Ohio Legislative Service Commission

Forecast of Medicaid and Disability Assistance Before the Conference Committee on H.B. 95 for the FY 2004-2005 Biennial Budget

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Testimony of LSC Staff by
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Good morning, Mr. Chairman and Members of the Conference Committee. My name is Chuck Phillips. I will be presenting the Legislative Service Commission's (LSC's) updated forecasts for Medicaid and Disability Assistance.

Before I begin, I would like to acknowledge my colleagues, Ivy Chen, Ross Miller, and Steve Mansfield, and thank them for their hard work in preparing the LSC forecast.

In February, our estimates of Medicaid costs (from line item 600-525) over the biennium were $9.0 billion in fiscal year (FY) 2004 ($3.7 billion in state share) and $9.7 billion in FY 2005 ($4.0 billion in state share). Our updated estimates are slightly higher at $9.1 billion for FY 2004 ($3.8 billion state share) and $9.8 billion for FY 2005 ($4.1 billion state share).

The following table presents the differences between LSC's and OBM's updated forecasts for expenditures in the Medicaid program.

Medicaid (Amounts in millions of dollars)			
Fiscal Year	State	Federal	Total
2004	$43.5	$61.5	$105.1
2005	$85.3	$120.6	$205.9

In FY 2004, the difference between LSC's updated forecast and OBM's updated forecast is $105.1 million, of which $43.5 million is state share. In FY 2005, the difference between the two forecasts is $205.9 million, of which $85.3 million is state share.

We have revised our forecast of the Covered Family and Children (CFC) caseload upward for FY 2004 and downward slightly for FY 2005 in response to revisions in Global Insights' forecast of unemployment rates. We also have revised downward our forecast of the Aged, Blind, and Disabled (ABD) caseload for both fiscal years due to the fact that recent caseload growth has tracked lower than originally forecasted.

Another change in our forecast worth noting is in the assumed percentage of CFC eligibles that enroll in a health maintenance organization — a percentage usually referred to as the HMO penetration rate. Our prior forecast assumed the penetration rate would be approximately 35% in FY 2004, and 36% in FY 2005. The latest data, showing the continued strong impact of the "Preferred Options" program implemented in the current biennium to encourage HMO enrollment, led us to increase the rate assumed in our February forecast from 35.0% to 36.6% in FY 2004 and from 35.8% to 36.8% in FY 2005.

The net effect of the changes in caseload and HMO penetration assumptions, and a recent increase in claims across all service categories, is that cost estimates for most of the service categories have increased compared with our February forecast. Most of the changes from our initial forecasts in the various service categories are less than $10 million per fiscal year. The largest changes are for nursing facility payments, outpatient hospital care, and prescription drug payments.

The revised forecast of nursing facility payments is higher than our original forecast by $48.9 million, or 1.8%, in FY 2004, and $44.4 million, or 1.5%, in FY 2005. The upward revision is due to both recent claims experience and per diem rates. The average per diem rate was projected to be $159.56 in FY 2004 and $167.94 in FY 2005 in our February forecast. After considering data that has become available recently, LSC increased the forecast to $161.71 in FY 2004, an increase of 6.1% over the estimate for the current fiscal year, and to $170.49 in FY 2005, an increase of 5.4% over the estimate for FY 2004.

The revised forecast of outpatient hospital payments is higher than our original forecast by $14.3 million, or 2.4%, in FY 2004, and $18.4 million, or 2.9%, in FY 2005. The upward revision is due to more claims than expected and higher costs per claim in both the ABD and Healthy Family populations. This is partially offset by the downward revision in ABD caseload mentioned above.

The revised forecast of prescription drugs payments is higher than our original forecast by $34.4 million in FY 2004 and $85.5 million in FY 2005. Our February forecast assumed that the Supplemental Drug Rebate program enacted in S.B. 261 of the 124th General Assembly would be fully implemented in FY 2004, and thus LSC built into our forecast model an assumption of slow growth in drug utilization and expenditures over the next biennium. However, according to the Department of Job and Family Services, the program will not be fully implemented for at least a couple of years. Accordingly, our May forecast assumes no impact of the Supplemental Drug Rebate program in the FY 2004-2005 biennium. Most of the difference between our February and May forecasts for prescription drug payments is attributable to the difference in this assumption.

Disability Assistance Forecast: The following table presents the LSC and OBM updated forecasts for expenditures in the Disability Assistance program.

Disability Assistance (Amounts in millions of dollars)			
	FY 2003	FY 2004	FY 2005
DA Total--LSC Forecast	$114.7	$132.9	$161.4
DA Total--OBM Forecast	$118.4	$144.2	$180.4

The updated LSC forecast total cost is $2.2 million less in FY 2004 and $2.9 million less in FY 2005 than LSC's previous forecast. This is due to a slightly lower rate of increase in the medical costs per recipient.

In closing Mr. Chairman, I have highlighted the updated forecast. Included in the packet is much more detail and analysis.

My colleagues and I would be happy to answer any questions the committee may have.