



# Special Report

## Health and Welfare Update

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### **Health and Welfare Issues**

The following is an update of recent developments on health and welfare issues, including proposals that were in President Bush's 2003 budget.

### **Medicaid: Recent Trends**

Under current law, the federal share of Medicaid is expected to grow to \$158.7 billion in fiscal 2003, a 9.5 percent increase over the fiscal 2002 level according to the Office of Management and Budget (OMB). This is after increasing approximately 11 percent in fiscal 2001. The CBO projections estimate growth at 8.5 percent over the next ten years. Based on preliminary estimates that NASBO has received from states, the growth rate of the Medicaid program in fiscal 2002 will exceed the national average of 11 percent in fiscal 2001.

Cost pressures in Medicaid are stemming from both increased caseloads due to the economic downturn as well as greater utilization and rising prices. Spending on outpatient prescription drugs, which increased an average of 20 percent annually over the past three years, is continuing to be a significant component in rising Medicaid costs.

NASBO is currently collecting information in the spring fiscal survey on cost containment proposals in Governors' recommended budgets. Based on some early responses, as well as published news accounts, state actions are concentrated on strategies to limit the expenditure growth in the program rather than on raising new revenues. Unlike the last recession, states cannot rely as heavily on strategies such as provider taxes to generate additional revenues in Medicaid or switching to managed care for cost savings, as was the case in the early 1990s.

Some of the strategies states are considering include the following:

- Developing preferred lists of drugs.
- Increasing co-payments.
- Using pharmacy benefit managers.
- Relying on prior authorization mechanisms.
- Increasing market share through purchasing coalitions.
- Reducing dispensing fees to pharmacists.
- Changing drug rebate formulas.
- Eliminating optional benefits, such as dental, chiropractic care, and podiatry.
- Increasing or beginning co-payments for certain services and groups.
- Raising the tax on cigarettes.
- Reallocating tobacco settlement funds.

**Medicaid: Proposals in the President's Budget**

The following proposals were included in the President's budget for Medicaid.

**Drug Rebates Based on Average Wholesale Price (AWP):** This proposal would change the calculation used for the Medicaid drug rebate program from the difference between a manufacturer's best price and the Average Manufacturer's Price (AMP) to the difference between the best price and the Average Wholesale Price (AWP). This proposed change is expected to save the federal government \$290 million in fiscal 2003 and \$5.5 billion over five years. This is the most significant Medicaid savings proposed in the President's budget.

**Medicaid Upper Payment Limits.** The budget does not impose any additional requirements beyond the final rule on upper payment limits that is scheduled to go into effect on March 19, 2002. The budget does seek to enforce the policies of the rule and to enforce state plans, though there are no additional savings assumed in the budget due to upper payment limit rules per se. Although not incorporated into the budget, a recent Inspector General report indicates that current state activity with respect to Disproportionate Share Hospital (DSH) payments is subject to abuse.

**School Based Health Services under Medicaid.** The Centers for Medicare and Medicaid Services (CMS) will begin work on a regulation that would prohibit contingency fee arrangements related to school-based health services in the Medicaid program.

**Prescription Drugs.** The budget proposes to expand drug coverage to Medicare beneficiaries up to 100 percent of poverty at the state's current Medicaid matching rate and to match 90 percent of expanded coverage to beneficiaries who are between 100 percent to 150 percent of poverty. Although not specified, the proposal includes some type of maintenance of effort provision.

**Transitional Medical Assistance.** The budget proposes to extend the program for one year to provide health coverage for former welfare recipients after they enter the workforce. This program, at a cost of \$350 million in fiscal 2003, is due to expire at the end of fiscal 2002 under current law.

**Temporary Assistance for Needy Families (TANF)**

The President's proposal for welfare reform was released on February 26. This detailed proposal follows the outline of funding that was included in the President's fiscal 2003 budget proposal. The President's plan includes the following key components:

- Increases the work requirement from requiring at least 50 percent of welfare families to participate in work to 70 percent of families participating in work by fiscal 2007.
- Requires welfare recipients to work 40 hours per week, including 16 hours that could be used for education, training, and other work-related activities, an increase from the current 30-hour per week requirement.
- Provides financial incentives to states to pass through child support enforcement funds collected to the families rather than retaining the funds.
- Directs up to \$300 million for programs to encourage marriage.
- Continues the existing ban on welfare benefits for non-citizens who entered the country after 1996.

The budget includes five years of block grant funding at the current funding levels of \$16.5 billion, supplemental population grants at the fiscal 2001 level of \$319 million, and the renewal of the \$2 billion contingency fund with modified maintenance of effort requirements and reconciliation to make it more accessible for states.

The proposal to continue funding at the same dollar level for the next five years would come at the same time that some states are experiencing increases in caseloads due to the deteriorating economy. Although nationally, the most recent caseload numbers indicate a decrease in the number of families receiving assistance from October 2000 to June 2001, twenty-two states experienced an increase in families seeking assistance during this same timeframe.

Moderate Democrats in the Senate offered an alternative plan for TANF reauthorization on February 27. The outline of this plan includes similar provisions to the President's proposal including an increase of the work participation rates to 70 percent by fiscal 2007 and an increase of the work requirement to 40-hours per week. The proposal would reauthorize the TANF block grant at current funding levels and restore the supplemental grants and the contingency fund.

The Governors, during the NGA Winter Meeting, indicated that the focus on work should be paramount, though there needs to be greater flexibility in defining work activity. States are finding that a combination of activities, on a limited basis, such as job training, education, and drug abuse treatment leads to the greatest success for some individuals.

### **Child Support**

The budget would provide states with options that could increase the amount of child support directed to families rather than having the funds being retained by state and federal governments to offset welfare costs. According to the budget documents, beginning in fiscal 2005, the federal government will share in the costs of state efforts to expand policies for passing through and disregarding child support for TANF families. The budget also requires states to review and adjust child support orders for families receiving TANF every three years beginning in fiscal 2004.

### **Public Health Emergency Preparedness**

The budget includes \$940 million for state and local grants for bioterrorism preparedness through the Centers for Disease Control and Prevention (CDC). These funds would be in addition to the funds received in fiscal 2002 as part of the Department of Defense appropriations.

Of the total funding available to states in fiscal 2002, 20 percent will be available for immediate spending by February 15, 2002. To qualify for the remaining 80 percent of a state's allotment, the state will be required to submit an implementation plan to the department of Health and Human Services (HHS) for approval. State plans may be submitted to HHS beginning on March 15, 2002 and must be received no later than April 15, 2002. HHS has committed to review each plan within 30 days of receipt. Upon approval of the state plan, the remaining 80 percent of funds will be made available for state expenditure.

**SCHIP**

SCHIP funds that were due to expire would be extended under the President's budget. An estimated \$3.2 billion of unspent funds would return to the U.S. Treasury at the end of fiscal 2002 and fiscal 2003 without this proposed change. The budget proposes to extend the availability of SCHIP funds from fiscal 1998 through fiscal 2000 until fiscal 2006.

**HIPAA Implementation**

The budget includes \$64.1 million for HIPAA administrative simplification at the federal level. Of this amount, \$10 million will be used to conduct outreach and education with entities, including states, and \$9.6 million will be used for CMS to be in compliance with the transaction rule standards by the October 2003 deadline. The remainder would be used for a system to assign identifiers to health plans and providers.

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