



# **Budget Briefing: HHS - Medical Services and Behavioral Health**

Kevin Koorstra, Deputy Director

Kent Dell, Fiscal Analyst

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# Briefing Topics

- Funding Sources
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  - Traditional Medicaid Program
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# Medical Services and Behavioral Health

*This is one of three briefings about the Department of Health and Human Services (DHHS) budget. See also briefings on Human Services and Public Health, Aging and Adult Services.*

## Medical Services

- The traditional Medicaid program is a joint federal-state health care program for low-income families, children, and disabled individuals
- Medicaid program was expanded to include non-disabled, childless adults through the Healthy Michigan Plan beginning in 2014
- Also supports Children's Special Health Care Services, Federal Medicare Pharmaceutical Program, and MIChild
- Programs are governed through a combination of federal law and regulations, the Social Welfare Act, annual budget boilerplate language, and Michigan's Medicaid State Plan

## Behavioral Health

- The Michigan Constitution (Article VIII, Section 8) states that institutions, programs, and services for the care, treatment, education, or rehabilitation of those inhabitants who are physically, mentally, or otherwise seriously disabled shall always be fostered and supported
- Behavioral health services are governed by the state's Mental Health Code (1974 PA 258, as amended) and federal regulations
- State also funds services for non-Medicaid-eligible individuals through local community mental health programs, and operates five psychiatric facilities

# Key Budget Terms

**Fiscal Year:** The state's fiscal year (FY) runs from October to September. FY 2020-21 is October 1, 2020 through September 30, 2021.

**Appropriation:** Authority to expend funds. An appropriation is not a mandate to spend. Constitutionally, state funds cannot be expended without an appropriation by the legislature.

**Line Item:** Specific appropriation amount that establishes spending authorization for a particular program or function in a budget bill.

**Boilerplate:** Specific language sections in a budget bill that direct, limit, or restrict line item expenditures, express legislative intent, and/or require reports.

**Lapse:** Appropriated amounts that are unspent or unobligated at the end of a fiscal year. Appropriations are automatically terminated at the end of a fiscal year unless designated as a multi-year work project under a statutory process. Lapsed funds are available for expenditure in the subsequent fiscal year.

Note: Unless otherwise indicated, historical budget figures in this presentation have not been adjusted for inflation.

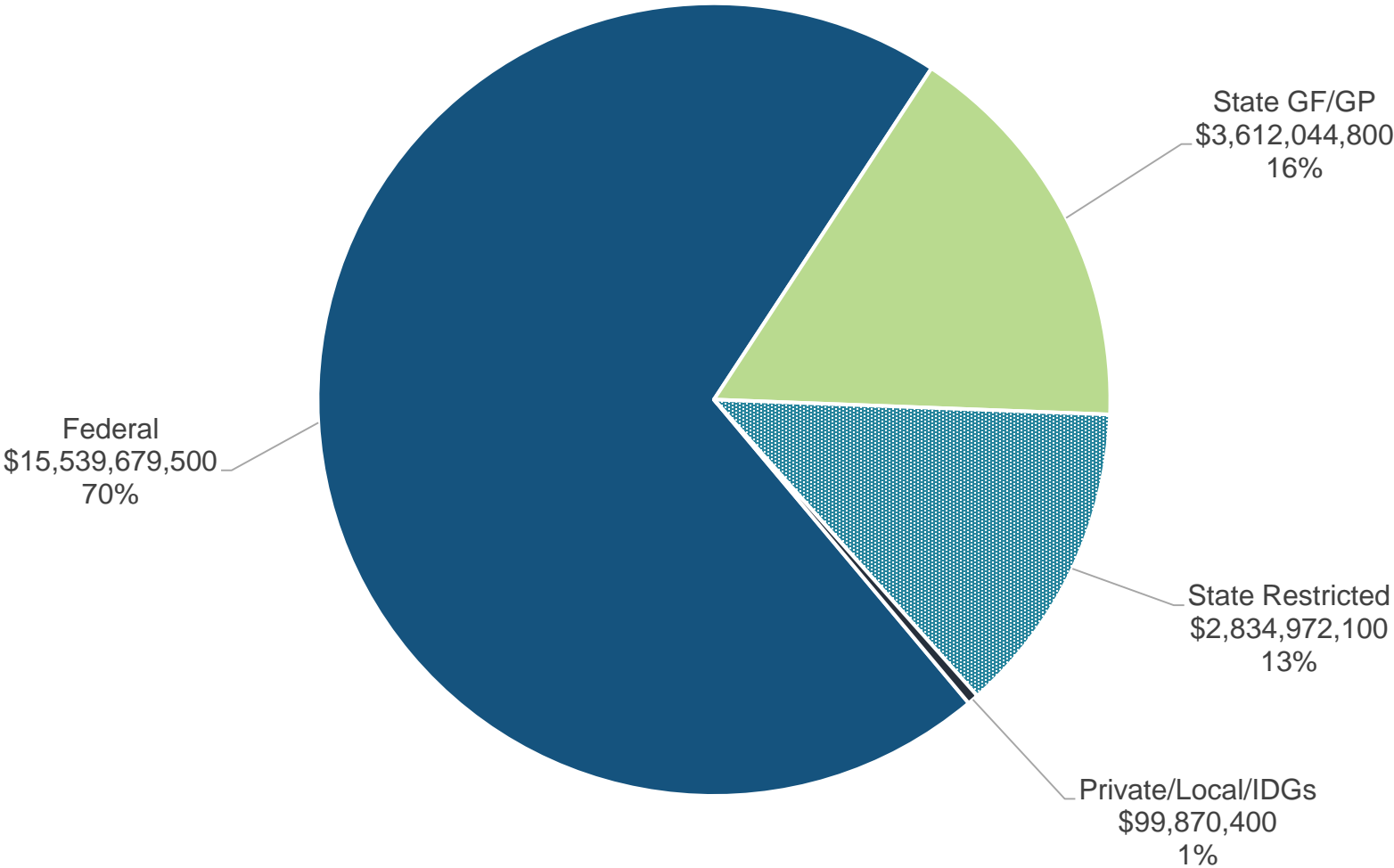
# Funding Sources

# FY 2020-21 Medical Services and Behavioral Health Budget

Fund Source	Funding	Description
Gross Appropriations	\$22,086,566,800	Total spending authority from all revenue sources
Interdepartmental Grants (IDG) Revenue	0	Funds received by one state department from another state department, usually for services provided
Adjusted Gross Appropriations	\$22,085,566,800	Gross appropriations excluding IDGs; avoids double counting when adding appropriation amounts across budget areas
Federal Revenue	15,539,679,500	Federal grant or matching revenue; generally dedicated to specific programs or purposes
Local Revenue	92,303,600	Revenue received from local units of government for state services
Private Revenue	7,566,800	Revenue from individuals and private entities, including payments for services, grants, and other contributions
State Restricted Revenue	2,834,972,100	State revenue restricted by the State Constitution, state statute, or outside restriction that is available only for specified purposes; includes most fee revenue
State General Fund/General Purpose (GF/GP) Revenue	\$3,612,044,800	Unrestricted revenue from taxes and other sources available to fund basic state programs and other purposes determined by the legislature

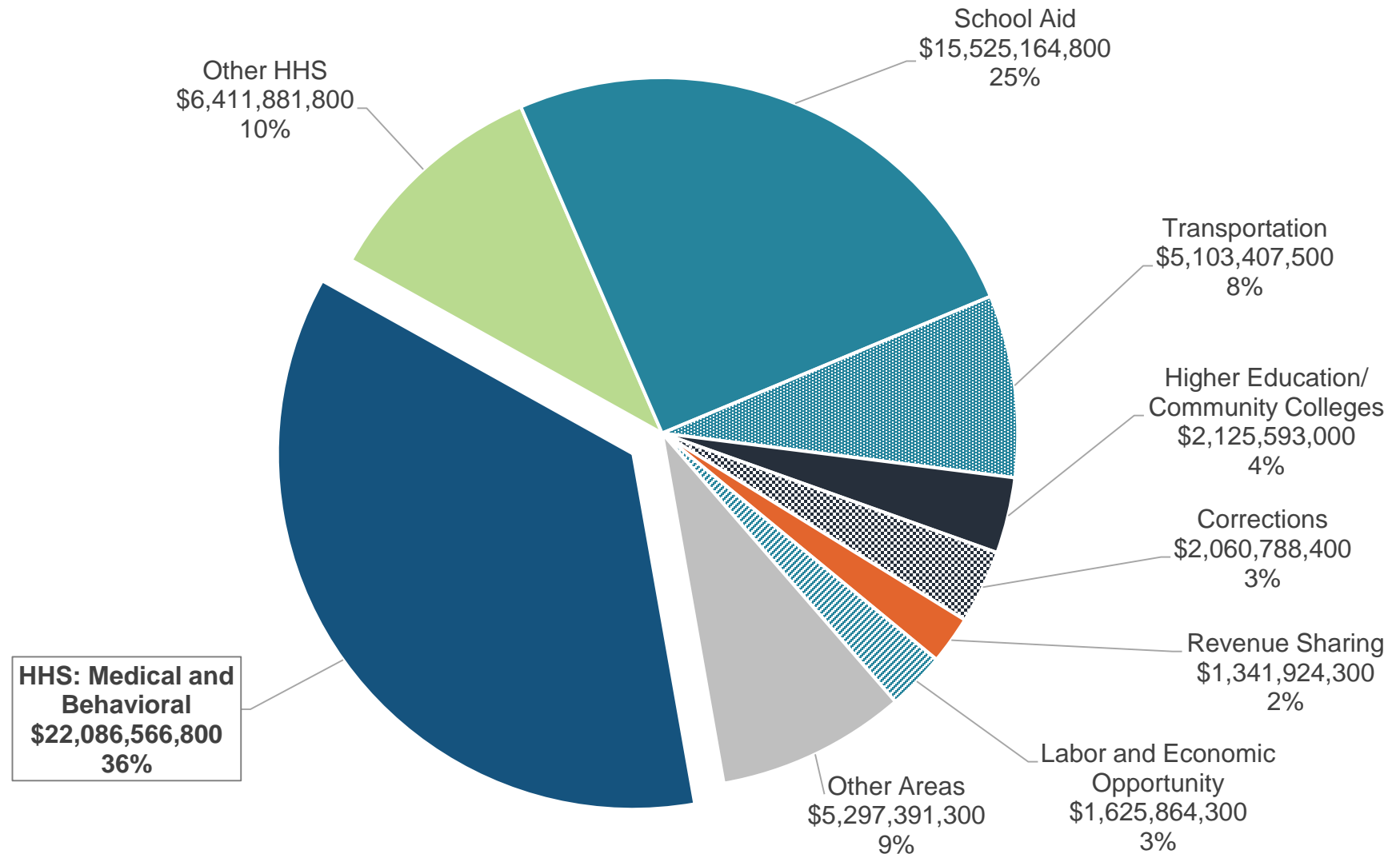
# FY 2020-21 Fund Sources

70% of the \$22.1 billion Medical Services and Behavioral Health budget is funded by federal revenue, almost exclusively Medicaid and Healthy Michigan Plan matching funds.



