House Fiscal: Healthy Michigan Could Cost $117M GF Next Budget

The state's Medicaid expansion program, Healthy Michigan, will cost the state about $117 million in General Fund (GF) dollars in the next budget year, according to numbers from the House Fiscal Agency (HFA) today.

And Healthy Michigan is just one of a potential handful of costly General Fund financial pressures tied to Medicaid financing flagged in a new HFA report.

The report, released today, also said the rate at which the federal government pays for Medicaid expenditures could drop and noted that the state's Use Tax on Medicaid managed care organizations must be stopped by the end of 2016.

The report's executive summary even said that to maintain the current level of Medicaid services for Fiscal Year (FY) 2017 and beyond “additional GF funds or other broad based tax revenue will almost certainly be needed.”

The report comes as lawmakers begin working on plans for the FY 2017 budget, which won't take affect until Oct. 1, 2016.

One of the financial pressures on the horizon is Medicaid expansion.

The Legislature voted to expand Medicaid under the federal Affordable Care Act to those at up to 133 percent of the federal poverty level in 2013.

Under the setup of the expansion, the federal government was to pay for 100 percent of the costs up until 2017. In 2017, the state has to begin paying 5 percent of the costs.

The state's share of the costs will continue to rise until eventually, in 2020, the state will have to pay 10 percent.

According to HFA, for FY 2017, which will include three-quarters of a year at the 5 percent state rate, the state will have to chip in $150 million total.

Of that amount, $117 million will be GF dollars, according to HFA.

By FY 2021, the state's share would be about $331 million GF/GP.

But all of that is contingent on Healthy Michigan continuing, as the report notes.

For that to happen, the state must get a second waiver from the federal government by the end of this year (See "Lawmakers Not Plotting Plan B If Healthy Michigan Waiver Spike," 10/9/15). In addition, the current law would sunset Healthy Michigan when the net costs of the program outweigh the savings.

As it stands, the program, which has about 600,000 beneficiaries, will move from being a net savings to a net cost in FY 2020, when the 10 percent match begins (See "Healthy Michigan Costs Could Exceed Savings In 2019," 4/24/15).

But there are other pressures tied to Medicaid as well.

The report said that if Michigan's economy continues to grow at at least the same rate as the national economy, the state's federal match rate would be flat or decline.

For FY 2017, the state's federal match rate is forecast to decline, which could increase GF/GP costs by $50 million, according to HFA.

On top of that, the state's Use Tax on Medicaid managed care organizations must be stopped as a way to match federal Medicaid dollars by the end of 2016 under federal guidance.

That will cause the state's Health Insurance Claims Assessment, an assessment on health insurance claims, to automatically move from 0.75 percent to 1.0 percent and create a $130 million budget shortfall per year, starting at about $100 million for FY 2017.

Plus, the report said, the state retainer for the provider assessment on hospitals was increased by $93 million on a one-time basis for FY 2016 in order to reduce the amount of needed GF/GP funds.

“Either this increase will need to be extended statutorily or additional GF/GP funds will be needed,” the report said.

The HFA report added that there are “significant obstacles” for the policy considerations that would simply reduce state Medicaid spending, including reducing eligibility and services.

According to the report, Medicaid provides health care benefits to more than 20 percent of the state's 10 million residents. The program also represents nearly one-third of the state's total state budget and nearly one-quarter of the General Fund budget.

And since FY 2001, total Medicaid expenditures have tripled, increasing $5.7 billion to $17.0 billion.