

ISSUE: \$400 MILLION MEDICAID DEFICIT

The Legislative Fiscal Bureau (LFB) estimates that a deficit in the Medicaid program could exceed \$400 million by June 30, 2005.

The LFB estimates that an additional \$90.4 million GPR (\$51.3 million in 2003-04 and \$39.1 million in 2004-05) will be needed to support services provided under the Medical Assistance (MA) program in the 2003-05 biennium above the amounts budgeted in 2003 Wisconsin Act 33, the 2003-05 state budget. The primary differences between the current estimates and the Act 33 projections are:

- The average cost per Medicaid recipient was greater than projected in Act 33.
- The average cost of drugs is projected to be higher than estimated in Act 33.
- Actual caseload increases are higher than anticipated in Act 33. As of the end of December 2003, there were approximately 4,400 more individuals enrolled in MA than had been projected under Act 33.
- Act 33 also anticipated receiving \$310 million in additional federal MA funds from a new waiver initiative and from an intergovernmental transfer (IGT) initiative for certain services counties provide under MA home – and community-based waiver programs. The Department of Health and Family Services (DHFS) has not heard if or when the Centers for Medicare and Medicaid Services (CMS) will approve these additional federal funds.

The LFB estimates nursing home Medicaid spending in 2003-05 will exceed budgeted levels by \$3.2 million GPR and \$6.7 million all funds because of higher-than-anticipated patient days.

Possible Solution to the \$400 Medicaid Deficit

Debt Restructuring could reduce the Medicaid deficit. The Governor has proposed reducing a portion of the projected Medicaid deficit by refinancing the state's debt. Restructuring of the state's debt could generate savings of approximately \$175 million GPR in FY04.

- This savings is essentially the result of deferring debt service on the state's current general obligation bonds to future years.
- This savings is one-time and would be used to replace the loss of anticipated one-time federal Medicaid revenue in the state's Medical Assistance Trust Fund.
- Opponents of debt restructuring argue it will drive up state spending in order to pay down the new debt. According to the LFB, the State would pay an additional \$46.1 million in interest over the life of the bonds that would be issued to refund the \$175 million in proposed bonding. To pay off the extra principal and interest costs, state payments would increase by \$8.75 million in 2004-05, by \$52.3 million in 2005-06, and by \$30.2 million in 2006-07.



Debt restructuring was used in the 2001-03 biennium to reduce GPR debt service costs by \$125 million.

If not debt restructuring, what is the solution?

Across-the-board Medicaid rate cuts are not the solution.

Medicaid providers can't be subject to across-the-board Medicaid rate cuts. As of December 2003, 777,800 Wisconsin residents rely on Medicaid, BadgerCare and SeniorCare for health care benefits. Our Medicaid providers depend on these revenues to pay for needed health care services for Wisconsin's low-income families, elderly and persons with disabilities.

State Medicaid GPR spending brings significant new federal funding to Wisconsin. Each dollar the state spends for Medicaid is matched by about \$1.50 in federal funds. A reduction in state Medicaid GPR spending would result in a corresponding reduction in federal MA matching funds, jeopardizing the access to and quality of needed services.

Medicaid payments to health care providers also support jobs and income throughout the Wisconsin economy.

Nursing homes especially should be immune from MA rate cuts.

2003 Act 33 provided nursing homes with a 2.6% Medicaid rate increase on July 1, 2003 and will provide another 2.6% MA rate increase on July 1, 2004. **The rate increase for each year of the biennium was funded by increasing the nursing home bed assessment and not from GPR funds.**

Nursing homes would have to reduce direct care staff, wages and fringe benefits if Medicaid rates were reduced.

According to a 2002 study by the DHFS, over 53% of all Wisconsin nursing homes are "at financial risk." These homes either operate at an overall net loss and/or have negative working capital. Since 1999, 32 nursing homes have closed.

Our attached summary of July 2002 Medicaid rates shows a Medicaid shortfall between total Medicaid revenue and total allowable Medicaid costs of \$145.2 million.

The Wisconsin Association of Homes and Services for the Aging (WAHSA) is a statewide membership organization of not-for-profit long-term care providers. Our members own/operate 185 nursing homes, of which 47 are county-operated facilities, 72 community-based residential facilities (CBRF), 50 residential care apartment complexes (RCAC), 104 senior apartment complexes, 13 HUD Section 202 Housing for the Elderly complexes, and serve elderly and disabled persons through programs ranging from hospice, home care, children and adult day care to Meals on Wheels.

