

SNHAF statement on the projected growth of Florida's Medicaid budget

TALLAHASSEE, FL, September 14, 2015 – The Safety Net Hospital Alliance of Florida (SNHAF) issued the following statement today from James Zingale, Ph.D, executive director of research and fiscal analysis for SNHAF, regarding the state-forecasted growth in Florida's Medicaid budget:

The projected growth in Florida's Medicaid budget is being driven primarily by an increase in low-income Floridians enrolling for health coverage and federal laws governing Florida's new statewide managed care program – not because hospital Medicaid costs are dramatically rising. In fact, hospital costs will experience one of the smallest percentage increases across most of the major Medicaid program categories.

State budget forecasters say Medicaid enrollment will increase by 302,791, or 7.8 percent, in the 2016-17 fiscal year over what is budgeted in the current 2015-16 fiscal year. Enrollment is the most dominant cost driver across all Medicaid program categories. The state projects that enrollment of pregnant women and children in the program will grow by 276,767, of 10.3 percent, while enrollment of elderly and disabled residents in the program will increase by 26,024, or 2.2 percent.

Overall, total Medicaid enrollment next fiscal year is projected to reach 4.2 million Floridians, up from 3.9 million this fiscal year.

While the larger caseload is increasing Medicaid costs, so is the cost of services. Four Medicaid services expenditures are projected to rise significantly: Nursing Home Services (41.5%), Community Mental Health (25.8%), Supplemental Health Insurance (8.7%), and Medicare Part D (6.9%).

However, what are not dramatically increasing are Medicaid hospital costs. Medicaid direct payments to hospitals through the DRG fee-for-service system will experience only a small cost increase. State budget forecasters project that hospital in-patient services costs will only increase by 0.28% - less than half a percent.

The most dramatic change in Medicaid funding over the past two years has been the shift from Medicaid service categories paid in a direct fee-for-service system to the statewide Medicaid Managed Assistance (MMA) Program, in which the state contracts with managed care organizations (MCOs) to manage and pay for health services provided to Medicaid enrollees. Federal law requires that the state pay Medicaid MCOs an actuarially sound rate in order to ensure access to health services and adequacy of care for enrollees. Largely because of this requirement and enrollment increases, state expenditures for Medicaid MCOs are expected to rise by \$1.2 billion, an increase of 10.3 percent.

The requirement to pay Medicaid managed care organizations an actuarially sound contract rate is not new to Florida Medicaid. However, this is only the second year of the full statewide MMA implementation. Prior to the statewide MMA program, under the hospital Medicaid DRG fee-for-service reimbursement system, hospital rates were set by the state's legislative appropriations process. During tough economic times in recent years, the state cut reimbursement rates to hospitals below their actual cost of providing care. In fact, Florida's hospitals were forced to absorb eight consecutive years of rate cuts – totaling more than \$1 billion – during the Great Recession. The result of these cuts was that state funding support for hospital reimbursement rates was reduced to less than half the actual cost of providing care, creating a funding level for hospital Medicaid reimbursements that was significantly below what is considered actuarially sound.

In light of the above factors, the general revenue requirement for Medicaid is projected to increase by \$600.1 million in Fiscal Year 2016-17. The Safety Net Alliance will continue working collaboratively with state elected leaders, legislators and health regulators to ensure that Florida's most vulnerable citizens continue to have access to the full spectrum of highly-specialized health services we offer.

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