

LBO Testimony

Medicaid and Caseload Expenditure Forecasts

Before The Conference Committees on

Am. Sub. H.B. 283, Biennial Operating Budget and
Am. Sub. H.B. 282, Biennial Education Budget

Barbara Riley, Division Chief

June 15, 1999

Mr. Chairman, members of the Conference Committees, the following are the Legislative Budget Office's updated forecasts for Medicaid, TANF, and Disability Assistance caseloads and expenditures. As you are aware, welfare reform at the state and national levels, and an ever strengthening economy, have altered welfare, and indeed there is no more welfare as we once knew it. Caseloads continue to decline for OWF cash assistance and Medicaid, and enrollment in new health care programs, although growing, has not met expectations. However, as you will see, caseload alone does not drive expenditures.

Medicaid

I will begin with a LBO baseline Medicaid forecast, which assumes no change in the Medicaid policies and programs, and then will add the spending blocks which build to the total LBO expenditure estimates. Our revised baseline of \$5.669 billion for FY 2000, (state share \$2.353 billion), and \$5.905 billion, (state share \$2.446 billion), in FY 2001 is somewhat lower than that presented to the House and Senate several months ago, but LBO continues to run somewhat higher than the executive; approximately \$50 million higher (\$21 million state share) in FY 2000 and \$12 million (\$5 million state share) higher in FY 2001. We have revised downward our nursing home and HMO estimates, while our hospital, physician and "other" component pieces are slightly higher than our previous numbers. Within the "other" category, the expansion of waiver slots and fee increases in the waiver programs contribute to our estimated cost increases. Prescription drug costs continue to escalate, but the rebates also increase, somewhat offsetting the effects of prescription drug inflation.

In order to reflect the initiatives proposed by the House and Senate, LBO's baseline Medicaid spending estimate must be adjusted by the following factors:

	FY 2000	FY 2001
CHIP I:	\$62,603,188	\$75,713,716
Coverage for Pregnant Women to 150% of Poverty:	\$1,109,799	\$6,309,198
Coverage for Parents to 100% of Poverty:	-0-	\$22,757,039
Increasing the Personal Needs Allowance (PNA)for	\$750,000	\$750,000

ICF/MR Residents:		
Provider Fee Increases:	\$34,582,888	\$90,100,672
Subtotal of initiative costs:	\$99,045,875	\$195,630,625
Offset by IMD/DSH dollars:	(\$205,411,220)	(\$216,476,792)
Total Adjustment	(\$106,365,345)	(\$20,846,167)
Expanding CHIP to 200% of Poverty (400-426):	\$6,760,700	\$23,957,445

Perhaps for your purposes, the more crucial comparison is this LBO estimate with the appropriation level in the current Senate Passed version of Sub. H.B. 283. Our Medicaid estimate, taking into account all of the above except for the PNA increase is \$5.562 billion for FY 2000, as compared to the current appropriation of \$5.508 billion; and in FY 2001, LBO estimates \$5.883 billion while the bill has \$5.877 billion allocated. This results in a difference of \$22.61 million in state share in FY 2000 and \$2.52 million in state share in FY 2001.

One provision that is included in both the House and Senate versions of the bill is a movement towards the simplification of eligibility for Medicaid. The House mandated such a move, while the Senate replaced that mandate with permissive language. Clearly, if the Department of Human Services is able to significantly simplify the eligibility process, there could be a corresponding increase in persons applying for and receiving benefits. It is not possible to forecast human behavior, therefore we have not attached a cost to the simplification provision, but it is logical to assume that there will be some growth in Medicaid caseloads as a result of that measure.

TANF

Clearly the purpose of cash assistance has changed nationally to one with a temporary focus designed to assist people as they move to the work force. In addition, the ancillary services provided with TANF dollars are meant to develop a strong workforce and put in place supports that will allow individuals to fully participate in employment and enhance their income potential. Under that philosophy Ohio has imposed a three year time limit, the effect of which will be felt in October of 2000, and strict work requirements which are now in place and enforced with a system of sanctions.