# Medical and Behavioral Health Share of Total State Budget

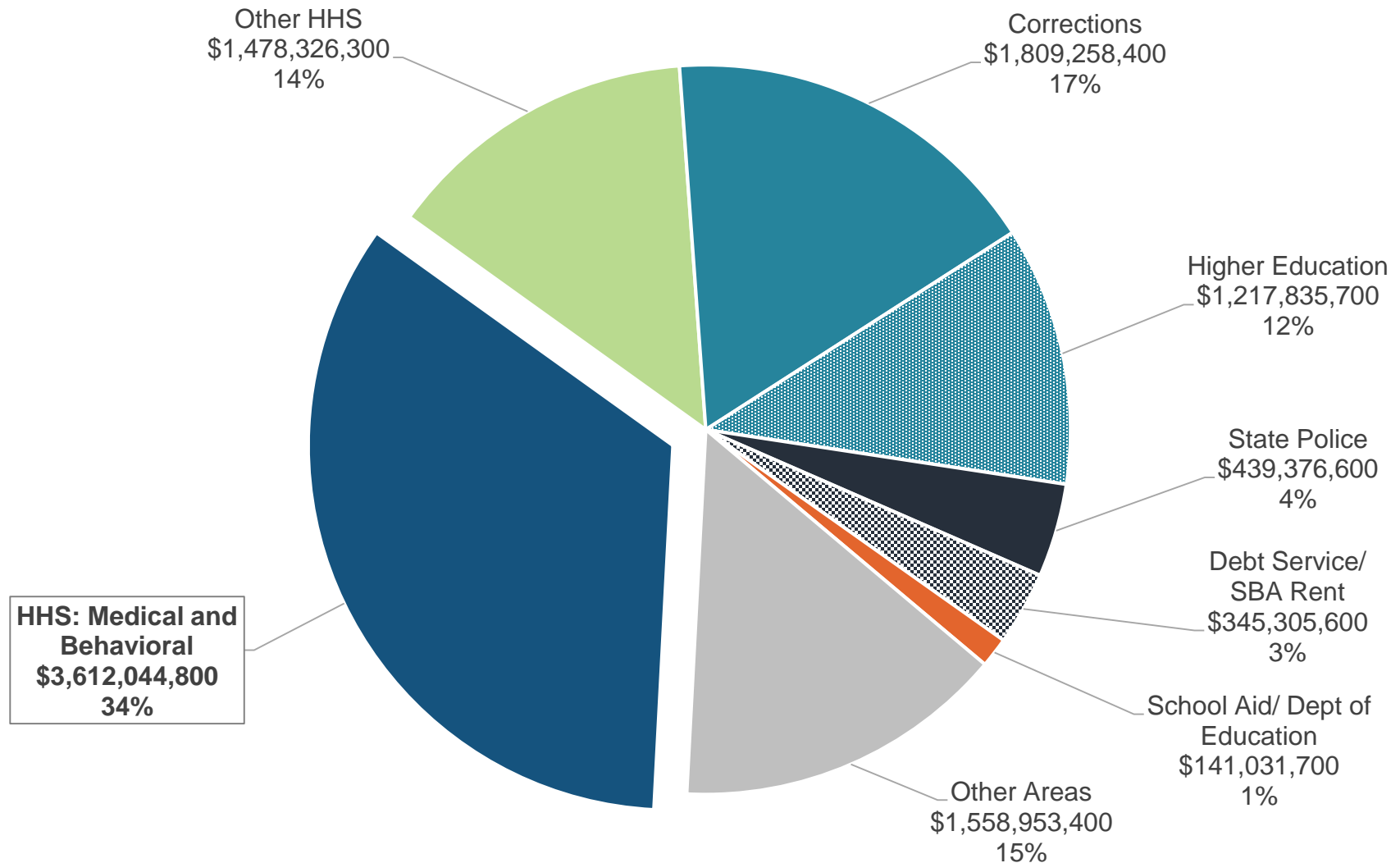
Medical and Behavioral Health Services represent over one-third of the **\$61.6 billion** state budget (adjusted gross) for FY 2020-21.





# Medical and Behavioral Health Share of Total GF/GP Budget

Medical and Behavioral Health Services also represent over one-third of the state's \$10.6 billion GF/GP budget for FY 2020-21.



# Appropriation Areas

# Medical Services and Behavioral Health Appropriation Areas

**Administration** of the Medicaid, Children’s Special Health Care Services (CSHCS), MIChild, and Behavioral Health programs, including the Electronic Health Records Program

**Medical services through the traditional Medicaid program**, including both managed care payments and fee-for-service payments. Includes long-term and integrated care, home- and community-based waiver programs, provider-funded Disproportionate Share Hospital (DSH) payments, Graduate Medical Education (GME) payments, Medicare premium payments, Medicare pharmaceutical “clawback” costs, CSHCS, and the MIChild program

**Medical services through the Healthy Michigan Plan (HMP)**

**Special payments** made for Special Medicaid Reimbursement to various health providers, GF/GP-funded DSH, School-Based Services, and the Dental Clinic Program

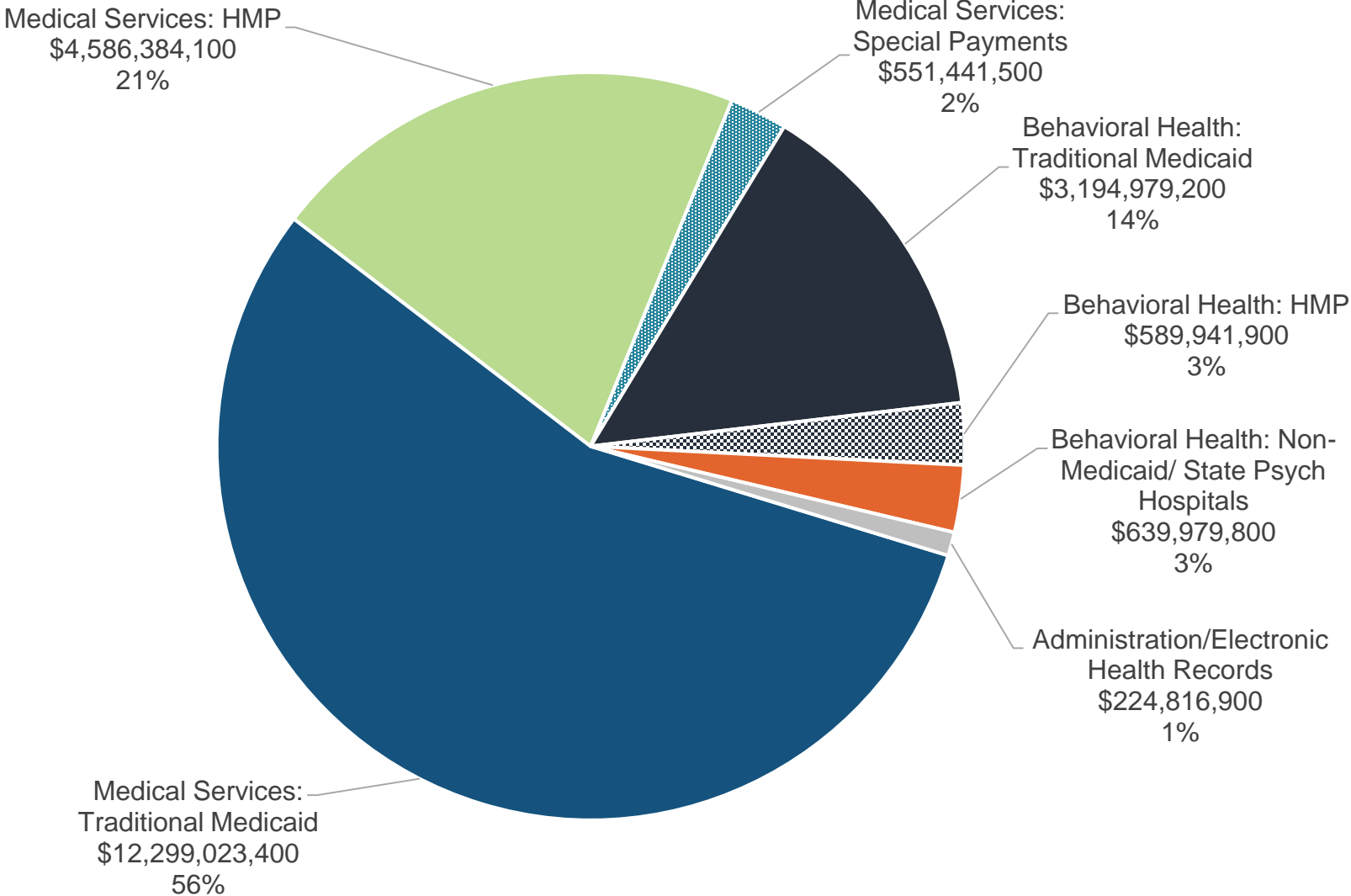
**Behavioral health services through the traditional Medicaid program**, including mental health services, substance abuse disorder services, children’s waiver programs, and autism services

**Behavioral health services through the HMP**

**Non-Medicaid behavioral health and state psychiatric hospitals**

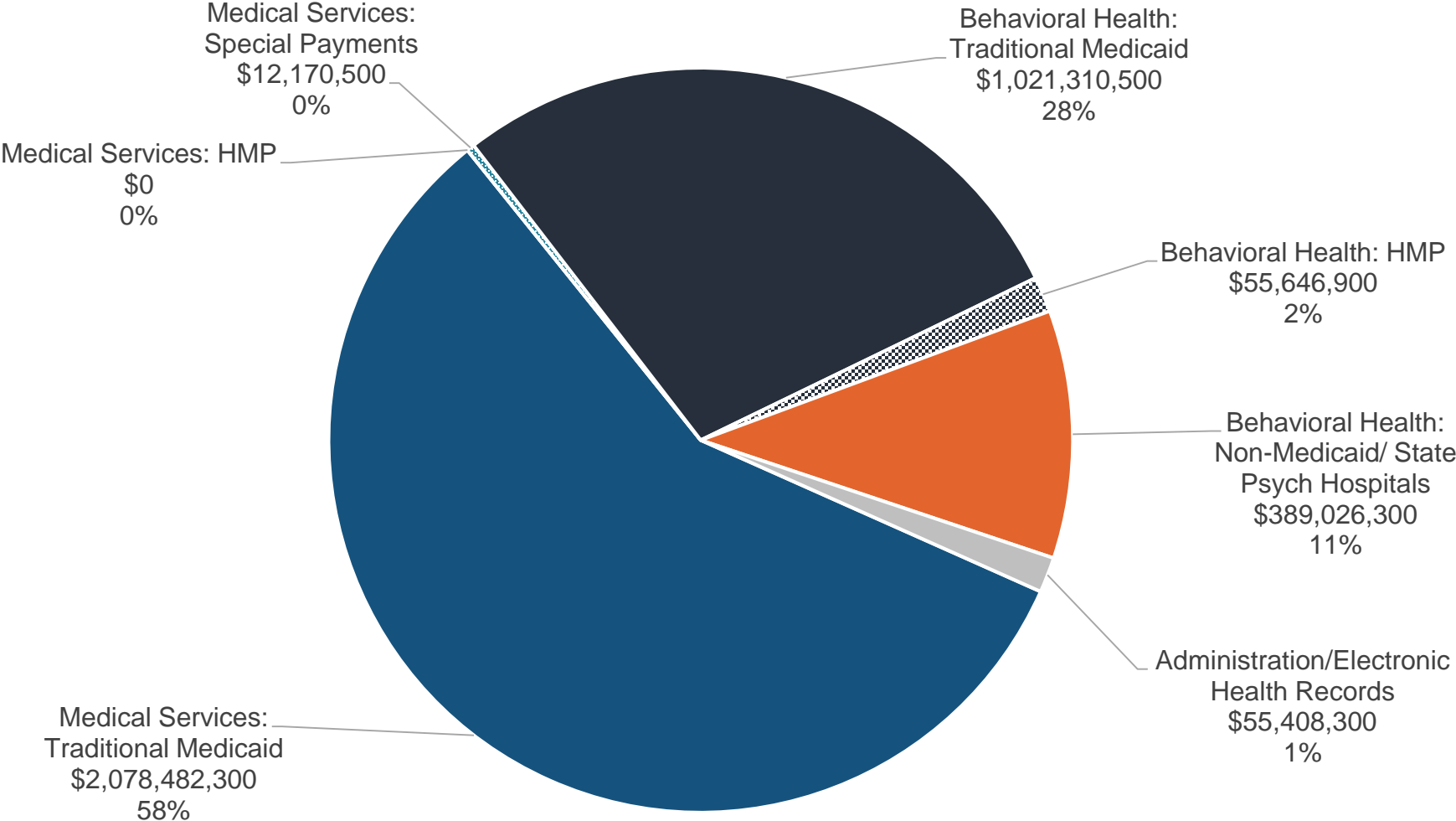
# FY 2020-21 Gross Appropriations

70% of the \$22.1 billion Medical Services and Behavioral Health budget supports the Traditional Medicaid program. Another 24% supports the Healthy Michigan Plan.



# FY 2020-21 GF/GP Appropriations

GF/GP funds (totaling **\$3.6 billion**) are more heavily concentrated in Medical Services through the traditional Medicaid program.



