

Medicaid Spending in Pennsylvania

Introduction

Medicaid provides health insurance coverage to low-income children and families, seniors and individuals with disabilities. It is also a source of long-term care services for disabled children and adults and for the elderly. In Pennsylvania, the Medicaid program is called Medical Assistance (MA) and is available to residents who meet income, asset and other eligibility criteria. In December 2007, Medical Assistance provided health care coverage to more than 1.9 million Pennsylvanians, or about one in seven citizens.ⁱ

Medicaid is jointly funded by the federal and state governments, with the federal government matching state spending. States can draw down matching funds through expenditures of state, local or other non-federal dollars. The federal match ratio, known as Federal Medical Assistance Percentage (FMAP), is set annually based on the state per capita income, ranging from 50 percent to 83 percent. In 2008, Pennsylvania's FMAP rate is 54.08.ⁱⁱ This fact sheet reviews Medical Assistance funding sources and expenditures.

Medical Assistance Funding Sources in Pennsylvaniaⁱⁱⁱ

Table 1 details the state and federal funding sources for Medical Assistance budgeted for state fiscal year 2007-2008 or FY08.

Total Spending: \$14.4 billion

In FY08, Pennsylvania budgeted approximately \$14.4 billion dollars in state, federal and other

funds on the Medical Assistance program.^{iv} Federal funds make up 55 percent of the total, while Pennsylvania contributes 45 percent of spending through its general fund, allocations from special or dedicated funds and spending of other funds. Each of these revenue sources is discussed in more detail below.

Table 1: FY08 Total Medical Assistance Spending, Funding Sources and Percentage of Spending

	Amount (in 000s)	Percent
Federal Funds	\$7,884,783	55%
Non-Federal Funds		
State General Fund	\$5,050,820	35%
State Special Funds	\$397,465	3%
Other Funds	\$1,038,785	7%
Total Funds	\$14,371,853	100%

Source: Author's analysis of budget documents

State General Fund Revenue: \$5.1 billion

The majority of state funds used for Medical Assistance expenditures (78 percent) are from the state general fund. The general fund supports most state programs and services, including education, corrections, parks and recreation and other human services. The state general fund consists of taxes, revenue from licenses, fees and state liquor store profits, and interest on earnings. In FY08, Medical Assistance, which represented 19 percent of all general fund spending, was the second-largest expenditure in Pennsylvania after education.^v

State Special Fund^{vi} Revenue: \$397 million

Funds from two special or dedicated funds, the state lottery fund and the tobacco settlement fund, have been allocated to the Medical Assistance program.

ⁱ Pennsylvania Department of Public Welfare, Bureau of Program Evaluation, *Medical Assistance Eligibility Statistics*, December 2007 (accessed January 17, 2008). <http://www.dpw.state.pa.us/General/AboutDPW/DPWOrganization/OIM/oo3671029.htm>.

ⁱⁱ Federal Funds Information Service, Issue Brief 7-15: *Updated FY 2009 FMAP Projections*, March 28, 2007.

ⁱⁱⁱ This analysis includes expenditures for Pennsylvania's Medical Assistance health care program. Federal Medicaid funds drawn down to support Medicaid-eligible services in other programs are not included in this analysis.

^{iv} Author's calculations. Data from Commonwealth of Pennsylvania, *Governor's Executive Budget 2007-08*, E.33.4 to E.33.10.

^v Commonwealth of Pennsylvania, *Budget in Brief 2007-08*, page 4 at http://www.budget.state.pa.us/budget/lib/budget_in_brief/2007_08_brief_web1.pdf.

^{vi} Special funds contain revenues that are dedicated by law to be used for specific purposes.

