survey to 30,000 providers.

These steps generated over 500 ideas, which Department staff analyzed in late spring and summer. Following a second round of advisory group meetings in July, we released a draft plan to all legislative offices in July and held a briefing on July 16 briefing for legislators and staff which was attended by approximately 25 legislative offices.

We continued to meet with providers throughout the summer to brief them on the plan and hear their feedback. The final plan was released in September to legislative offices and all providers.

I have attached an updated PowerPoint summary of the current plan, reflecting some additional changes since September.

The plan:

- Increases payments for successful outcomes.
- Reduces payments for errors, poor outcomes, and unnecessary complications.
- Builds on previous Medicaid quality improvement efforts including the managed care pay-for-performance initiative.
- Implements care management and coordination strategies.
- Seeks opportunities to maximize federal funding.

### **Pressures on the Medicaid Program Due to National Recession**

Across the country, Medicaid programs experience their greatest demand during difficult economic times. As a result of the sudden, sharp decline in the national economy that began in the fall of 2008, the state's unemployment rate doubled. The Wisconsin Medicaid caseload has increased 17% from November 2008 to November 2009.

This increased demand has also been underscored by the overwhelming response for the new BadgerCare Plus Core plan, for very low income individuals without dependent children in their household. The Core Plan offers basic health care to Wisconsin residents, many of whom have gone years without coverage or who have lost their coverage due to job loss. Sixty percent of all people applying for the Core Plan report no income at all.

As of October 9, 2009, we suspended the BadgerCare Plus Core Plan enrollment process because the total number of applications we had received (76,000) was greater than the number of slots available under the budget neutrality requirements of our federal waiver.

Approximately 55,000 individuals are now receiving health care benefits through the Core Plan. We project that upon completion of all applications received by October 9<sup>th</sup> at the end of December, Core Plan enrollment could peak at 68,000 and then decline throughout the biennium. The rate of attrition will depend on how many enrollees pay their annual \$60 renewal fee, complete their annual physical, obtain health coverage from other sources, and other factors. We are confident that we will still meet our budget neutrality requirements for this waiver assuming this natural attrition.

Just as the national and state economic outlook is uncertain, it is difficult to predict the level of demand for Medicaid services over the next two years. While BadgerCare Plus caseload grew significantly for the first eight months of CY 09, caseload has moderated and remained relatively constant for the past three months. We are monitoring caseload growth closely and will continue to examine how this impacts the overall Medicaid budget. It is early in the biennium, and there are some signs of the beginning of an economic recovery. It is, therefore, difficult to predict with any certainty what the next 18 months will mean for the Medicaid caseload.

In addition, there are other factors in play at the federal level which will ultimately impact the fiscal outlook for the Medicaid program by the end of the current biennium.

President Obama's American Recovery and Reinvestment Act (ARRA) provided Wisconsin with \$1.2 billion in additional federal Medicaid funding during the 2009-11 biennium. This was accounted for during the biennial budget process and was a significant contribution to solving the state's severe budget deficit.

Currently, the enhanced federal funding is scheduled to end on December 31, 2010. To date, I am aware of four bills that have been drafted, introduced, or have passed one house in Congress, which would provide an extension of the enhanced federal funds, at varying levels.

- (1) The health care reform bill that recently passed the full United States House of Representatives would provide states with a 6 month extension in the enhanced ARRA federal medical assistance percentage (FMAP), through June 30, 2011. For Wisconsin, this extension would provide for \$190 million to \$238 million in additional federal funds, depending on Wisconsin's unemployment rate.
- (2) Yesterday, the House passed the Jobs for Main Street Act, which also includes a six month extension of ARRA Medicaid rates, also worth \$190 million to \$238 million to Wisconsin.
- (3) Senate Majority Leader Harry Reid of Nevada has drafted a bill which would provide states with a 6-month extension in the enhanced ARRA FMAP, through June 30, 2011, at which time the FMAP would begin a phase-down, reaching regular FMAP levels by January 2014, when health care reform is scheduled to be implemented. For Wisconsin, this extension would provide for \$451 million to \$611 million in additional federal funds over four years, again depending on Wisconsin's rate of unemployment.
- (4) Congresswoman Tammy Baldwin has introduced a bill which would provide states with a one-year extension in the enhanced ARRA FMAP, through December 2011. For Wisconsin, this extension would allow for \$350 million - \$490 million in additional federal funds, depending on Wisconsin's level of unemployment.

The pressures on the Wisconsin Medicaid program as a result of the national economic downturn are no different from the pressures facing numerous other states. In light of the significant needs in many states for an extension of enhanced federal support for state Medicaid programs, it seems quite likely that additional federal funding will play a significant role in ensuring that Wisconsin is able to maintain a strong and stable Medicaid program so that eligible individuals can continue to depend on the program in times of economic stress.

Because additional federal support is not guaranteed and will be limited in duration, however, we must continue to do what we can do here in Wisconsin to manage the Medicaid program within the resources available in the current biennium.

Overall, we are on-track to save the full \$633 million AF required by the 2009-11 state budget and are in fact likely to slightly exceed the original target. Because the Medicaid program experiences its greatest need during difficult economic times, and because it is difficult to predict the level of demand for Medicaid services over the next two years, it is important both to implement the current rate reform plan and continue to search for further savings opportunities in program. It will also be important to maximize efficiencies as we prepare for the eventual return of a more traditional level of federal financial participation in Medicaid.

Given these considerations, our Department will reconvene the ForwardHealth Rate Reform advisory groups after the first of the year to identify additional savings in the Medicaid program.

As we move forward to implement the current savings strategies and develop additional ideas, we will maintain our focus on finding efficiencies in the program while preserving eligibility, benefits, and access to care for the vulnerable populations the program serves.