# Major Budget Topics

# Traditional Medicaid Program

# Medicaid Eligibility

- States have the flexibility to establish income eligibility standards within federal standards
- Current net income eligibility standards (not including Healthy Michigan Plan):
  - Families receiving Family Independence Program cash assistance: 49% of the federal poverty level (FPL)
  - Aged, blind, and disabled individuals receiving Supplemental Security Income (SSI): 75% of FPL
  - Elderly and disabled individuals: up to 100% of FPL
  - Children under 18 in families: up to 160% of FPL
  - Pregnant women and newborn children: up to 195% of FPL
  - MIChild: up to 212% of FPL
  - Individuals needing long-term care services: up to 221% of FPL (or 300% of SSI)
  - Medically needy individuals with income or resources above regular financial eligibility levels



# Medicaid Eligibility

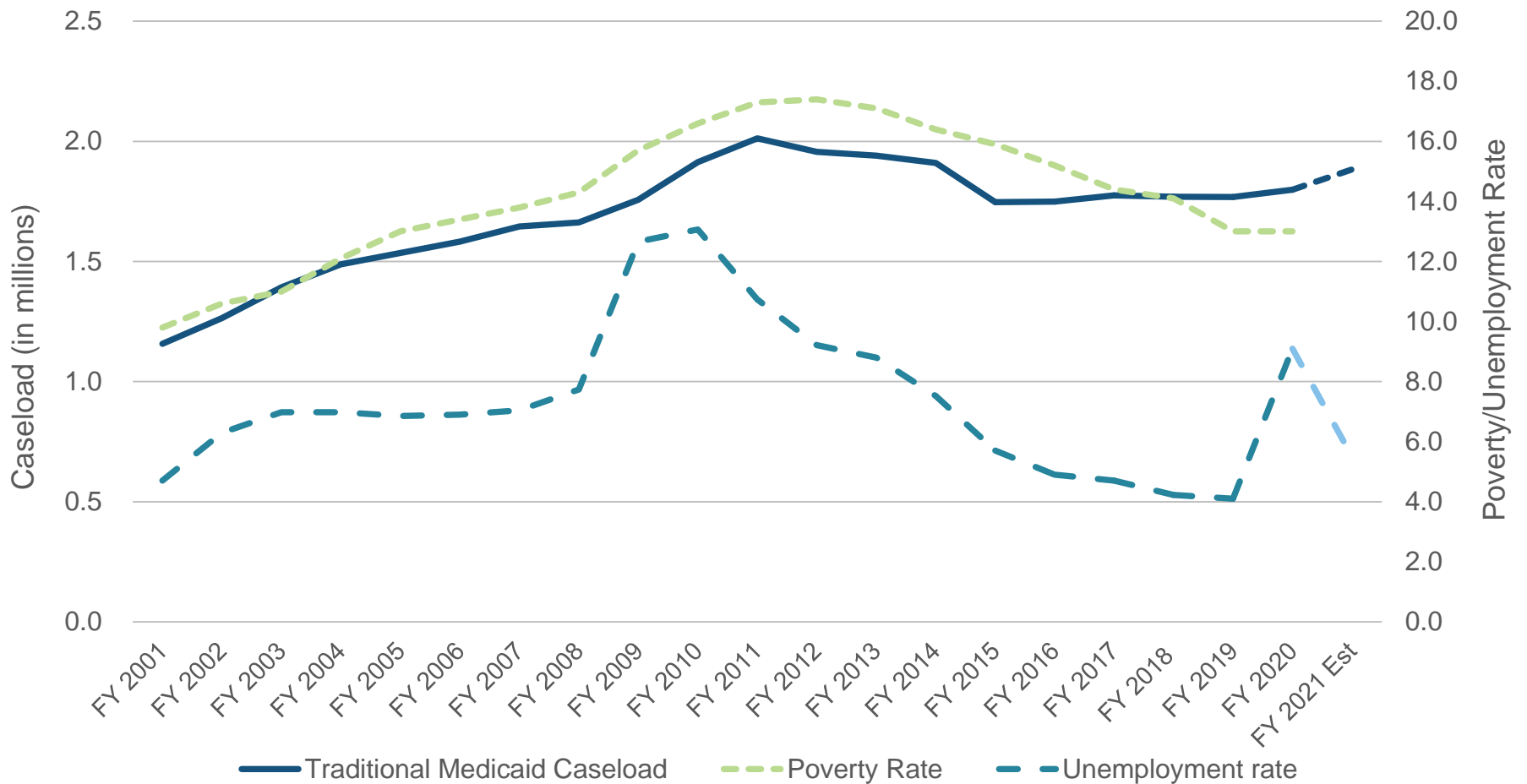
## 2020 Federal Poverty Level Examples

% of FPL	Eligibility Group	Individual	Family of 2	Family of 3	Family of 4
100%	Elderly/disabled	\$12,760	\$17,240	\$21,720	\$26,200
133%	Healthy Michigan Plan	16,971	22,929	28,888	34,846
160%	Children under 18	20,416	27,584	34,752	41,920
195%	Pregnant women/newborn children	24,882	33,618	42,354	51,090
222%	Individuals needing long-term care	28,188	38,085	47,981	57,878

**Note:** Does not reflect income disregards and asset tests, including 5% income disregard for Healthy Michigan Plan, children, and pregnant women.

# Traditional Medicaid Caseloads

From FY 2000-01 to FY 2010-11, Medicaid caseloads increased by over **70%**. Since the peak, caseloads have declined by **11%**. Medicaid caseloads track more closely to the state's poverty rate than the state's unemployment rate.



# Medicaid Services

- Federal law and regulations have established both mandatory and optional medical services that are covered by the program
- Mandatory Medicaid services include:
  - Inpatient and outpatient hospital services
  - Physician's services
  - Nursing facility services
  - Laboratory and x-ray services
  - Emergency services
  - Pregnancy-related services
- Optional Medicaid services covered under Michigan's Medicaid program include:
  - Behavioral health (mental health and substance use disorder)
  - Home- and community-based services (including MI Choice and habilitation support waivers)
  - Pharmaceutical services
  - Adult home help services
  - Dental services (including the Healthy Kids Dental program)
  - Hospice services
  - Program of All-Inclusive Care for the Elderly (PACE)

# Medicaid Provider Rates

- States have the flexibility to establish Medicaid provider rates up to the various federal upper payment limits for hospital services, nursing facilities, clinic services, and practitioner services
- These federal upper payment limits generally correspond to Medicare reimbursement rates
- Federal regulations also require that provider rates “be sufficient to enlist enough providers so that services under the [Medicaid state] plan are available to beneficiaries at least to the extent that those services are available to the general population” (42 CFR 447.204)
- Medicaid is considered the payer of last resort, meaning all other financial resources such as commercial insurance, Medicare, workers’ compensation, or no-fault automobile insurance are utilized prior to Medicaid provider reimbursement

# Medicare Savings Programs

- State Medicaid programs are required to participate in Medicare savings programs, which help low-income Medicare-eligible individuals pay for Medicare coverage
- There are four Medicare savings programs:
  - For Medicare eligible individuals up to 100% of FPL, the Qualified Medicare Beneficiaries program pays Medicare Part A (inpatient services) premiums, Medicare Part B (outpatient services) premiums, deductibles, and coinsurances
  - For Medicare eligible individuals between 100% and 120% of FPL, the Special Low Income Medicare Beneficiaries program pays Part B premiums
  - For Medicare eligible individuals between 120% and 135% of FPL, the Qualifying Individuals program pays Part B premiums
  - For Medicare eligible individuals up to 200% of FPL, the Qualified Disabled Working Individual program pays Part A premiums
- Michigan recently implemented a new program for individuals receiving full Medicare and Medicaid coverage (known as “dual eligible”) called MI Health Link
  - Partnership between the state, the federal government, and managed care health plans to provide a single, integrated health plan for all health services
  - Currently available in Southwest Michigan, the Upper Peninsula, Macomb County, and Wayne County
  - Enrollment is voluntary

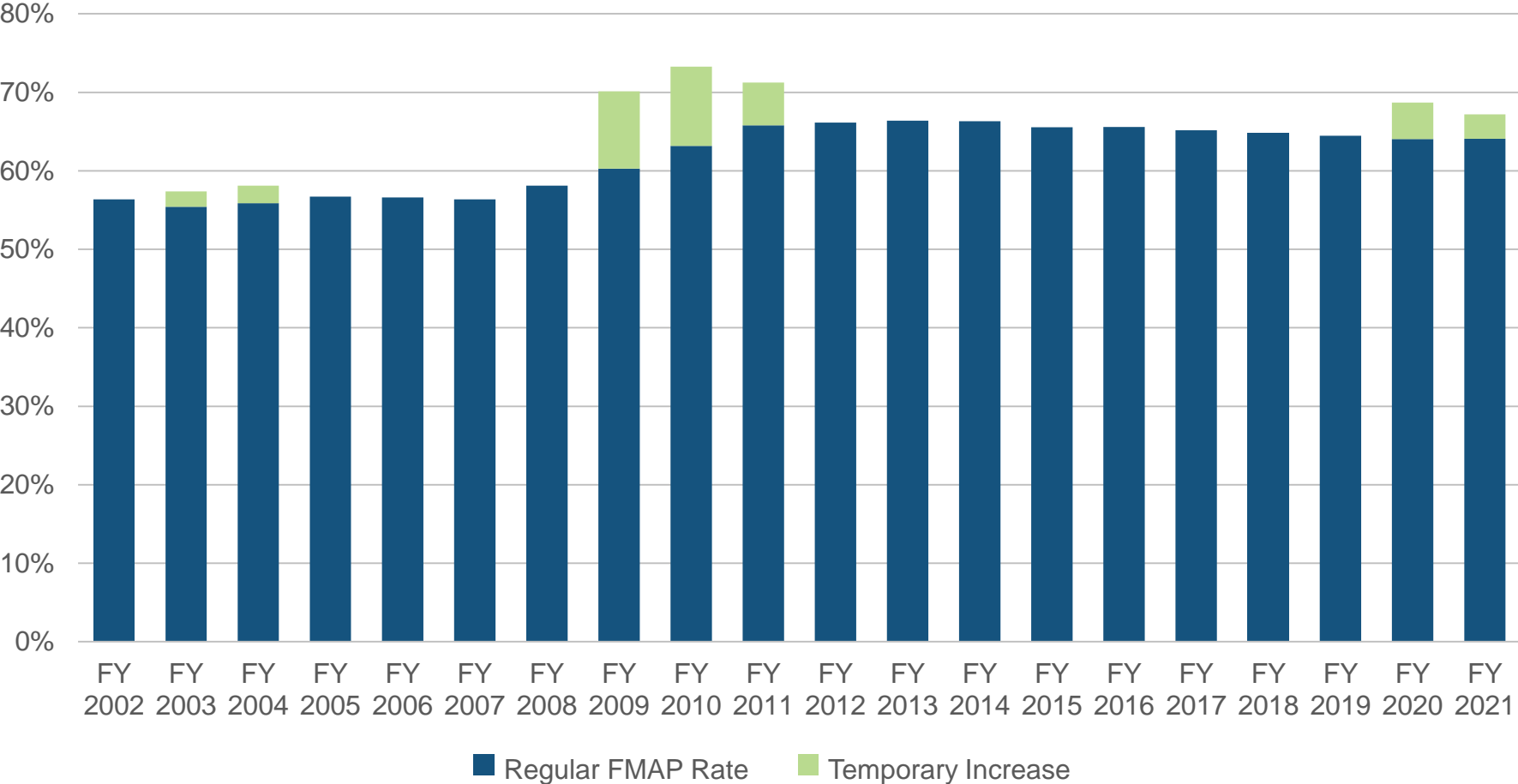
# Traditional Medicaid Financing

# Federal Medicaid Match Rate

- Traditional Medicaid expenditures are jointly financed by the federal and state governments
- For most expenditures the portion financed by the federal government is determined utilizing the Federal Medical Assistance Percentage (FMAP)
- This rate is adjusted annually based on a comparison of a given state's average personal income to the average national personal income utilizing a three-year average
- For FY 2020-21, Michigan's FMAP rate is 64.08%: the federal government finances 64.08% of Medicaid expenditures, and the state finances the remaining 35.92%. In other words, for each \$1.00 Michigan spends on the Medicaid program, the federal government provides \$1.78.
- Beginning in the second quarter of FY 2019-20, Michigan's FMAP rate was enhanced by 6.2 percentage points as part of the federal government's response to the COVID-19 pandemic via the Families First Coronavirus Response Act of 2020. This brought the average FY2019-20 FMAP up to 68.71%.

# Federal Medicaid Match Rate

The federal Medicaid match (FMAP) rate shifted in the state’s favor during the economic downturn as Michigan’s economic growth lagged the nation’s, reducing state match requirements, but has been gradually declining since then.