- *State Lottery Fund:* Pennsylvania Lottery is a state lottery that exclusively targets proceeds to benefit older citizens. A significant proportion of its funds went to fund the Pharmaceutical Assistance Contract for the Elderly (PACE) program. However, the cost of the PACE programs decreased with the implementation of the Medicare Prescription Drug Program. These savings, coupled with higher lottery revenue beginning in FY06, created a surplus in the lottery fund. A portion of that surplus was allocated to Medical Assistance in FY07, replacing state general fund dollars previously allocated for that purpose. In FY08, \$249 million was allocated from the state lottery fund to supplement Medical Assistance spending for long-term care.
- *State Tobacco Settlement Fund:* The Tobacco Settlement Act, Act 77 of 2001, created a fund in Pennsylvania to deposit payments received from the master settlement agreement of 45 states' lawsuits against cigarette manufacturers. In FY08, \$105 million was redirected to support the Medical Assistance long-term care program and \$21 million to support the Medical Assistance for Workers with Disabilities program (MAWD) that funds private insurance premiums for disabled workers with incomes up to 250 percent of the federal poverty level (FPL). In addition, 13 percent of tobacco settlement funds are allocated to home- and community-based services administered by the Pennsylvania Department of Public Welfare (DPW) and the Department of Aging. In FY08, \$22 million was allocated to DPW for the Pennsylvania Department of Aging 60+ waiver program.^{vii}

Intergovernmental Transfers: \$355 million
 Pennsylvania had relied on a funding source known as Intergovernmental Transfer (IGT) where county nursing homes made certain payments to the state that were then used to draw down federal matching funds. These funds grew from \$300 million in FY96 to \$1.85 billion in FY03. During this period, the use of IGT

^{vii} Totals include a portion of the tobacco settlement funds for waiver services administered by DPW.

funds allowed state general fund spending to remain constant, even as Medical Assistance enrollment and costs were rising.^{viii} However, the Centers for Medicare and Medicaid Services (CMS) have ended 52 different funding arrangements that CMS deemed inappropriate. Pennsylvania's IGT program is one of those financing arrangements. The federal government gave Pennsylvania six years to phase out its use of IGT funds, beginning in FY03. Consequently, IGT funds will be eliminated as a source of Medical Assistance funding by FY09.

Health Care Provider Assessments: \$684 million
 Faced with the loss of IGT dollars, Pennsylvania lawmakers looked to identify other financing structures that are allowable under CMS rules. Act 25 of 2003 authorized nursing home assessments to provide additional funding for long-term care programs. These assessments were approved by CMS in 2005. In FY08, nursing home assessments raised approximately \$300 million in Pennsylvania.

Act 69 of 2004 authorized similar assessments on managed care organizations that provide services to recipients of the Medical Assistance managed care program. Managed care organizations (MCOs) are annually assessed 6 percent of their total premium revenues. In FY08, these assessments generated approximately \$384 million in Pennsylvania. Under provisions of the federal Deficit Reduction Act of 2005 (DRA), Pennsylvania will no longer be able to collect these assessments in their current form by October 2009. The Commonwealth will need to find a source of replacement funds or increase its general fund appropriations.

Medical Assistance Program Expenditures

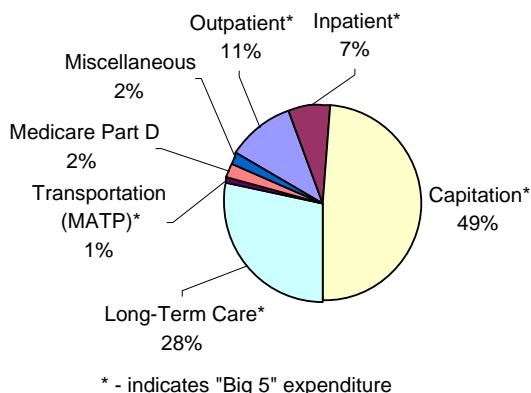
The majority of Medical Assistance program expenditures can be divided into six areas.^{ix} Five of these expenditures form the core of Medical Assistance health care services and reflect the systems through which care is delivered. The

^{viii} Pennsylvania House of Representatives, Democratic Committee on Appropriations, *Medical Assistance* (unpublished fact sheet), December 1, 2006.

^{ix} Author's calculations. Data from Commonwealth of Pennsylvania, Governor's Executive Budget 2007-08, page E.33.20.

sixth area is a payment that the Commonwealth must make to the federal government to help finance the cost of the Medicare Part D prescription drug program. Medical Assistance program expenditures for FY08 are shown in *Figure 1*.^x

Figure 1: FY08 Medical Assistance Expenditure Percentage by Service Category



Source: Author's calculations based on funding approved in the FY08 budget.