In order to carry out the workforce development focus, we have available to us approximately \$728 million in federal TANF block grant funds, and we are obligated to provide state funding to meet our mandated maintenance of effort (MOE) level of \$417 million. The federal government set the MOE rate at 80 percent of what we spent in FFY 1994 on ADC, JOBS, and Family Emergency Assistance. Current appropriations and the proposed budget have allocated only \$401 million, or 77 percent of that level. However, the mandatory MOE rate can be reduced to 75 percent if the state meets work participation requirements, and Ohio's current performance should allow for us to draw our full federal block grant, without penalty.

That said, where are caseloads now, and where are they going? The cash assistance caseload has been in a steady decline since the spring of 1992, and LBO projects that decline to continue into the next biennium, falling from a current annual average caseload of 115,689 assistance groups to 83,750 assistance groups in FY 2001. Based on that caseload, our baseline estimate is for \$366.23 million to be spent on cash assistance in FY 2000 and \$313.77 million to be spent on grants in FY 2001. In the current fiscal year we estimate expenditures on cash assistance to be \$430.22 million.

There have been several provisions included in the Executive, House, and Senate versions of H.B. 283 that " earmark" or designate TANF dollars as a funding source. Those provisions are set forth below, along with the LBO's estimate of cost, or the allocation set aside in the bill for that particular purpose.

When the House passed Sub. H.B. 283, the appropriation of the TANF federal block grant, 400-411, was adjusted downward to reflect actual anticipated spending. However, the Executive and both chambers have added set asides of TANF dollars for the upcoming biennium. In order for Ohio to appropriate sufficient dollars to meet the originally estimated expenditures, plus the H.B. 283 initiatives, LBO believes that we must add \$61.42 million to the federal appropriation in FY 2000 and \$83.06 million in FY 2001. This increase in appropriation level would be fully offset by an increase in federal revenues.

The current version of the bill uses a mechanism that transfers TANF funds to the Social Services Block Grant, as permitted by the federal government, and then moves those moneys to the GRF to fund the cost of the Medicaid Parent Expansion and the Department of Human Services Audit Adjustment. After some initial concerns about the mechanism being used and whether the federal government would allow Ohio to make such a move, it appears that those

who work closely with the TANF requirements at the state and federal level are comfortable with the method of funding being used.

Taking into account the cash assistance payments, the planned \$75 million on reserve at the federal level, the initiatives outlined above, and the anticipated expenditures for Prevention, Retention, and Contingency, administration, and other allowable functions, LBO believes Ohio will continue to build our unobligated reserves over the biennium from the March 31st level of \$633 million to \$854.5 million at the end of the 1999-2001 biennium.

Disability Assistance

Disability Assistance (DA) is a wholly state and county funded program which provides cash and medical assistance to persons not eligible for TANF or SSI. Ohio has divided that program into two components – DA Cash, and DA Medical. There are no time limits, and all those receiving cash benefits also receive medical benefits. However, approximately 3,500 individuals are eligible in the "medication dependent" category and receive medical benefits only. DA spending also has been declining over the last several years due to declining caseloads, but LBO expects that decline in cash recipients to slow in FY 2000 and 2001. However, due to the escalating costs of prescription drugs, (which historically composes about 62 percent of DA medical costs), total DA expenditures are forecast to increase. We believe that expenditures will be \$57.12 million in FY 2000, or \$4.72 million more than is currently appropriated for that year, and in FY 2001 we are forecasting expenditures of \$61.48 million, or \$9.48 million more than is now appropriated.

Clearly, the picture we have painted could be somewhat reassuring, however I would caution you that so many things have changed and are changing, that it is increasingly difficult to forecast with a high level of confidence. We do not know what will happen as a result of the expansions to the Medicaid program, we are not sure how high medical inflation might climb, we are uncertain whether managed care can exert continued downward cost pressure, and we can not foretell exactly how time limits will ultimately play out in welfare reform. Having said that, I believe that these estimates are based on sound economic principles and forecasting models, and that the dangers are in the subsequent biennia. I will be happy to answer any questions, and Ogbe Aideyman and Steve Mansfield, who actually did the hard work and number crunching, are here as well.