Notes: Increases for FY 2009 to FY 2011 were due to Federal American Recovery and Reinvestment Act of 2009  
 Increase for FY 2020 was due to the Federal Families First Coronavirus Response Act of 2020



# Healthy Michigan Plan

# Healthy Michigan Plan

- The federal Affordable Care Act, enacted in 2010, required states to expand their Medicaid programs to include all individuals with net income up to 133% of FPL
- A subsequent Supreme Court decision made expansion optional for each state; as of January 10, 2020, 37 states, including the District of Columbia, have adopted expansion
- The Michigan legislature expanded Medicaid to adults with incomes of up to 133% of FPL via Public Act 107 of 2013 (House Bill 4714), which created the Healthy Michigan Plan
- The target population for the expansion is adults (ages 19-64), as children and pregnant women with incomes of 133% or lower were already eligible for Medicaid
- The Michigan legislature revised the Healthy Michigan Plan to include work requirements for able-bodied adults beginning January 1, 2020 via Public Act 208 of 2018 (Senate Bill 897). DHHS received federal approval to implement in December 2018, but a federal judge ruled the work requirements unlawful in March 2020

# Healthy Michigan Plan Waivers

Public Act 107 of 2013 required two federal waivers to make a number of modifications from the state's traditional Medicaid program

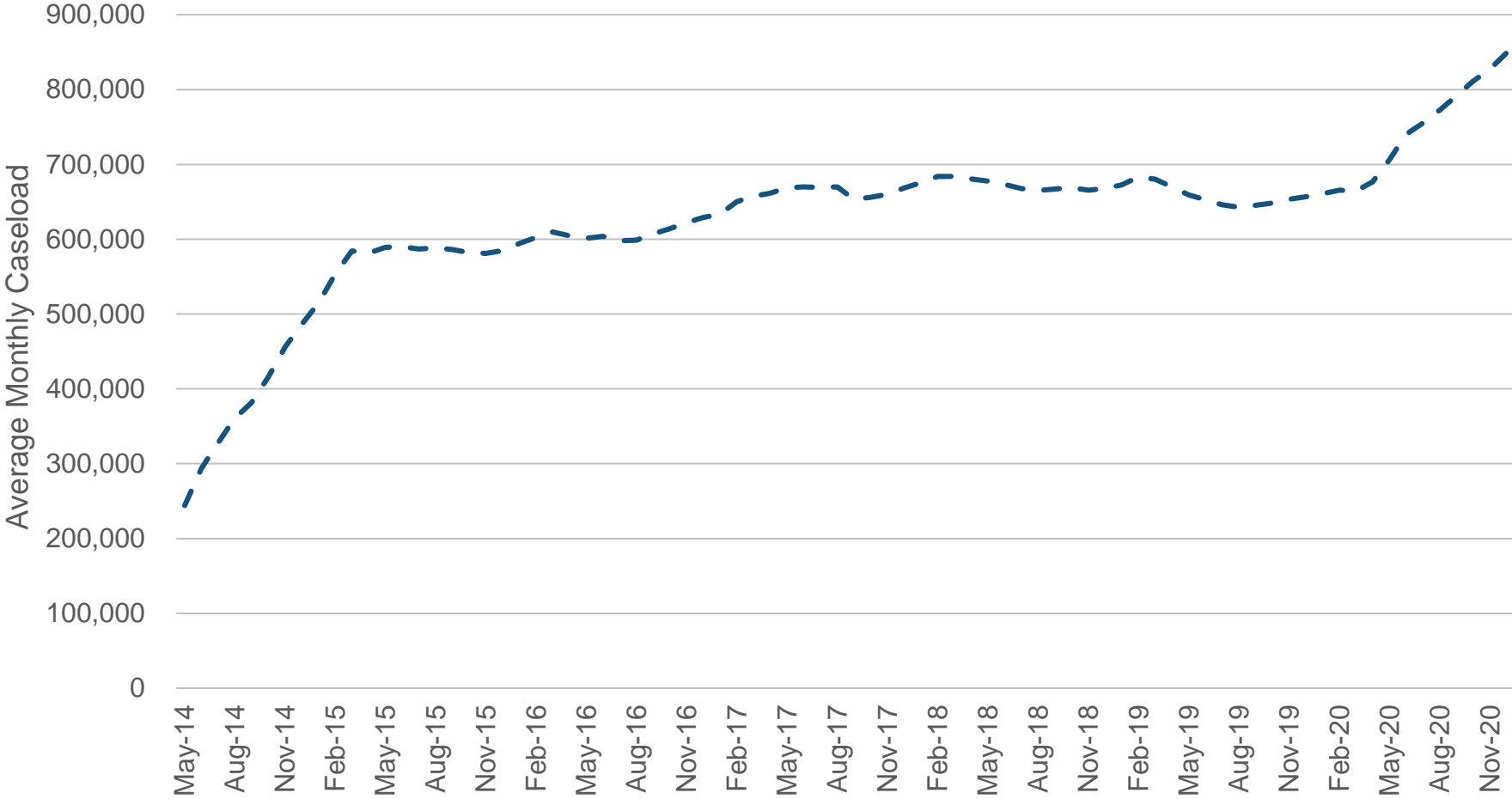
- An initial waiver approved in December 2013 included the following modifications:
  - Health savings accounts for co-pays and other cost sharing (up to 5% of income for an individual with an income of 100% of FPL or higher)
  - Certain incentives for healthy behavior
- A second waiver was approved in December 2015, but was never implemented, to meet statutory requirements:
  - Individuals enrolled in the program for more than 48 months with incomes of 100% of the federal poverty level or higher to either:
    - Shift to a health insurance plan purchased on the health insurance exchange created under the Affordable Care Act (utilizing federal subsidies for purchasing health insurance rather than Medicaid funding) or
    - Remain on the Healthy Michigan Plan with higher cost sharing requirements of up to 7% of income

Public Act 208 of 2018 replaces the second waiver with the requirement that individuals enrolled in the program for more than 48 months with incomes of 100% of the federal poverty or greater complete and comply with a health behavior assessment and pay a premium of 5% of income in order to maintain coverage

- DHHS received federal approval to implement Public Act 208 in December 2018

# Healthy Michigan Plan Caseloads

Healthy Michigan Plan caseloads grew very quickly, reaching over 240,000 individuals in the first two months after implementation and then increasing by a monthly average of over 30,000 individuals from May 2014 to March 2015. Cases have gradually increased since, with a recent plateauing trend. Recent caseload increases are due to the ongoing COVID-19 pandemic.



# Healthy Michigan Plan Financing

# Healthy Michigan Plan Financing

- Initially, federal funds supported 100% of costs associated with the Healthy Michigan Plan. That federal match rate phased down to 90% over five years:
  - 95% for 2017 (calendar year)
  - 94% for 2018
  - 93% for 2019
  - 90% for 2020 and subsequent years
- Based on current HFA projections, state matching costs for the Healthy Michigan Plan were **\$140 million** in FY 2016-17 (for three-quarters of a year), growing to roughly **\$520 million** in FY 2020-21 (when the state match rate will be 10% for a full fiscal year)
- Not all of the state matching costs, however, will require additional GF/GP funds. Provider assessments and special financing contributions will be used to support the special Medicaid reimbursements within the Healthy Michigan Plan; additionally, there is a hospital assessment retainer of \$118 million based on special hospital reimbursements within the Healthy Michigan Plan
- Less administrative costs, HFA projects net GF/GP match costs of **\$2 million** in FY 2016-17, growing to about **\$300 million** in FY 2020-21

# Healthy Michigan Plan State Savings

- Implementing the Healthy Michigan Plan has also resulted in state savings, as various health care costs previously funded either partially or wholly through state GF/GP revenue have been shifted to **90%** federal funding
- Full year GF/GP appropriation reductions of **\$235 million** are as follows:
  - \$168 million for non-Medicaid mental health funding (originally \$204 million, with \$36 million subsequently restored)
  - \$47 million for the Adult Benefits Waiver program (including \$12 million in restricted Medicaid Benefits Trust Fund savings that had offset GF/GP)
  - \$19 million for prisoner health care costs in the Department of Corrections budget (originally \$32 million, with \$13 million subsequently restored)
  - \$1 million for smaller health care programs
- Additionally, the state has realized additional revenue from the Health Insurance Claims Assessment (HICA), the Use Tax on Medicaid managed care organizations, and the new Insurance Provider Assessment (IPA) as a result of increased health care activities driven by the Healthy Michigan Plan
- Governor's original proposal for Healthy Michigan Plan included the creation of a reserve fund to pay for future state match costs; Public Act 107 of 2013, ultimately, did not specifically set aside state funds for future Healthy Michigan Plan costs

# Healthy Michigan Plan Saving and Cost Estimates

## Healthy Michigan Plan: Estimated State Costs/Savings

In Millions of \$

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Average monthly beneficiaries	286,300	544,400	597,200	650,000	671,600	662,800	699,200	833,800	785,100
State match rate	0.00%	0.00%	0.00%	3.75%	5.75%	6.75%	9.25%	10.00%	10.00%
<b>State Costs</b>									
State match and admin costs	\$20	\$20	\$20	\$156	\$239	\$299	\$415	\$538	\$507
Less restricted revenues	0	0	0	(135)	(179)	(186)	(214)	(226)	(219)
<b>Total GF/GP Costs</b>	<b>\$20</b>	<b>\$20</b>	<b>\$20</b>	<b>\$22</b>	<b>\$61</b>	<b>\$114</b>	<b>\$200</b>	<b>\$312</b>	<b>\$287</b>
<b>Budget Savings (1)</b>									
Non-Medicaid Mental Health	(\$77)	(\$168)	(\$168)	(\$168)	(\$168)	(\$168)	(\$168)	(\$168)	(\$168)
Adult Benefits Waiver (2)	(12)	(47)	(47)	(47)	(47)	(47)	(47)	(47)	(47)
Corrections health care	(10)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)
Other health programs	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
<b>Subtotal: Budget Savings</b>	<b>(\$100)</b>	<b>(\$235)</b>	<b>(\$235)</b>	<b>(\$235)</b>	<b>(\$235)</b>	<b>(\$235)</b>	<b>(\$235)</b>	<b>(\$235)</b>	<b>(\$235)</b>
<b>Savings from Revenue Impacts</b>									
Additional HICA revenue (3)	(\$7)	(\$20)	(\$21)	(\$27)	(\$31)	\$0	\$0	\$0	\$0
Additional Use Tax revenue (4)	(40)	(162)	(171)	(44)	0	0	0	0	0
Additional IPA revenue (5)	0	0	0	0	0	(158)	(162)	(165)	(168)
<b>Total Savings With Revenue Impacts</b>	<b>(\$147)</b>	<b>(\$417)</b>	<b>(\$427)</b>	<b>(\$306)</b>	<b>(\$266)</b>	<b>(\$393)</b>	<b>(\$397)</b>	<b>(\$400)</b>	<b>(\$403)</b>
<b>Net GF/GP Costs/(Savings)</b>	<b>(\$127)</b>	<b>(\$397)</b>	<b>(\$407)</b>	<b>(\$284)</b>	<b>(\$205)</b>	<b>(\$280)</b>	<b>(\$196)</b>	<b>(\$88)</b>	<b>(\$116)</b>

### Notes

- (1) Assumes no inflationary increase in previous state costs shifted to Healthy Michigan Plan.
- (2) Includes \$12 million in Medicaid Benefits Trust Fund revenue appropriated for the program.
- (3) HICA sunset on October 1, 2018.
- (4) Use Tax on Medicaid Managed Care Organizations was discontinued effective January 1, 2017.
- (5) Insurance Provider Assessment created via PA 175 of 2018 starts October 1, 2018.

**General Note:** Does not reflect local savings or reductions in uncompensated care (which could result in reductions to Disproportionate Share Hospital [DSH] payments under HMP statutory provisions).



