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Forecast of Medicaid Caseloads and Expenditures Before the Senate Finance and Financial Institutions Committee for the FY 2004-2005 Biennial Budget

April 22, 2003

Testimony of LSC Staff by

Chuck Phillips, Division Chief for Health and Human Services

With assistance from Ivy Chen and Ross Miller, Economists and Steve Mansfield, Fiscal Supervisor

Good morning, Mr. Chairman and Members of the Senate Finance and Financial Institutions Committee. My name is Chuck Phillips. I will be presenting the highlights of the Legislative Service Commission's (LSC's) forecast of Medicaid caseloads and expenditures, the Governor's cost management initiatives, and the changes made by the House of Representatives.

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

Caseloads: LSC forecasts that the number of persons eligible for Medicaid will grow to 1.64 million in FY 2004 and 1.65 million in FY 2005, approximately a 5% increase and 1% increase, respectively.

Spending: I would like to briefly highlight our forecast of spending for the three largest Medicaid expenditure categories: nursing facilities, hospitals, and prescription drugs. These three categories combined represent approximately 74% of total Medicaid spending in the 600-525 line item.

The growth rate in spending for nursing facilities is projected to be approximately 6% in FY 2004, and 7% in FY 2005. Spending for hospital care is projected to be approximately 10% in FY 2004, and 8% in FY 2005. Spending for prescription drugs is expected to increase by approximately 14% in FY 2004, and 13% in FY 2005.

Medicaid Expenditures: For the upcoming biennium, LSC's baseline forecast for Medicaid expenditures is approximately \$9.02 billion in FY 2004 and \$9.69 billion in FY 2005. LSC's expenditure estimates are 1.04% below the Office of Budget and Management's (OBM's) baseline forecast for FY 2004 and 2.78% below OBM's forecast for FY 2005. LSC's baseline forecast is lower than the OBM's baseline forecast by the following amounts:

| Medicaid (amounts in millions) | | | |
|--|--------------|----------------|--------------|
| | State | Federal | Total |
| FY 2004 | \$ 39.0 | \$ 55.3 | \$ 94.3 |
| FY 2005 | \$ 111.6 | \$ 158.0 | \$ 269.6 |

In FY 2004, the difference between LSC's forecast and OBM's forecast is \$94.3 million, of which \$39.0 million is state share. In FY 2005, the difference between the two forecasts is \$269.6 million, of which \$111.6 million is state share.

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

| Disability Assistance (amounts in millions) | | | |
|---|----------------|----------------|----------------|
| | FY 2003 | FY 2004 | FY 2005 |
| DA Total--LSC Forecast | \$113.1 | \$135.1 | \$164.3 |
| DA Total--OBM Forecast | \$118.4 | \$144.2 | \$180.4 |

The Governor recommends the following cost management initiatives for the Medicaid program and the Disability Assistance program:

Rate Freezes

- Nursing Facilities
- Intermediate Care Facilities for the Mentally Retarded (ICFs/MR)
- Inpatient Hospitals

Elimination of Optional Services

- Adult Dental Care
- Adult Chiropractic Care
- Adult Podiatry
- Adult Vision Care
- Adult Psychological Services

Prescription Drugs

- Supplemental Rebates/Preferred Drug List
- Co-Pays on Non-Preferred Drugs

Disability Assistance

- Replace the current Disability Assistance program with separate programs for financial assistance and medical assistance
- Change eligibility criteria in both programs
- Permit the Director of Job and Family Services to change grant levels in the financial assistance program
- Disability Medical Assistance program held at \$101.4 million in each year (6% growth in FY 2004, 0% in FY 2005)
- Disability Financial Assistance program held at \$22.8 million in each year (0% growth in FY 2004, 0% in FY 2005)

Other

- Care Management for the Aged, Blind, and Disabled
- Home Care Waiver Reform
- ICF/MR Conversion to a Waiver
- Assisted Living Waiver, Ohio Access Success Project, Expansion of the Program of All-Inclusive Care for the Elderly Program (PACE)
- Elimination of the Parent Expansion

LSC estimates that the Governor's cost management initiatives would save the state approximately \$296 million in FY 2004 and \$630 million in FY 2005 (all funds).

The House of Representatives makes several changes to the Governor's recommendations for the Medicaid Program, including the following:

Rate Freezes

- Removes the freeze on Medicaid reimbursement rates for nursing facilities and ICFs/MR and sets new requirements regarding per diem rates. Also provides that a smaller portion of the funds in the Nursing Facility Stabilization Fund be used to make Medicaid payments to each nursing facility.
- Requires that Medicaid payments to children's hospitals include an inflation adjustment.

Continuation of Optional Services

- Adult dental
- Adult vision
- Adult podiatry services

Prescription Drugs

- Creates the Medication Management Incentive Payment Program to reimburse participating pharmacy providers that reduce pharmacy costs by providing consulting services

Other

- Removes the ICF/MR waiver provisions
- Removes the Assisted Living Waiver provisions

In closing Mr. Chairman, I have simply highlighted the forecast, the Governor's cost management initiatives, and the changes made by the House of Representatives. Included in the packet is much more detail and analysis.

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