

DATE: September 14, 2016
TO: House Appropriations Subcommittee on Health and Human Services
FROM: Kevin Koorstra, Senior Fiscal Analyst, and Kyle I. Jen, Deputy Director
RE: Healthy Michigan Plan Saving and Cost Estimates

Under the Social Welfare Act (MCL 400.105d), the expanded Medicaid program under the Healthy Michigan Plan will sunset whenever annual state savings and other nonfederal net savings associated with the Healthy Michigan Plan are not sufficient to cover the costs of the program.¹ This memorandum outlines current HFA net GF/GP assumptions and estimates, which indicate net Healthy Michigan Plan GF/GP savings through at least FY 2019-20.

It should be noted that the Department of Health and Human Services and the State Budget Office are statutorily charged with determining the precise costs and savings resulting from the Healthy Michigan Plan, so the HFA estimates presented in this memorandum should be considered informational in nature. The estimates are based purely on GF/GP costs to pay for the Healthy Michigan Plan and the amount of GF/GP funds that would need to be restored to maintain pre-Healthy Michigan Plan health service levels if/when the Healthy Michigan Plan is sunset.

Healthy Michigan Plan Savings

Annual state savings are defined in the Social Welfare Act as savings resulting from the reduction of spending on various health care costs previously funded either partially or wholly through state GF/GP that are now funded through the Healthy Michigan Plan. Full year state savings of \$235 million are as follows:

- \$168 million for non-Medicaid mental health funding (originally \$204 million, with \$36 million subsequently restored).
- \$47 million for the Adult Benefits Waiver program (including \$12 million in restricted Medicaid Benefits Trust Fund savings that had offset GF/GP).
- \$19 million for prisoner health care costs in the Department of Corrections budget (originally \$32 million, with \$13 million subsequently restored).
- \$1 million for Plan First! waiver program costs.

Other nonfederal net savings associated with the Healthy Michigan Plan in HFA's current estimates result from additional state revenues specifically generated by or tied to Healthy Michigan Plan payments. Those additional state revenues reduce the amount of additional GF/GP needed to pay for the Healthy Michigan Plan. These savings include:

- Additional revenue from the Health Insurance Claims Assessment (HICA) and the Use Tax on Medicaid managed care organizations as a result of increased health care

¹ For background information on Medicaid and the Healthy Michigan Plan, see this HFA report: http://www.house.mi.gov/hfa/PDF/HealthandHumanServices/Michigan_Medicaid_Program_Oct2015.pdf.

activities driven by the Healthy Michigan Plan. HICA is scheduled to sunset on July 1, 2020, and the Use Tax is assumed to not be collected effective January 1, 2017.

- Provider assessments and special financing contribution revenues used to support special Medicaid payments within the Healthy Michigan Plan.
- A statutorily established hospital quality assurance assessment program (QAAP) retainer of \$105 million based on special hospital payments within the Healthy Michigan Plan.

Additional potential state and local savings associated with the Healthy Michigan Plan include the following items. HFA estimates do not, however, currently include amounts for these savings.

- Local government savings from fewer local matching costs for non-Medicaid mental health and from the elimination of the locally financed Indigent Care Agreement (ICA) Disproportionate Share Hospital (DSH) payments.
- Potential savings in GF/GP-funded DSH payments based on a reduction in uncompensated care created in part to expanded health coverage through the Healthy Michigan Plan.

Healthy Michigan Plan Costs

Outside of \$20 million in annual state administrative costs, state matching costs for the Healthy Michigan Plan do not begin until January 1, 2017, as federal funds support 100% of the costs through 2016. That federal match rate will phase down to 90% over the next five years:

- 95% for 2017 (calendar year)
- 94% for 2018
- 93% for 2019
- 90% for 2020 and subsequent years

Based on current HFA projections, state matching costs for the Healthy Michigan Plan will be about \$130 million in FY 2016-17 (for three-quarters of a year), growing to roughly \$380 million in FY 2020-21 (when the state match rate will be 10% for a full fiscal year).

Not all of those state matching costs, however, will require new GF/GP funds, as provider assessments and any associated state retainers will be used to finance the special Medicaid payments within the Healthy Michigan Plan and to offset GF/GP matching costs.² As such, HFA projects net GF/GP matching costs of \$2 million in FY 2016-17, growing to about \$200 million in FY 2020-21.