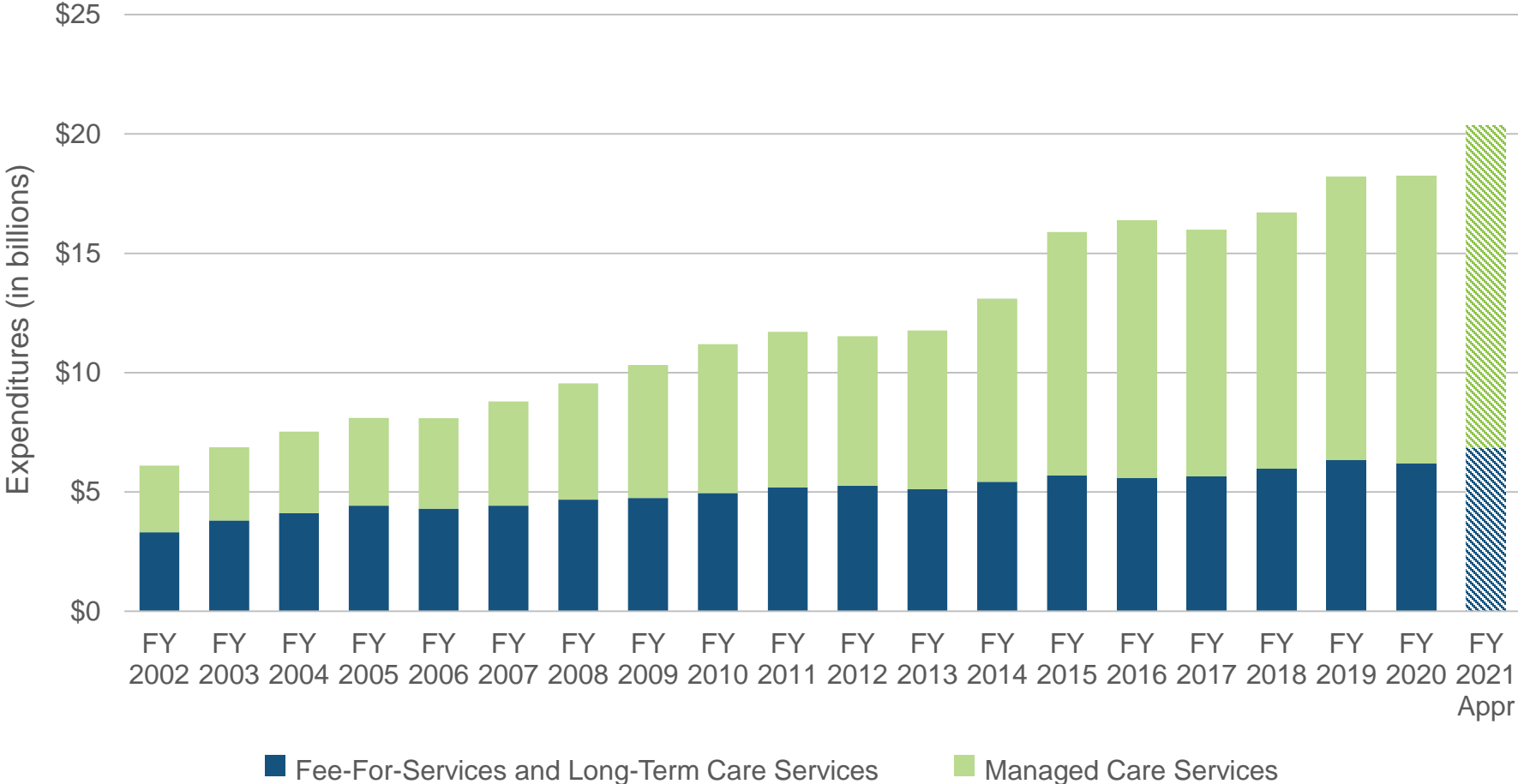
# Healthy Michigan Plan Sunsets

- Under current statutory provisions, the Healthy Michigan Plan will sunset whenever the net costs of the program exceed the savings, as determined by the Department of Health and Human Services
- Current HFA assumptions and estimates indicate net Healthy Michigan Plan savings through at least the next 10 fiscal years
- Discontinuation of Healthy Michigan Plan will require either restoration of funding for mental health and other health care services or reductions from previous levels of services provided
- DHHS and the State Budget Office are statutorily charged with determining and approving precise costs and savings, respectively, so the HFA estimates presented should be considered preliminary in nature
- Healthy Michigan Plan would have also sunset if the federal government had not approved the revisions to the second waiver required under Public Act 208 of 2018, which received federal approval in December 2018

# Total Medicaid Expenditures

# Medicaid Expenditures by Service Delivery

Since FY 2001-02, both fee-for-service and managed care services have increased, but managed care services have increased faster as a growing percentage of Medicaid beneficiaries have been enrolled into a managed care health plan. **73%** of beneficiaries are currently covered through managed care, representing **66%** of expenditures.

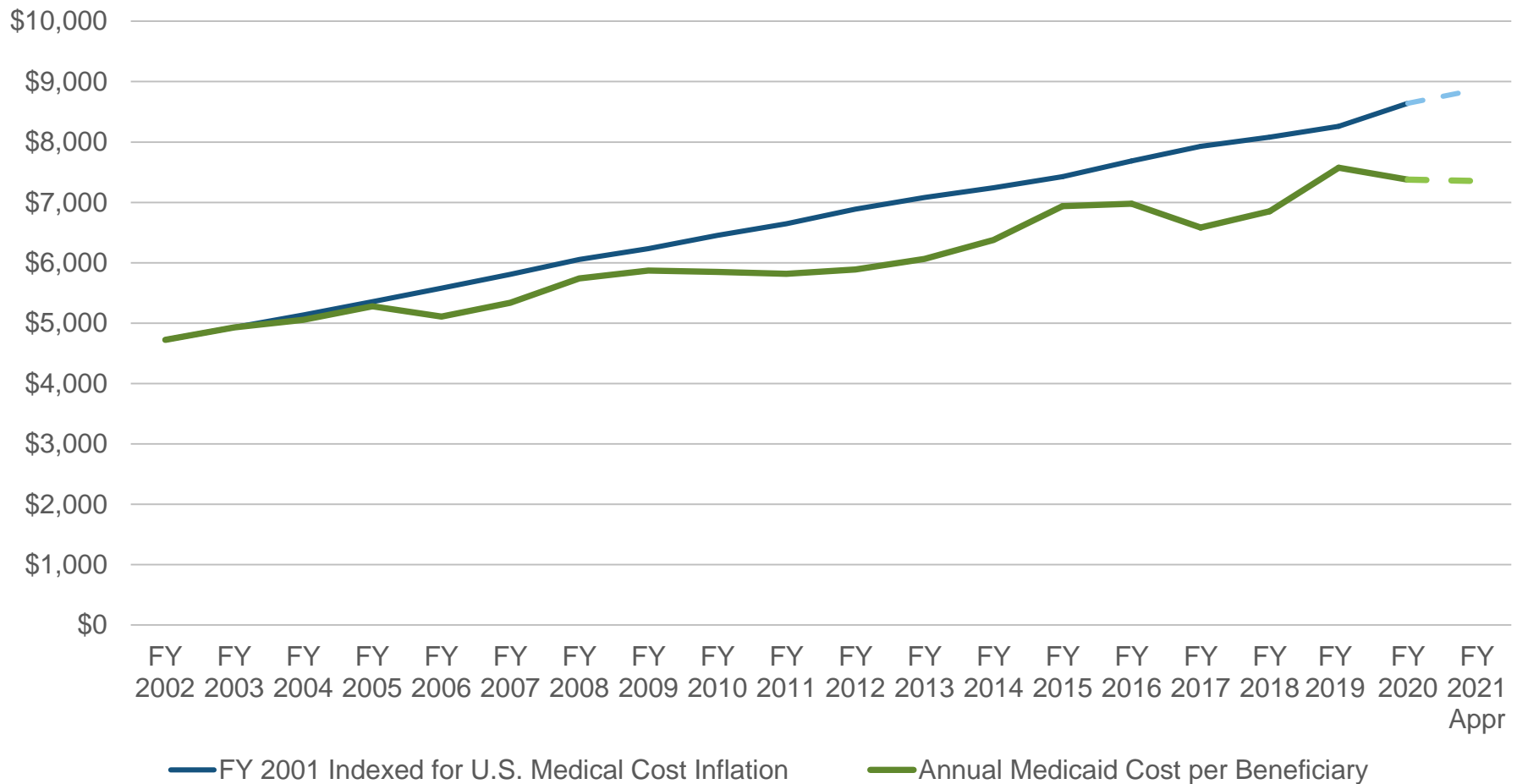


# Medicaid Managed Care

- The use of managed care is intended to constrain costs by minimizing utilization of higher-cost services, emphasizing primary and preventative care, and negotiating and incentivizing lower reimbursement rates with providers
- Managed care plans accept the risk of having to pay for high utilizers of health care by accepting a capitated per-member, per-month rate
- The capitated rates must be actuarially sound based on generally accepted actuarial practices and regulatory requirements
- Managed care also creates more predictability for state budgeting
- Managed care enrollment is optional for some groups of Medicaid beneficiaries: migrants, Native Americans, and dual eligibles
- Some beneficiaries are excluded from managed care enrollment: individuals without full Medicaid coverage, individuals residing in a psychiatric hospital or nursing facility, MI Choice and PACE beneficiaries, and individuals with commercial coverage

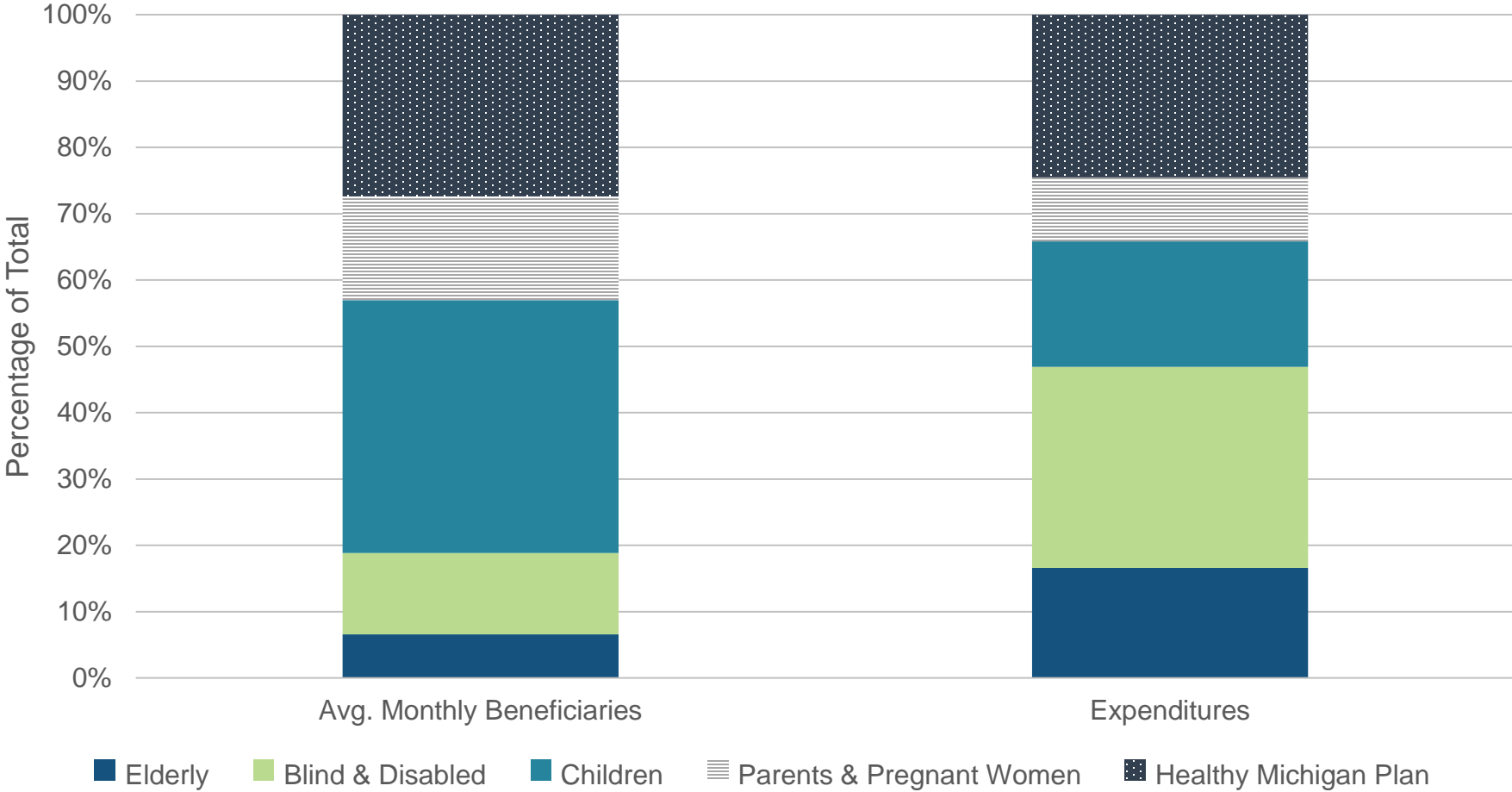
# Annual Cost per Medicaid Beneficiary

Caseload increases are not the sole reason for Medicaid expenditure increases. Utilization, inflation, and increases in special payments and provider assessments also affect costs. Since FY 2001-02, the average cost per Medicaid beneficiary has increased **55%**, from **\$4,700** to **\$7,350**. This increase is below the rate of general medical cost inflation.



# Medicaid Beneficiary and Expenditure Comparison

Average cost per beneficiary varies widely among beneficiary groups. The elderly and blind & disabled represent **19%** of beneficiaries, but constitute **47%** of the expenditures. Conversely, children make up **38%** of beneficiaries, but constitute only **19%** of the expenditures.