Pennsylvania's Medical Assistance program for primary, preventive and acute hospital care is divided into two systems based on the method of payment for health care services. Most Medical Assistance recipients receive services through a managed care organization as part of the state's HealthChoices program. Other recipients receive care through individual providers in a traditional fee-for-service model. Beginning in FY07, all behavioral health services in the Commonwealth, including mental health and some drug and alcohol treatment, are delivered through behavioral health managed care programs.

Capitation

Non-federal^{xi}: \$3.1 billion
 Federal: \$3.9 billion
 Total funds: \$7.0 billion

The capitation program pays the monthly premiums for 1.1 million Medical Assistance recipients enrolled in the state's HealthChoices managed care program. All recipients in 25 of Pennsylvania's 67 counties

must enroll with one of seven managed care providers. In the 27 counties where managed care is an option, 100,000 recipients have voluntarily enrolled in managed care. The MCOs are responsible for all emergency, hospital and preventive care for members. The capitation program also pays the premiums for all Medical Assistance recipients who receive services through one of the state's 67 county-based behavioral health managed care programs.

Fee for service

About 700,000 Medical Assistance recipients participate in a traditional fee-for-service program in 42 Pennsylvania counties in which managed care is not available or participation is voluntary. The cost of these health care services is reflected in the inpatient and outpatient program lines.

- Outpatient services

Non-federal: \$600 million
 Federal: \$1 billion
 Total funds: \$1.6 billion

This program reimburses health care providers for preventive services, including medical and dental care, hospital outpatient care, prescription drugs, outpatient drug and alcohol treatment and other services for Medical Assistance recipients in fee-for-service programs.

- In-patient services

Non-federal: \$470 million
 Federal: \$560 million
 Total funds: \$1.0 billion

This program includes reimbursement to health care providers for emergency treatment, hospitalization, residential treatment, rehabilitative care and in-patient care at private psychiatric hospitals for recipients in the fee-for-service program.

Long-term care

Non-federal: \$1.8 billion
 Federal: \$2.3 billion
 Total Funds: \$4.1 billion

Long-term care includes the costs of a range of services to the elderly, including home- and community-based programs that support independent living, nursing home care for indigent seniors and private nursing home

^x Total administrative costs are 2.5 percent or less of total expenditures.

^{xi} Non-federal funds include state and other funds.

patients who have spent down their assets. The Medical Assistance long-term care program also supports institutional care for non-elderly citizens who are disabled, cognitively impaired, injured or living with a degenerative disease.

Medical Assistance Transportation Program (MATP)

State funds: \$63 million
Federal: \$55 million
Total funds: \$118 million

This program provides Medical Assistance recipients with access to health services by providing non-emergency transportation to Medical Assistance-eligible services. MATP operates in all 67 Pennsylvania counties.

Miscellaneous Programs

State: \$140 million
Federal: \$114 million
Total funds: \$254 million

Several smaller appropriations are included in the Medical Assistance health care budget in Pennsylvania. These appropriations are: special payments to academic medical centers, trauma centers and burn centers, pharmaceutical services for individuals with AIDS, MAWD, waiver services for the elderly and supplemental health care services for women.

Medicaid Part D Prescription Drug “Clawback” Payment

State funds: \$351 million

The Medicare Modernization Act of 2003 (MMA), created the Medicare Part D drug benefit under which drug costs for dual eligibles^{xii} that were shifted from Medicaid to Medicare. In FY08, the Commonwealth allocated \$351 million to fund the “clawback” payments, which are mandated monthly payments that states must make to the federal government from savings that accrue due to the federal assumption of the prescription drug costs of dual eligibles. These payments are allocated to the Medicaid program.

Conclusion

Medical Assistance in Pennsylvania is an essential source of health care coverage for low-income children and families, seniors and individuals with disabilities. It touches the lives of 1.9 million beneficiaries. The Medical Assistance program is also a critical source of revenue for hospitals, nursing facilities, clinics and other health care providers. Understanding the source of Medical Assistance funds and the range of services provided through Medical Assistance will aid decision-makers in making the best use of the available funding to create an effective Medical Assistance program in the Commonwealth.

^{xii} Dual eligibles are low-income elderly or disabled individuals who are enrolled in both Medicare and Medicaid.