LBO/OBM Health Care\Medicaid (400-525) Reconciliation
LBO Estimates for Conference Committee

	FY 1999 Est.	FY 2000 Est.	FY 2001 Est.
LBO Baseline	\$5,249,744,600	\$5,669,103,618	\$5,904,967,149
State Share	\$2,222,861,631	\$2,353,811,823	\$2,445,837,393
OBM Adjustments:			
Governors Initiatives - Net Effect**		\$97,186,076	\$165,814,388
CHIP-I (Kids Expansion up to 150% FPL)		\$62,603,188	\$75,713,716
<i>(Rolls CHIP-I costs into 400-525 baseline)*</i>			
Non-Institutional Provider Fee Increase.		\$34,582,888	\$90,100,672
IMD/DSH Offsets - earned federal revenue	(\$57,413,363)	(\$205,411,220)	(\$216,476,792)
Net OBM Adjustments	(\$57,413,363)	(\$108,225,144)	(\$50,662,404)
LBO Conf. Baseline + OBM Adjustments	\$5,192,331,237	\$5,560,878,474	\$5,854,304,745
State Share	\$2,198,551,505	\$2,308,876,743	\$2,424,853,026
House and Senate Adjustments:			
Pregnant Women to 150% FPL		\$1,109,799	\$6,309,198
Parents Health Insurance Program, to 100% FPL		\$0	\$22,757,039
Net House and Senate Adjustments		\$1,109,799	\$29,066,237
LBO Conf. Baseline w/OBM, House & Senate Adjustments	\$5,192,331,237	\$5,561,988,273	\$5,883,370,982
State Share	\$2,198,551,505	\$2,309,337,531	\$2,436,892,261
OBM Conf. Baseline w/OBM, House & Senate Adjustments	\$5,190,775,361	\$5,515,118,794	\$5,873,388,272
State Share	\$2,197,892,712	\$2,289,877,324	\$2,432,757,423
Variances			
LBO to OBM	\$1,555,876	\$46,869,479	\$9,982,710
State Share	\$658,793	\$19,460,208	\$4,134,838
LBO to FY 1999 Appropriation	(\$214,134,840)		
State Share	(\$90,669,576.79)		
FY 1999 Appropriation	\$5,406,466,077		
Biennium Variance		\$56,852,189	
State Share		\$23,595,046	
Senate H. B. 283 Appropriations		\$5,507,524,916	\$5,877,292,886
State Share		\$2,288,724,346	\$2,434,374,714
LBO to Senate Appropriations		\$54,463,357	\$6,078,096
State Share		\$22,813,186	\$2,517,547
Biennium Variance Total		\$60,541,453	
State Share		\$25,130,733	
* CHIP-I costs are currently funded with IMD/DSH monies.			
** The Governors initiatives include a 4.9 percent fee increase to HMOs effective March 1 st , 1999 which is assumed in the LBO baseline. Therefore, an additional adjustment is not necessary.			

Medicaid Spending (GRF 400-525 only)
LBO Baseline Estimates for Conference Committee

	% Change	FY 1998	% change	FY 1999 Est.	% change	FY 2000 Est.	% change	FY 2001 Est.	% change
Nursing Homes	3.57%	\$2,241,838,646	7.93%	\$2,313,191,968	3.18%	\$2,520,117,405	8.95%	\$2,635,559,987	4.58%
Nursing Facilities	3.88%	\$1,911,125,709	8.99%	\$1,989,690,520	3.86%	\$2,152,449,191	9.28%	\$2,248,812,873	4.48%
ICFs for the Mentally Retarded	3.06%	\$300,712,806	2.19%	\$304,581,448	3.87%	\$307,868,214	7.84%	\$308,747,314	5.19%
Hospitals	-9.39%	\$1,120,818,089	-8.51%	\$1,189,301,725	6.13%	\$1,234,087,591	3.76%	\$1,201,156,916	-2.67%
Inpatient Hospitals	-9.80%	\$889,360,494	-5.14%	\$904,110,505	4.00%	\$942,635,734	4.26%	\$927,793,276	-1.57%
Outpatient Hospitals	-8.72%	\$251,257,595	-10.95%	\$285,191,220	13.51%	\$291,431,857	2.19%	\$273,363,640	-6.20%
Physicians	-10.57%	\$275,471,824	-5.70%	\$297,955,178	4.53%	\$308,542,547	6.46%	\$290,571,989	-5.21%
Prescription Drugs	8.39%	\$511,362,198	14.55%	\$587,748,003	14.94%	\$676,981,432	15.18%	\$764,116,820	12.87%
Payments	7.10%	\$620,399,077	12.53%	\$725,735,234	16.98%	\$822,851,389	13.38%	\$928,820,723	12.88%
Rebates	1.94%	(\$109,036,879)	3.98%	(\$137,987,231)	26.55%	(\$145,869,958)	5.71%	(\$164,704,103)	12.91%
HMO ¹	0.82%	\$432,641,852	4.44%	\$356,091,012	-17.59%	\$359,828,827	1.05%	\$426,778,099	18.61%
Medicare Buy-In	0.80%	\$122,386,056	2.10%	\$122,747,808	0.31%	\$130,294,570	6.15%	\$137,012,547	5.18%
All Other Care ²	1.57%	\$352,459,648	1.07%	\$392,709,109	11.51%	\$441,271,245	12.37%	\$449,770,991	1.93%
TOTAL	-0.89%	\$5,050,488,292	3.25%	\$5,249,744,600	3.82%	\$5,689,103,618	7.99%	\$5,904,967,149	4.18%