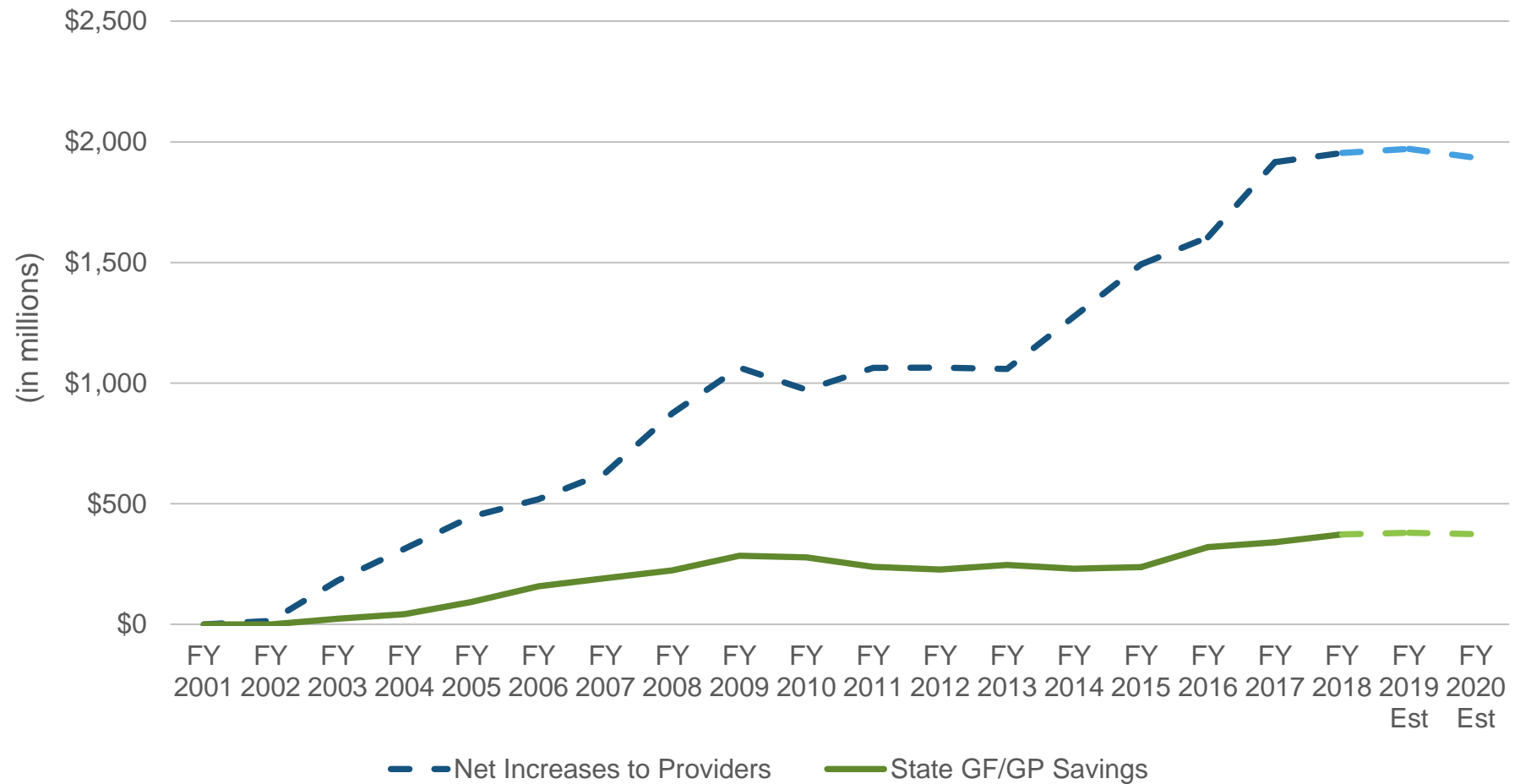
Note: Data are from FY 2018-19.

# State Medicaid Match Rate Portion

- For FY 2020-21, **\$20.4 billion** in Gross Medicaid expenditures requires **\$5.6 billion** in state match funds
- The largest source of state match funds is General Fund/General Purpose (GF/GP) revenue, at **\$2.88 billion**
- Over the last 15 years, the state has increasingly relied on state restricted funds to reduce the need for GF/GP funds as state match, with **\$2.76 billion** in restricted or local funds appropriated for FY 2020-21
- State restricted fund sources include:
  - Provider assessments, known as the Quality Assurance Assessment Program (QAAP), levied on hospitals, nursing homes, and ambulance providers: **\$1.5 billion**
  - Insurance Provider Assessment (IPA) Fund: **\$611.8 million**
  - Medicaid Benefits Trust Fund (primarily from tobacco taxes): **\$310.5 million**
  - Special financing funds from public and university hospitals: **\$252.1 million**
  - Merit Award Trust Fund (tobacco settlement revenue): **\$41.3 million**

# QAAP Provider Increases and State Savings

QAAP revenues are used to both increase Medicaid provider rates through supplemental Medicaid payments and offset GF/GP through statutorily established state retainers. Recent increases in both are attributable to the Healthy Michigan Plan.

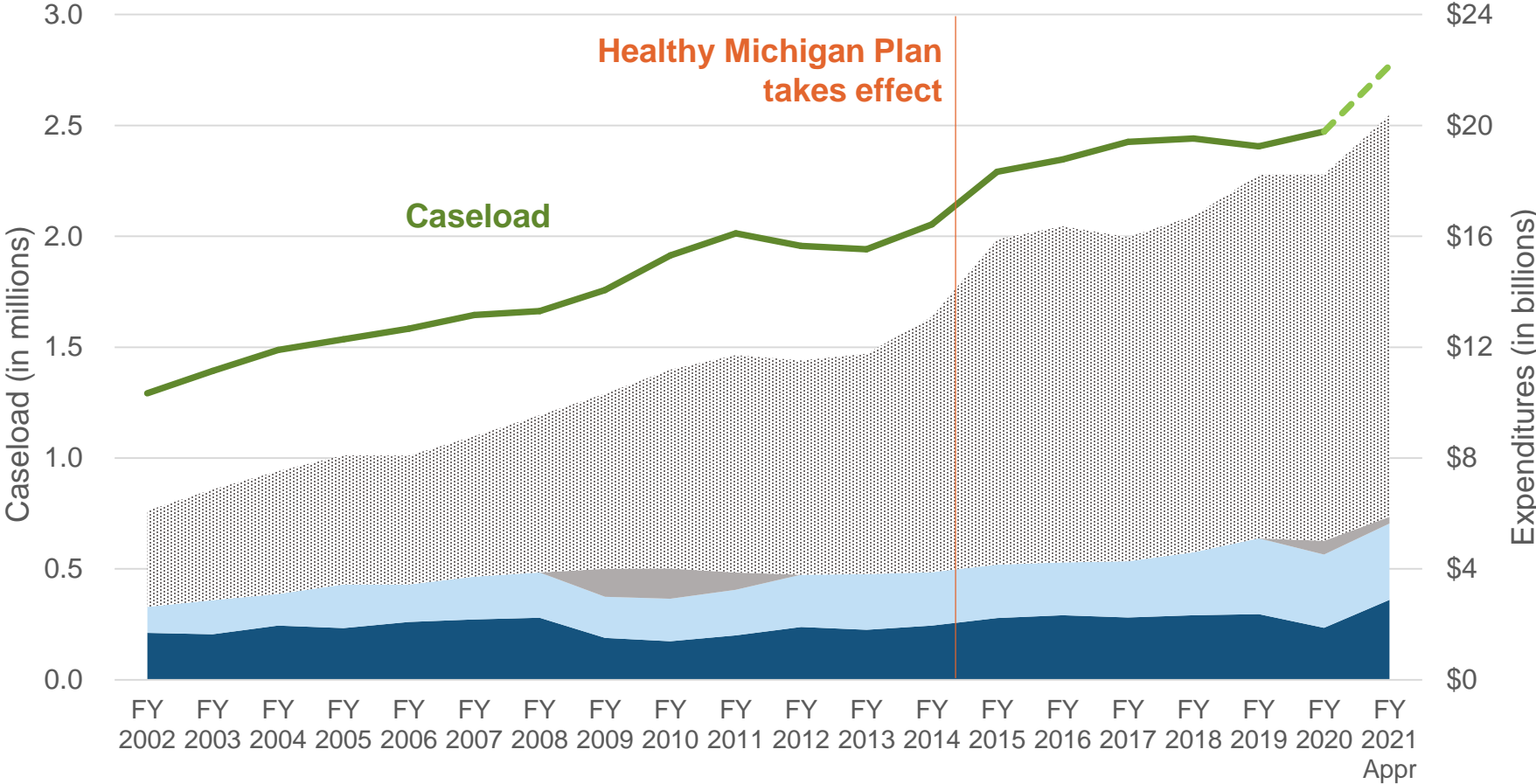




# Medicaid Budget Outlook

# Medicaid Expenditures by Fund Source

Since FY 2001-02, the state's total Medicaid caseload has doubled, expenditures have tripled, and GF/GP has increased by **70%**, due to economic trends, the expansion under the Healthy Michigan Plan, and more recently the coronavirus pandemic.



■ GF/GP   ■ Restricted   ■ Enhanced Federal   ■ Federal

Enhanced Federal from American Recovery and Reinvestment Act of 2009 and Families First Coronavirus Response Act of 2020

# GF/GP Support for Medicaid Expenditures

Three major factors have allowed GF/GP support for Medicaid to be held relatively flat through FY 2019-20:

- 1) The increased use of provider assessments and other state restricted revenue sources as state match. Restricted funds have grown from **\$471 million** to **\$2.70 billion**
  - A 2012 GAO report indicates that Michigan is already among the most aggressive states in utilizing provider assessments
- 2) The federal FMAP rate moving in Michigan's favor as the state's economy lagged the national economy in the late 2000's. If Michigan's FMAP was still at the FY 2001-02 rate of 56.36% (instead of 64.08%), the state would need to identify **\$1.2 billion** in additional state matching funds
- 3) Initial 100% federal funding for the Healthy Michigan Plan population
  - State match costs for the Healthy Michigan Plan begin on January 1, 2017. This resulted in GF/GP costs of **\$2 million** for three-quarters of FY 2016-17, increasing to **\$300 million** per year in FY 2020-21
  - Alternately, discontinuing Healthy Michigan Plan and shifting mental health, prisoner health care, and other costs back to the state would cost **\$235 million** per year, plus the GF/GP cost of offsetting lost IPA revenue

# GF/GP Medicaid Spending Pressures

## Enhanced FMAP

- 6.2% Enhanced FMAP increase does not end on a date certain, but ends after the calendar quarter during which the federal Secretary of Health and Human Services terminates the federal public health emergency declaration. Each additional quarter saves **\$240 million GF/GP**. Current budget assumes 1 quarter of enhanced FMAP.

## Caseload Increase

- Includes **\$1,860 million Gross (\$410 million GF/GP)** for an estimated caseload increase of over 400,000 individuals.

## Managed Care Savings Assumptions

- Assumes **\$530 million Gross (\$140 million GF/GP)** in various Medicaid managed care savings estimates including, increased pharmaceutical rebates from a single, statewide preferred drug list, risk sharing agreements, increased third party liability collections.

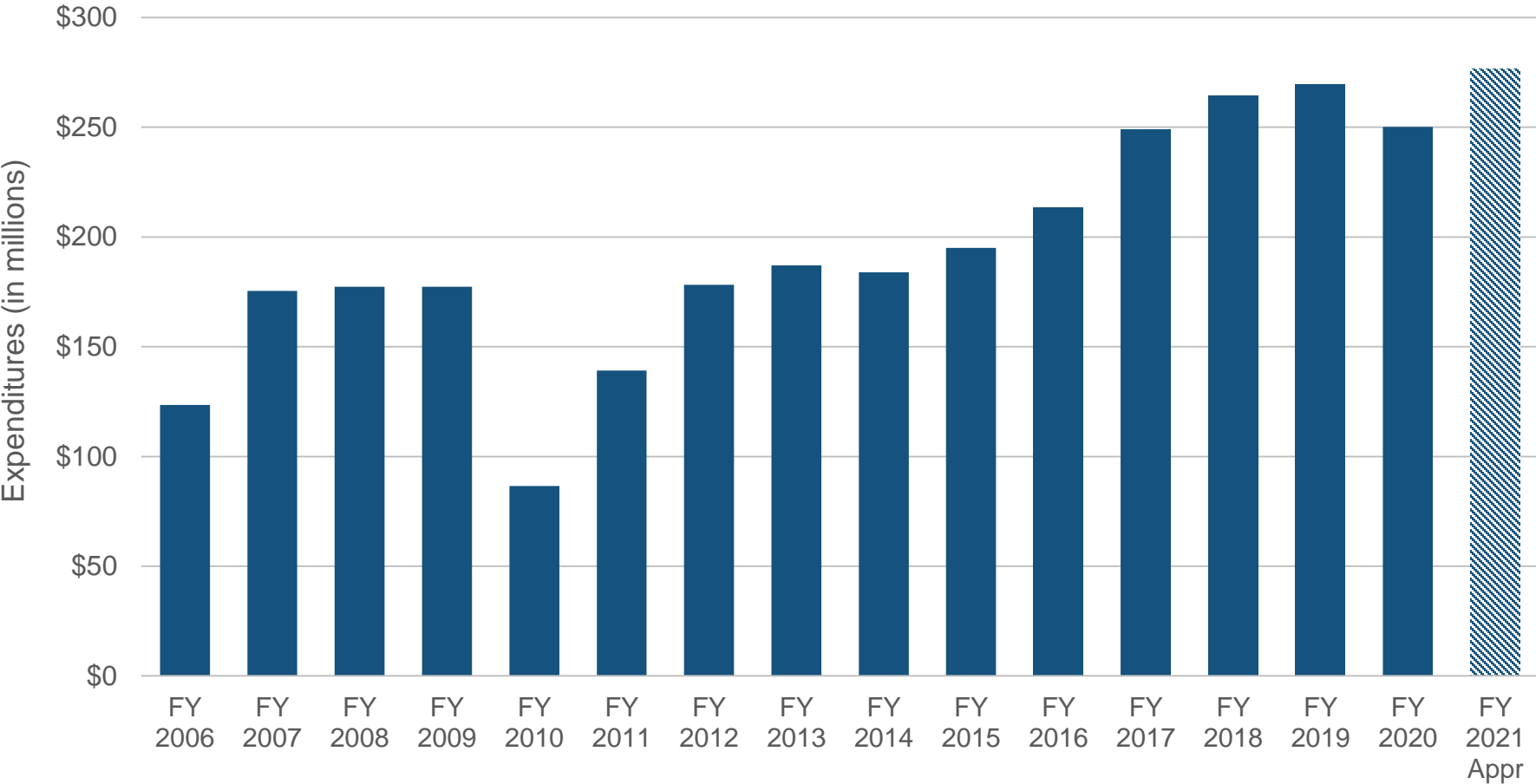
## Medicaid Psychiatric Disproportionate Share Hospital Disallowance

