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## MTF Brief

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### Fiscal Year 2025 Budget: A Closer Look

#### MassHealth Spending in the Governor's Budget

On January 24<sup>th</sup>, Governor Healey released her administration's budget proposal for Fiscal Year (FY) 2025. The \$58.13 billion spending plan included critical investments in childcare, healthcare, and transportation; as well as \$20.3 billion in gross spending for the state's MassHealth program.

Compared to FY 2024, gross state spending on MassHealth increases by \$770 million or 3.9 percent; and the net cost of the program increases by approximately \$279 million or 3.6 percent. In total, MassHealth accounts for 35 percent of overall spending in the Governor's budget.

Table 1 – Summary of MassHealth Spending in the Governor's Budget

	FY 2024 GAA	FY 2024 Current	FY 2025 - Governor
Federal Reimbursement Share	\$12,014	\$11,872	\$12,363
% of Total Spending	60.6%	60.7%	60.8%
State Share	\$7,803	\$7,681	\$7,960
<b>Total MassHealth Spending</b>	<b>\$19,817</b>	<b>\$19,553</b>	<b>\$20,322</b>
<b>Percent of Total Spending</b>	<b>35.5%</b>		<b>35.0%</b>

\$ in millions

MassHealth represents the largest category of spending in Governor Healey's FY 2025 budget proposal, which has been the case consistently in past fiscal years as well. The second largest category of investment, [Local Aid and K-12 Education](#), totals \$9 billion and represents 15.5 percent of overall spending.

Heading into FY 2025, the Governor's administration anticipated two major challenges related to MassHealth: the end of enhanced federal reimbursement and the impacts of the redeterminations process on program enrollment.

### Fiscal Context Going into FY 2025

During the pandemic, there were significant policy changes made at the federal level that had long-term effects on the state's MassHealth program. In March 2020, Congress passed the Families First Coronavirus Response Act (FFCRA), which included two policies that dramatically changed the MassHealth program: continuous coverage and enhanced federal reimbursement. Continuous coverage allowed the state to pause its annual redeterminations process, enabling members to

retain their coverage during the public health emergency despite potential changes to their eligibility status. As a result of adopting this policy, Massachusetts received a 6.2 percentage point increase in the federal reimbursement rate for MassHealth spending. During the public health emergency, Massachusetts received approximately \$1 billion in enhanced federal revenue each year.

These policies were in place until the passage of the Consolidated Appropriations Act (CAA) in December 2022. The Act ended continuous coverage and required states to begin the process of redetermining their state Medicaid members in April 2023. The CAA also implemented a schedule to phase-down enhanced federal reimbursement starting in April 2023 and concluding in December 2023.

In the sections that follow, this brief further assesses how the unwinding of enhanced federal reimbursement and the MassHealth redeterminations process are expected to impact spending in FY 2025 and beyond.

#### *End of Enhanced Federal Reimbursement*

MassHealth is jointly funded by the state and federal government, with MassHealth receiving federal reimbursements for eligible expenditures. Generally, MassHealth expenditures are reimbursed at a rate of 50 percent but there are notable exceptions. For example, spending related to the Children's Health Insurance Program is reimbursed at 65 percent and spending related to the Medicaid expansion population is reimbursed at 90 percent. As previously mentioned, federal reimbursement increased by 6.2 percentage points during the PHE, so most programs have been reimbursed at a rate of 56.2 percent for most of the last three years. Throughout the pandemic, Massachusetts was receiving approximately \$250 million in additional federal revenue per quarter. FY 2025 will mark the first full fiscal year without enhanced federal reimbursement revenue for MassHealth spending. The administration estimates that the end of enhanced reimbursement will have an \$820 million fiscal impact in FY 2025.

