

President Bush's Proposed FY 2006 Budget Medicaid Changes

(Prime Source: FY 2006 Budget in Brief, US. Department of Health and Human Services)

There are significant changes being proposed in President Bush's FY 2006 budget impacting Medicaid. The largest changes, which will save significant funds over five years and ten years, are not fully spelled out in the budget material that has been disseminated thus far.

If enacted, the Medicaid proposals will add \$348 million to Medicaid in FY2006, but will save \$13.7 billion over five years in Medicaid costs to the federal government.

Medicaid and State Child Health Insurance Program (SCHIP) Modernization: The Administration proposes to provide States with additional flexibility in Medicaid to further increase coverage among low-income individuals and families without creating additional costs for the federal government. The budget material does not state whether there is a cost to this proposal. However, previous budget proposals, included block granting acute care for Medicaid, would have significantly cut spending for the federal government.

Payment Reforms: The Administration proposes to curb some of the financing arrangements which States use for funding the State match requirement in Medicaid. Currently, in some states, providers return federal Medicaid funds back to the State, which in turn, recycles those funds to draw down additional federal dollars. This proposal will save \$5.8 billion over five years.

Restructure Pharmacy Reimbursement: The budget proposes a system that more closely aligns pharmacy reimbursement to pharmacy acquisition costs. This proposal saves \$542 million in FY 2006 and \$5.4 billion over five years. The Administration also proposes replacing best price as part of the calculation formula for prescription rebates with a budget neutral flat rebate, allowing private purchasers to negotiate lower drug prices. This proposal will have no impact on the budget.

Reform of Transfer of Assets Policy: The budget proposes to tightening the existing rules regarding transfer of assets for an individual prior to becoming eligible for Medicaid. This proposal saves \$99 million in FY 2006 and \$1.48 billion over five years.

Medicaid Administrative Claiming: Curtails inefficient Medicaid administrative spending patterns by establishing an allotment for Medicaid administrative claiming. This proposal saves \$1.13 billion over five years.

Targeted Case Management: The two proposals clarify policy on targeted case management and will save \$129 million in FY 2006 and \$3.1 billion over five years. 1) Clarifies which services may be claimed under targeted case management (TCM); and 2) Seeks lower reimbursement for TCM services to the administrative matching rate of 50 percent. The rationale is that States are shifting costs into

Medicaid that are the obligation of other programs and are using expanded definitions of allowable services.

Long Term Care Demonstrations and Spousal Income: These proposals will add an additional \$0.8 billion over five years and \$2.9 billion over ten years to the budget.

Money Follows the Person Rebalancing Demonstration: Promotes the use of at-home care as an alternative to nursing homes for seniors and individuals with disabilities. This five year demonstration project would pay for home and community-based waiver services for individuals who move from institutions into at-home care. The costs would be funded at a Federal matching rate of 100 percent for the first year of each individual's participation. As a condition of receiving the enhanced match, the participating State would agree to continue care after the first year at the regular Medicaid matching rate and to reduce institutional long-term care. The proposal authorizes \$1.75 billion in funding for this demonstration over five years.

Home and Community-Based Care Demonstrations: Includes three demonstrations proposals to encourage home and community-based care for children and adults with disabilities:

- **Community Alternative to Children's Residential Treatment Facilities:** Enables States to offer home and community-based services to children who would otherwise be served in psychiatric residential treatment facilities. This 10-year demonstration would permit the delivery of intensive mental health services to children in their homes and communities and allows the Department to evaluate the cost of providing these services outside of institutions. The cost for this proposal in FY 2006 is \$5 million and \$99 million over five years.
- **Respite for Caregivers of Disabled Adults:** Creates a demonstration that tests whether respite care, or temporary care, reduces primary caregiver "burn-out" that often leads to institutionalization of individuals with disabilities. The cost for this proposal in FY 2006 is \$7 million and \$134 million over five years.
- **Respite for Caregivers of Children with a Substantial Disability:** Allows States to provide respite care to caregivers of children with substantial disabilities. The demonstration would enable the Department to collect specific data about the cost and utilization of respite services for caregivers of disabled children. The cost for this proposal in FY 2006 is \$1 million and \$23 million over five years.

Spousal Exemption: Proposal protects Medicaid coverage of an individual married to a disabled individual participating in a work incentive program under 1619(b) of the Social Security Act. Currently, if an individual is Medicaid eligible and the individual's spouse participates in the 1619(b) program, the spouse's earnings could cause the individual to lose his/her Medicaid coverage. This proposal will cost \$17 million for FY 2006 and \$102 million over five years.

Presumptive Eligibility: Establishes a State Medicaid option allowing presumptive eligibility for institutionally- qualified individuals who are discharged from hospitals into the community. This will increase the number of Medicaid beneficiaries who receive home and community-based services rather than institutional care. This proposal has no budget implications.