- Possible federal repayment for psychiatric hospital claims made on Medicaid from FY 2000-01 to FY 2008-09 – Total **\$195 million** with repayment over 3 years.

# Other Medical Services

# Federal Medicare Pharmaceutical Program

The federal Medicare Part D pharmaceutical program began on January 1, 2006, which requires state contributions based on the state costs for pharmaceutical services for persons eligible for both Medicaid and Medicare prior to the creation of Medicare Part D. It is anticipated that state costs will continue to increase due to new specialty drugs.



# Children's Special Health Care Services

- Covers special medical care and treatment for children with certain qualifying chronic and/or disabling diagnoses and adults with cystic fibrosis or certain hereditary blood coagulation disorders (e.g. hemophilia)
- Does not cover the cost of providing health care not related to qualifying diagnosis
- Local health departments provide enrollment and other case management services for enrollees
- Monthly average of 35,000 children and adults receive CSHCS services
- CSHCS is payer of last resort; around **70%** of enrollees are also enrolled in Medicaid, **22%** are also enrolled in commercial insurance, and **8%** have no other health care coverage
- Total program expenditures of roughly **\$750 million** financed through GF/GP funding of approximately \$280 million plus federal Medicaid matching funds, Title V - Maternal and Child Health Services Block Grant funds, and parent participation fees.

# Behavioral Health Services



# Community Mental Health Services

- Mental Health Services are governed through the state's Mental Health Code and annual boilerplate language
- 46 Community Mental Health Services Programs (CMHSPs) have primary responsibility for local service delivery
  - Each county is represented by one of the 46 CMHSPs
- GF/GP non-Medicaid funding is prioritized for services to individuals with the most severe forms of mental illness, serious emotional disturbance, and developmental disability, and to individuals in urgent or emergency situations
  - CMHSPs may also provide other mental health services as resources allow
- CMHSPs cannot deny service based on an individual's inability to pay
- Since the 1970s, the trend has been toward serving more patients in the community and fewer patients in state-operated psychiatric hospitals and institutional settings

# Community Mental Health Services Funding

Recent budgetary changes to non-Medicaid mental health include:

**FY 2008-09:** Executive Order 2009-22 reduced non-Medicaid mental health funding **\$10 million**

**FY 2009-10:** Enacted budget reduced non-Medicaid mental health funding an additional **\$30 million** (for a total full-year reduction of **\$40 million**)

**FY 2013-14:** Partial year reduction of **\$77 million** from shifting costs to Healthy Michigan Plan

**FY 2014-15:** Additional reduction of **\$91 million** from shifting costs to Healthy Michigan Plan (for a total full-year reduction of **\$168 million**)

**FY 2015-16:** DHHS is no longer transferring about **\$140 million** GF/GP to the CMHSPs for the purchase of state services, as CMHSPs are no longer charged for those services; the GF/GP is instead directly appropriated to support the state psychiatric hospitals

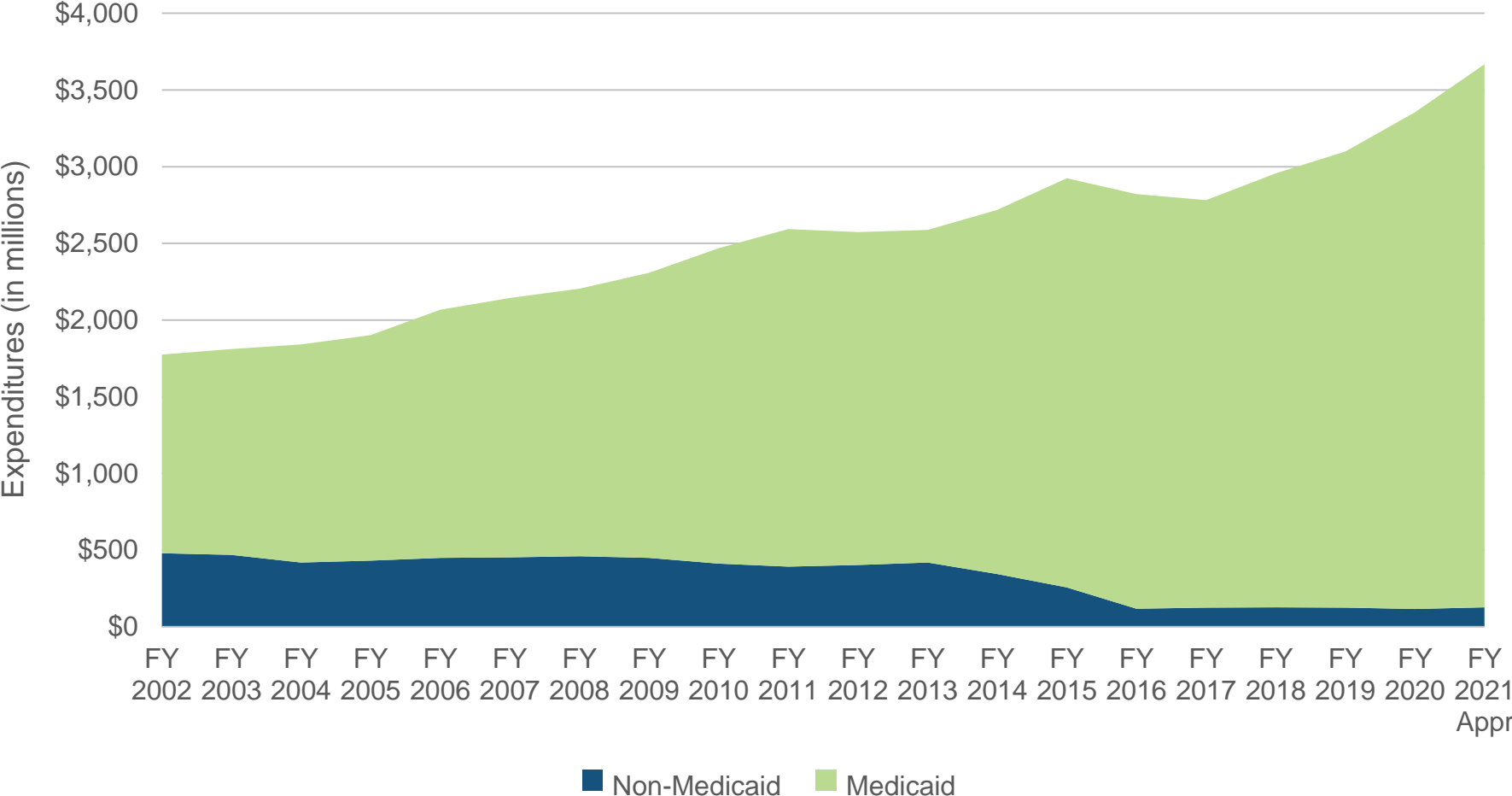
**FY 2018-19:** Increase of **\$5.5 million** GF/GP to ensure revised funding distribution formula that utilizes population and poverty data and also includes a hold harmless provision

# Medicaid Mental Health Services

- Medicaid Mental Health Services are governed through a combination of federal law and regulations, the state's Mental Health Code, annual boilerplate language, and Michigan's Medicaid State Plan
- In general, Medicaid health plans and Medicaid fee-for-service support the cost of mild to moderate mental health services
- In general, Prepaid Inpatient Health Plans (PIHPs) administer specialty mental health services and supports when the need exceeds the benefit provided through Medicaid health plans and Medicaid fee-for-service
- Each CMHSP is a part of one of the 10 PIHPs, which are responsible for distributing Medicaid payments to the CMHSPs for mental health service provision
  - Beginning January 1, 2014, 18 previous PIHPs were re-aligned into the current 10 PIHPs
- PIHPs are managed care organizations and therefore receive a capitated per-member, per-month rate that is required to be actuarially sound based on generally accepted actuarial practices and regulatory requirements
  - These capitated rates just underwent a rebasing process that placed a greater emphasis on morbidity instead of historical spending in order to achieve more statewide uniformity in the capitated rates made to the PIHPs

# Mental Health Spending

Since FY 2001-02, total mental health spending has increased **107%**. Changes in FY 2013-14 and FY 2014-15 are due to establishment of the Healthy Michigan Plan, which reduced the need for non-Medicaid services. Elimination of the purchase of state services transfer reduced non-Medicaid funding beginning in FY 2015-16.



# Behavioral Health Integration

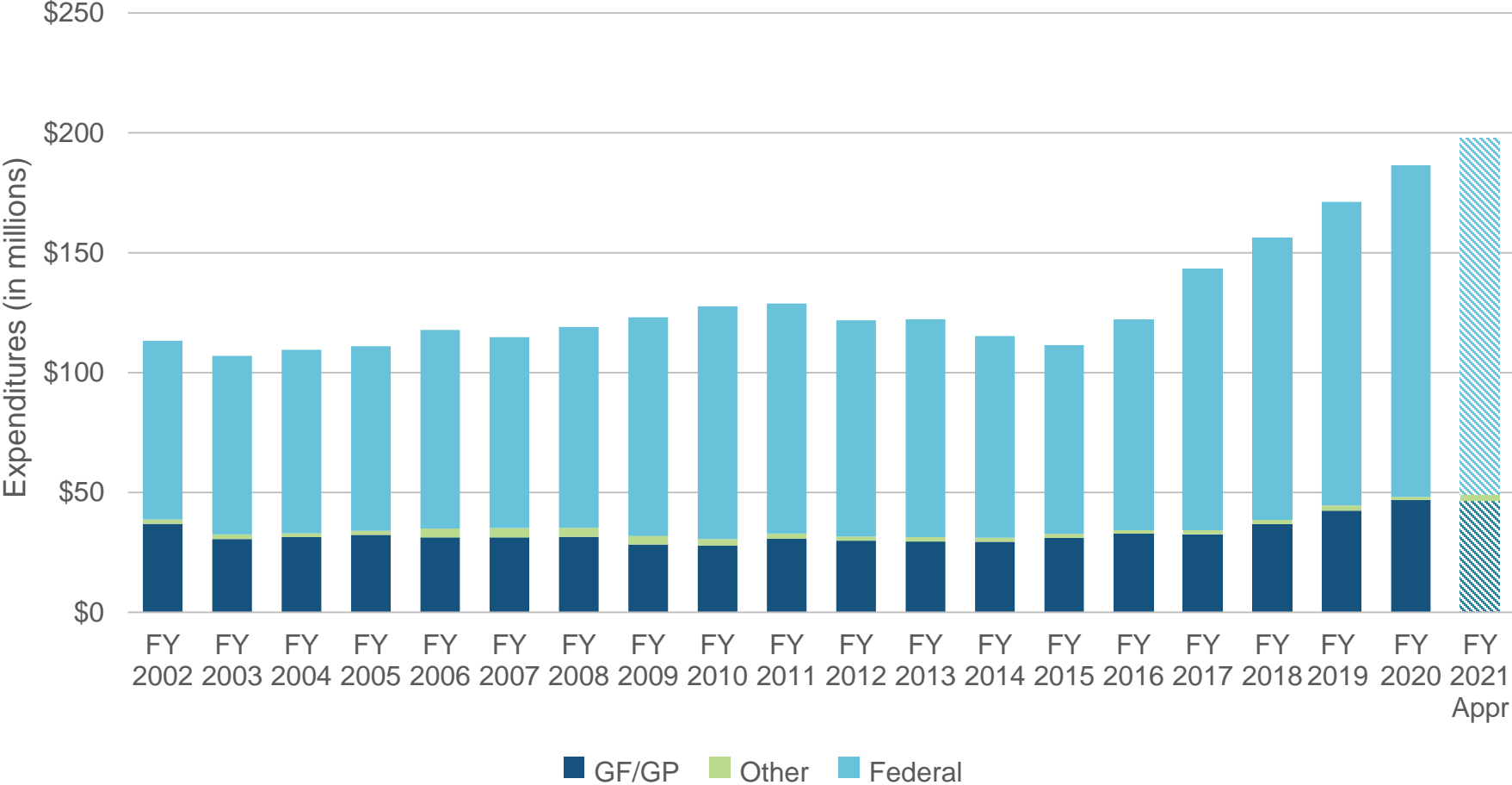
- FY 2016-17 boilerplate Section 298 required DHHS and a workgroup to make recommendations on both policy and financing to improve coordination between behavioral and physical health services provided through Medicaid
- FY 2017-18 boilerplate Section 298 required DHHS to implement financially integrated pilot projects and demonstration models for behavioral health and physical health services with the goal of improving health outcomes and maximizing efficiencies
  - Pilot projects and demonstration models would be assessed through performance outcome metrics and program evaluations
  - Any realized savings were required to be reinvested in services for individuals having behavioral health needs in the counties where the savings occurred
- FY 2018-19 boilerplate Section 298 required DHHS to continue to implement and operate the financially integrated pilot projects and demonstration models
- FY 2019-20 boilerplate Section 298 was vetoed by the Governor, and DHHS has been seeking public input on implementing “specialty integrated plans”