2/18/04



The Medicaid Funding Crisis in Wisconsin Nursing Homes 2002-03 Medicaid Rate Analysis

A February 2004 financial analysis of the 2002-03 Medicaid rates paid to Wisconsin nursing homes, conducted by the Wisconsin Association of Homes and Services for the Aging, shows that:

- The average Wisconsin nursing home incurred a Medicaid loss of \$16.05 per Medicaid day versus a \$13.05 per Medicaid day loss in the prior year.
- Medicaid nursing home deficits (total Medicaid revenue compared to total allowable Medicaid costs) reached \$145,187,942 in 2002-03. The shortfall increased by \$28.8 million over 2001-02 Medicaid rates.
- Less than 17% of Wisconsin's nursing homes received Medicaid payments that reimbursed allowable Medicaid costs. Only 16 (less than 8%) non-profit and government-operated nursing homes received Medicaid payments sufficient to cover their allowable Medicaid costs.
- The average Wisconsin nursing home lost \$16.05 per Medicaid day, incurring an annual Medicaid loss of over \$410,000.
- On average, a private pay resident subsidizes the Medicaid program by approximately \$1,500 per month. (\$50/day) Private pay residents also pay the \$75/month nursing home bed assessment.
- Less than 26% of all Wisconsin's nursing homes received Medicaid payments sufficient to cover their direct care Medicaid costs. Direct care costs include wages and fringe benefits for registered nurses, licensed practical nurses and certified nursing assistants. Only 32 (less than 16%) non-profit and government operated nursing homes received Medicaid payments that reimbursed allowable direct care Medicaid costs.

WAHSA Data Base Summary - July 2002 Medicaid Rates

	<u>For-Profit</u>		<u>Non-Profit</u>		<u>Governmental</u>		<u>All Homes</u>	
	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>
<u>Direct Care</u>								
Reimbursed	69	36.3%	17	11.9%	15	25.9%	101	25.8%
Not Reimbursed (1)	<u>121</u>	63.7%	<u>126</u>	88.1%	<u>43</u>	74.1%	<u>290</u>	74.2%
Total	190		143		58		391	
Direct Care Loss	\$20,921,592		\$42,060,554		\$2,989,973		\$65,972,119	
Loss Per Medicaid Day	\$5.45		\$13.41		\$1.45		\$7.30	
<u>Support Services</u>								
Reimbursed	112	58.9%	24	16.8%	5	8.6%	141	36.1%
Not Reimbursed (2)	<u>78</u>	41.1%	<u>119</u>	83.2%	<u>53</u>	91.4%	<u>250</u>	63.9%
Total	190		143		58		391	
Support Services Loss	\$186,655		\$13,363,745		\$17,041,750		\$30,592,150	
Loss Per Medicaid Day	\$0.05		\$4.26		\$8.24		\$3.38	
<u>Administration</u>								
Reimbursed	94	49.5%	52	36.4%	33	56.9%	179	45.8%
Not Reimbursed (3)	<u>96</u>	50.5%	<u>91</u>	63.6%	<u>25</u>	43.1%	<u>212</u>	54.2%
Total	190		143		58		391	
Administration Loss	\$3,605,414		\$7,661,952		\$2,538,595		\$13,805,961	
Loss Per Medicaid Day	\$0.94		\$2.44		\$1.23		\$1.53	
<u>All Cost Centers</u>								
Reimbursed	49	25.8%	9	6.3%	7	12.1%	65	16.6%
Not Reimbursed (4)	<u>141</u>	74.2%	<u>134</u>	93.7%	<u>51</u>	87.9%	<u>326</u>	83.4%
Total	190		143		58		391	
All Cost Centers Loss	\$37,347,516		\$71,327,915		\$36,512,511		\$145,187,942	
Loss Per Medicaid Day	\$9.74		\$22.74		\$17.65		\$16.06	
Medicaid Days	3,836,048		3,136,410		2,068,417		9,040,875	

Source: DHFS Audited 2001 Cost Reports and July 2002 Medicaid Rates

(1) Direct Care: Deficits are from DHFS data base.

Projected Medicaid Direct Care Deficit. (DHFS variable number **883**)

(2) Support Services: Deficits are from DHFS data base.

Support Services Allowance (**743**) less inflated expense per day (**1311**) times Medicaid days. (**880**)

(3) Administration: Deficits are from DHFS data base.

Administration Allowance (**725**) less inflated expense per day (**1312**) times Medicaid days. (**880**)

(4) All Cost Centers: Deficits are from DHFS data base.

Projected Medicaid Operating Deficit. (DHFS variable number **882**)

Brian Schoeneck; February 12, 2004