¹ This table only includes Medicaid spending through human services' 400-525 line item.

² Includes respite care, dental care, home health care, and other practitioners, and includes out-of-state contracts.

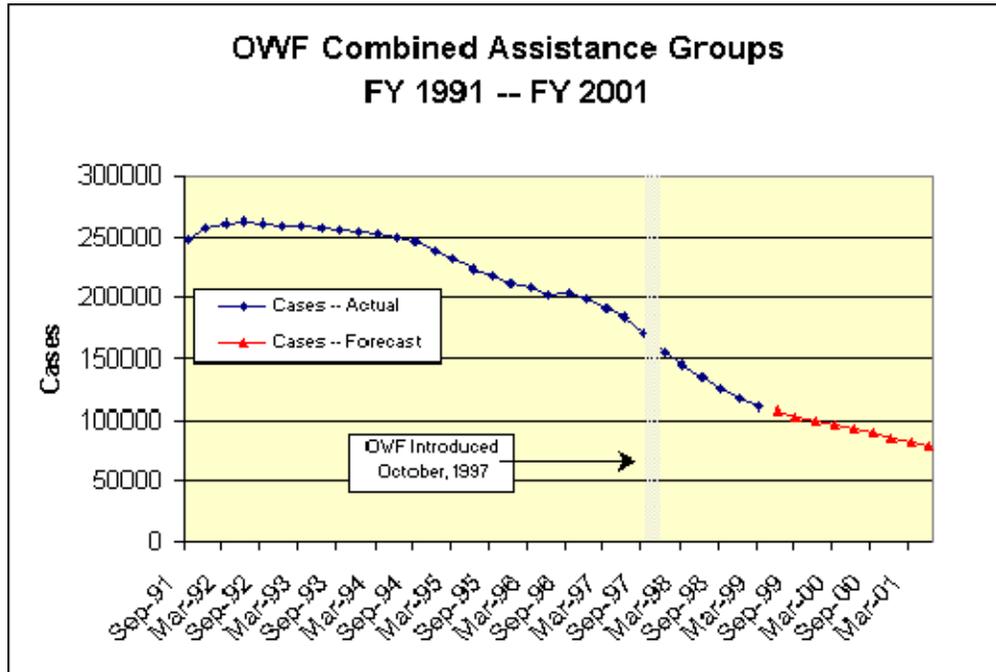
³ \$87.4 million in 1998 payments were made from 813/938 funds in FY 1998. Hence total GRF spending in FY 1998 is overbilled by \$87.7 million.

Note: LBO baseline estimates assume 35% of GRF 400-525/transition II Low Income Families/Healthy Start Eligible will be enrolled in HMOs in FY 2000, and that enrollment will build to 65% by the end of the FY 2000-2001 biennium.