# Substance Use Disorder Services

- Michigan's Mental Health Code requires department-designated community mental health entity to coordinate the provision of substance use disorder services in its regions and ensure services are available for individuals with substance use disorders
- Effective October 1, 2014, department-designated PIHP entities are coordinating agencies for purposes of receiving any statutorily required substance use disorder funds
- Substance use disorder services include prevention, education, treatment, and rehabilitation programs
- Majority of the funding for substance use disorder services comes from the federal Substance Abuse Prevention and Treatment Block Grant and federal Medicaid reimbursements
- During FY 2016-17 and FY 2017-18, DHHS was awarded a 2-year **\$32.8 million** federal State Targeted Response to the Opioid Crisis grant
- For FY 2018-19 through FY 2020-21, DHHS has been awarded a combined **\$106.8 million** federal State Opioid Response grant

# Substance Use Disorder Services Spending

Most of the year-over-year changes in total substance use disorder services expenditures has been driven by the availability of federal funding, including the new State Opioid Response grant. Medicaid substance use disorder services funding has also begun to increase.



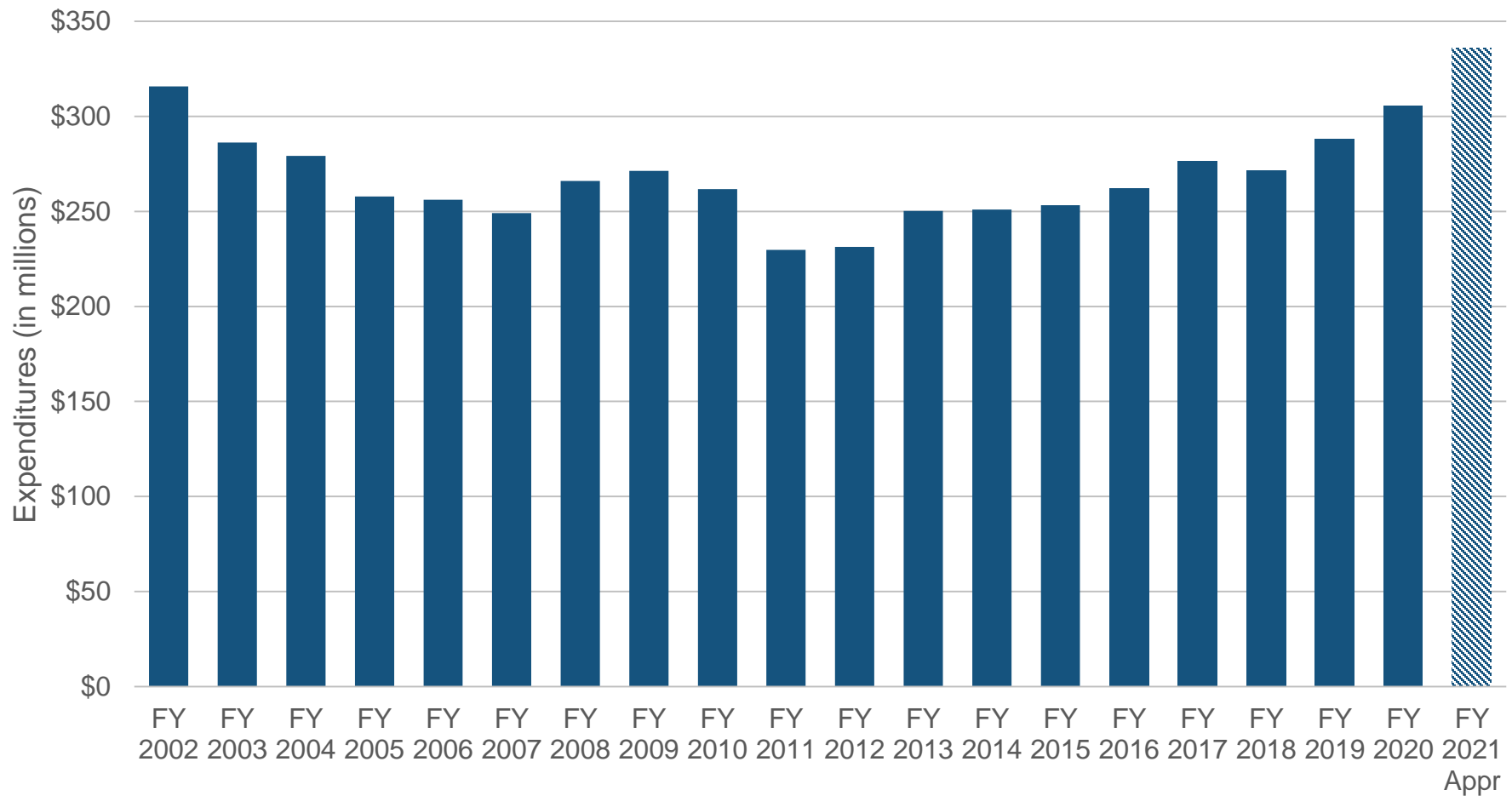
# State Mental Health Facilities

- The state has three state-operated psychiatric hospitals for adults
  - Caro Regional Mental Health Center, located in Caro
  - Kalamazoo Psychiatric Hospital, located in Kalamazoo
  - Walther P. Reuther Psychiatric Hospital, located in Westland
- The state has one state-operated psychiatric hospital for children
  - Hawthorn Center, located in Northville
- DHHS is responsible for administration of the Forensic Center in Ann Arbor, created for criminal defendants ruled incompetent to stand trial and/or acquitted by reason of insanity
- The state is currently in the process of designing and constructing a new Caro Center at the same site to replace the aging facility; the project scope was revised during FY 2019-20 from a 200-bed facility to a 100-bed facility



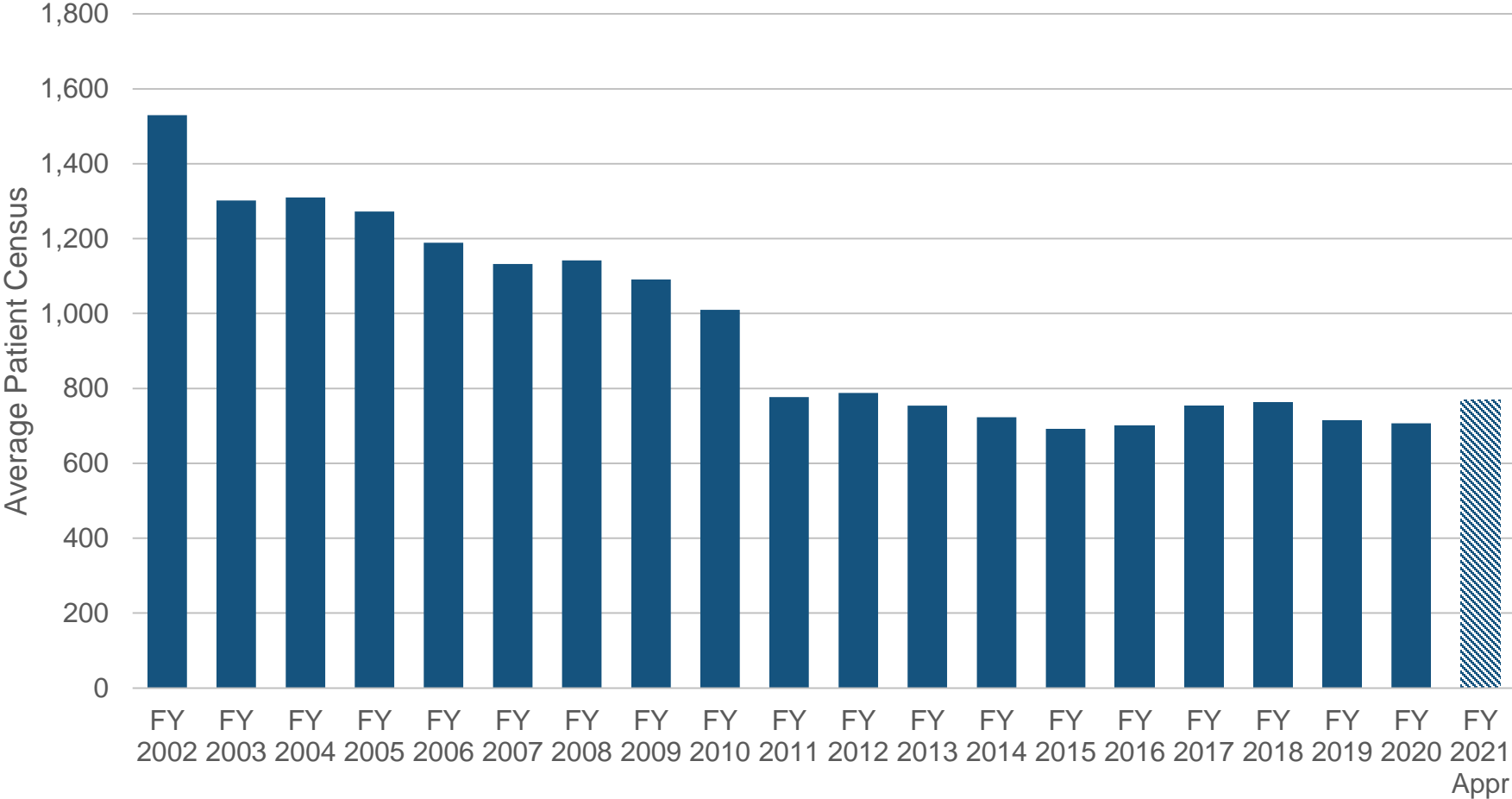
# State Mental Health Facility Expenditures and Authorizations

Expenditures for state mental health facilities declined from FY 2000-01 to FY 2006-07 and fluctuated through FY 2012-13 due to facility closures, transfer of responsibilities for forensic prisoner mental health services to the Department of Corrections, and reductions in numbers of patients. Expenditures have since begun to increase.



# Patients in State Mental Health Facilities

The number of patients in state-operated mental health facilities has fallen since FY 2000-01 due to facility closures, more community-based services, and transfer of responsibilities for forensic prisoner mental health services to the Department of Corrections.



# For more information about the Health and Human Services budget:

## Medicaid/Behavioral Health

Kevin Koorstra, Deputy Director: [kkoorstra@house.mi.gov](mailto:kkoorstra@house.mi.gov)

Kent Dell, Fiscal Analyst: [kdell@house.mi.gov](mailto:kdell@house.mi.gov)

HFA Phone: (517) 373-8080

## Other HFA Resources

<http://www.house.mi.gov/hfa/HealthandHumanServices.asp>

Medicaid report:

[http://www.house.mi.gov/hfa/PDF/HealthandHumanServices/Michigan\\_Medicaid\\_Program\\_Oct2015.pdf](http://www.house.mi.gov/hfa/PDF/HealthandHumanServices/Michigan_Medicaid_Program_Oct2015.pdf)