The Governor's original proposal for the Healthy Michigan Plan included the creation of a reserve fund to pay for future GF/GP matching costs. The Legislature, ultimately, did not specifically set aside state funds for future Healthy Michigan Plan costs.

² Traditional Medicaid works the same way, where provider assessments and any associated state retainers are used to both finance special enhanced Medicaid provider payments and offset GF/GP funds. If these provider assessments didn't exist, neither would the enhanced Medicaid payments.

Net Healthy Michigan Plan Cost/Savings

The table at the end of this memorandum identifies annual state matching and administrative costs, GF/GP costs, budgeted savings, and increased tax revenues resulting from Healthy Michigan Plan. As the table indicates, the Healthy Michigan Plan should generate annual net GF/GP savings through at least FY 2019-20, and possibly longer, as local savings and reduced uncompensated care are not incorporated into HFA's projection.

Relative to previous HFA estimates, the estimated costs of the Healthy Michigan Plan have been lowered, thereby extending the projected period for which a net savings will be realized, due to three major developments:

- Enrollment in the program plateauing at about 600,000 individuals.
- Actuaries lowering behavioral health managed care rates based on updated inflation and utilization data.
- Legislation action establishing the \$105 million hospital QAAP retainer.

Sunsetting the Healthy Michigan Plan would presumably yield a relatively modest amount of net GF/GP savings since the sunset will occur in the first year a net cost is calculated. While GF/GP matching costs would be eliminated, annual state savings taken from non-Medicaid mental health and the other health care services would need to be restored to previous levels. Further, those savings amounts could need to be increased based on the inflationary costs of providing those services (not included in these estimates), resulting in a net GF/GP cost. Alternately, reductions in the level of health services provided, relative to the pre-Healthy Michigan Plan level, could be implemented.

Healthy Michigan Plan: Estimated State Costs/Savings

In Millions of \$

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Average monthly beneficiaries	286,300	544,400	600,000	600,000	600,000	600,000	600,000	600,000
State match rate	0.00%	0.00%	0.00%	3.75%	5.75%	6.75%	9.25%	10.00%
State Costs								
State match and admin costs	\$20	\$20	\$20	\$152	\$225	\$266	\$364	\$399
Less restricted revenues	0	0	0	(130)	(144)	(152)	(171)	(178)
Total GF/GP Costs	\$20	\$20	\$20	\$22	\$81	\$114	\$193	\$222
Budget Savings (1)								
Non-Medicaid Mental Health	(\$77)	(\$168)	(\$168)	(\$168)	(\$168)	(\$168)	(\$168)	(\$168)
Adult Benefits Waiver (2)	(12)	(47)	(47)	(47)	(47)	(47)	(47)	(47)
Corrections health care	(10)	(19)	(19)	(19)	(19)	(19)	(19)	(19)
Other health programs	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Subtotal: Budget Savings	(\$100)	(\$235)						
Savings from Revenue Impacts								
Additional HICA revenue (3)	(\$7)	(\$20)	(\$22)	(\$26)	(\$29)	(\$29)	(\$22)	\$0
Additional Use Tax revenue (4)	(40)	(162)	(172)	(42)	0	0	0	0
Total Savings With Revenue Impacts	(\$147)	(\$417)	(\$429)	(\$303)	(\$264)	(\$264)	(\$257)	(\$235)
Net GF/GP Costs/(Savings)	(\$127)	(\$397)	(\$409)	(\$282)	(\$182)	(\$150)	(\$64)	(\$13)

Notes

- (1) Assumes no inflationary increase in previous state costs shifted to Healthy Michigan Plan.
- (2) Includes \$12 million in Medicaid Benefits Trust Fund revenue appropriated for the program.
- (3) Net of actuarial soundness costs once state match begins. Current HICA sunset is July 1, 2020.
- (4) Assumes Use Tax on Medicaid Managed Care Organizations is discontinued effective January 1, 2017.

General Note: Does not reflect local savings or reductions in uncompensated care (which could result in reductions to Disproportionate Share Hospital [DSH] payments under HMP statutory provisions).