Summary of Medicaid Eligibility in Ohio

Eligibility Category	Basic Eligibility Requirements	Caseloads and Share of Total Caseloads (Average Monthly Eligibles)			
		FY 1998	FY 1999	FY 2000	FY 2001
OWF Cash Recipients	Eligible for OWF cash assistance. -Countable income at or below 34% of FPL.	397,555 36.27%	302,205 27.47%	254,156 23.49%	219,576 20.47%
Low Income Families	Meet the TANF regulations in effect in July 1996, or eligible for OWF assistance but do not receive cash assistance due to any of the following: sanctions, and time limits.	183,272 16.72%	202,651 18.42%	198,210 18.32%	190,114 17.73%
Transitional Medicaid	Additional 12 months of health care coverage is given to individuals who no longer meet "ADC" eligibility guidelines due to increased income, but previously received OWF cash assistance.				
Extended Medicaid	Families whose incomes exceed ADC guidelines due to the collection, or increased collection, of child or spousal support payments receive Medicaid coverage for four months. In addition, individuals eligible for Title IV-E foster care and other miscellaneous groups receive coverage under this category.				
Healthy Start (HS)	Healthy Start Program is a two-part Medicaid program that (i) combines CHIP-I with HS to cover children under age 19 (and in a certain age bracket) whose family income is at or below 150 percent of FPL. Part (i) covers low-income pregnant women who do not	137,912	167,793	176,317	185,270
Children's Health Insurance Program (CHIP-I)	Kids up to age 19 in families with incomes at or below 150% of FPL who do not otherwise qualify for Medicaid in the HS guideline above.	11,873	51,972	66,297	79,597
	Total Healthy Start & CHIP-I	149,785 13.67%	219,765 20.05%	242,614 22.13%	264,867 24.16%
Aged, Blind and Disabled (ABD)	The ABD eligibility group is loosely based on the Supplemental Security Income (SSI) program. However, once individuals who do not meet the initial ABD income test spend an amount on medical care such that their income after medical expenses is at or below	315,884 28.82%	315,321 28.66%	317,289 29.33%	317,930 29.64%
Qualified Medicare Beneficiaries (QMBs)	Eligibility for Medicare Part A coverage. Income is at or below 100% of FPL	23,683 2.16%	23,825 2.17%	24,234 2.24%	24,463 2.28%
Specified Low-Income Medicare Beneficiaries SLMB	Eligibility for Medicare Part A coverage. Income is between 100 - 120% of FPL	23,233 2.12%	23,233 2.11%	23,233 2.15%	23,233 2.17%
Additional Low-Income Medicare Beneficiaries (ALMB) or Qualifying Individuals QI-1 & QI-2	Eligibility for Medicare Part A coverage & not otherwise eligible for Medicaid. For QI-1 - income is between 120 - 135% of FPL; QI-2 income is between 135 - 175% of FPL	2,693 0.25%	13,186 1.20%	22,200 2.05%	32,316 3.01%
Total Caseload (without CHIP-II)		1,096,105	1,100,186	1,081,936	1,072,499

TANF Summary Information, Legislative Budget Office, June 1999



<i>Distribution of TANF funds</i>		
	FY 2000	FY 2001
	(in millions) (in millions)	
TANF Block Grant (Federal)	\$728	\$728
Contingency Reserve	(\$75)	(\$75)
Other Unappropriated Reserve	(\$235.8)	(\$235.8)
Appropriated TANF Federal, 400-411	\$417.2	\$417.2
Total State MOE	\$401	\$401
Total TANF Appropriated	\$818.2	\$818.2
LBO TANF Cash Benefit Estimate	(\$366.2)	(\$313.8)
Current Appropriation Remainder for TANF Admin., work activities, info. systems, & other services	\$452.0	\$504.4
Initiatives in H.B. 283	(\$61.4)	(\$83.0)

Components of TANF State Maintenance of Effort		
	FY 2000	FY 2001
	(in millions)	(in millions)
<i>400-410, TANF State</i>	\$261.9	\$261.9
<i>400-413, Day Care MOE</i>	\$51.9	\$51.9
<i>400-658, Child Support Collections</i>	\$42.8	\$42.8
<i>County Share</i>	\$29.2	\$29.2
<i>State Operating</i>	\$15.3	\$15.3
TANF MOE	\$401	\$401