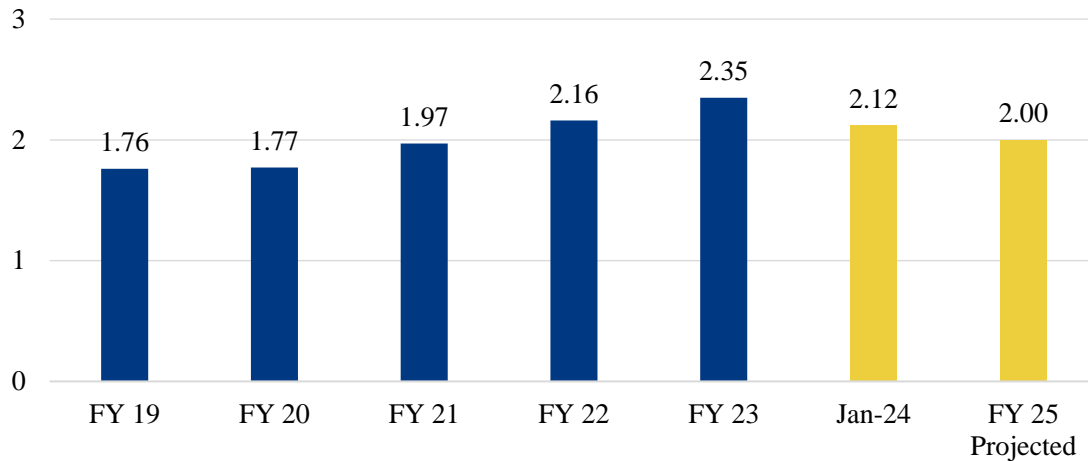
#### *MassHealth Enrollment Trends*

Due to the continuous coverage policy described above, MassHealth enrollment increased from 1.76 million to 2.42 million members between March 2020 and April 2023. By June 2024, as a result of the redeterminations process, the administration expects MassHealth caseload to have decreased by a net of between 300,000 to 400,000 individuals. While this decline in enrollment is significant, it's important to note that MassHealth caseload in FY 2025 is projected to remain above pre-pandemic levels, at about 2 million individuals. The figure below highlights the changes in MassHealth caseload pre-pandemic through FY 2025.

The Governor's budget proposal for FY 2025 reflects some cost savings associated with redeterminations and caseload decreases, totaling about \$130 million on a net basis. Considering that hundreds of thousands of individuals are expected to leave the MassHealth program, this savings assumption may appear conservative. However, there are several mitigating factors that decrease caseload savings, including:

- Lower cost members are leaving the caseload in higher proportion (for example, those covered under the Medicaid expansion population, who are eligible for 90 percent federal reimbursement);
- Members leaving MassHealth are generally healthier, including a high proportion of non-disabled adults; and
- There are more new members entering the caseload compared with the pre-pandemic experience.

*Figure 1 – Average MassHealth Caseload, FY 2019 – FY 2025*



Combined, the impacts of lost federal reimbursement, caseload savings, and other factors like non-discretionary spending increases and the annualization of prior year investments, would have contributed to net MassHealth spending growth of approximately \$1.13 billion in FY 2025 according to administration estimates.

In a challenging budget year, with limited tax revenue growth expected to support budget spending, the Healey administration was able to limit net MassHealth spending growth to less than half that amount due to a variety of cost savings and spending initiatives.

**MassHealth Cost Savings Initiatives in FY 2025**

Governor Healey’s administration has proposed approximately \$940 million (net) in savings initiatives to limit MassHealth spending growth. The most notable initiatives are highlighted in the table below, including one-time sources of federal revenue and significant changes to hospital and payor assessments.

*Table 2 – Major MassHealth Cost Savings & Revenue Initiatives for FY 2025 (Net)*

<b>Program</b>	<b>FY 2025 - Governor</b>
One Time Revenues	\$347
Hospital Assessments	\$75
Payor/MCO Assessments	\$50
Other Savings	\$469
<b>Net Savings &amp; Revenue</b>	<b>\$941</b>

*\$ in millions*

*One Time Revenues*

The largest source of cost savings in the Governor’s budget proposal is associated with one-time federal reimbursement revenue. This revenue is primarily tied to prior year program updates that were pending approval with the federal government at the close of FY 2023. The administration proposes using this revenue to offset spending growth in FY 2025.

*Hospital Assessments*

The Governor proposes significant changes to the hospital assessment and incentive payment structure that was put in place in 2022, an aspect of the state’s newly negotiated Medicaid 1115 waiver. These assessment changes are intended to increase payments to hospitals, while also reducing general costs by generating additional federal reimbursement. The changes:

- Increase the annual “Total Hospital Assessment Amount” by \$347 million from \$880 million to \$1.227 billion.
  - This assessment is deposited into the Health Safety Net Trust Fund.
- Amend the acute hospital assessment formula, established in 2022, by:
  - Creating a differential assessment for “Group 1” and “Group 2” safety net hospitals. The assessment rate for outpatient services would be higher for both groups, but the Group 2 rate would be higher than Group 1.
  - Increasing the rate for non-acute hospitals.
- Increase annual payments from the Health Safety Net Trust Fund to the:
  - Safety Net Provider Trust Fund from \$62.5 million to \$149.3 million
  - Hospital Performance Incentive & Performance Trust Fund from \$532 million to \$791.9 million
- Give EOHHS the authority to propose alterations to the assessment or maintain the current assessment if appropriate federal approvals for the new assessment are not received.

Generally, the proposed changes to hospital assessments have two major fiscal impacts. Due to the \$347 million in increased assessments and increased federal reimbursement generated, over \$500 million in additional payments would go to safety net and other providers. The proposed changes

also allow for approximately \$75 million in savings for the General Fund via lowered additions to the Commonwealth Care Trust Fund and Safety Net Hospital Trust Fund.

### *Payor/MCO Assessments*

Through an outside section, the Governor proposes several changes to the ways in which insurance payors and Managed Care Organizations (MCOs) are assessed to support various health care related costs. Currently, payors are assessed through six separate payments. The Governor's proposal would combine these assessments and increase them on MCOs by approximately \$240 million, to be reinvested into Medicaid MCOs via increased rates. The changes:

- Create a single “MCO services assessment amount” which is equal to the sum of \$240 million and the cost of operation of CHIA, HPC, the Health Safety Net, the Vaccine Purchase Trust Fund, and Behavioral Health Access and Crisis Intervention Trust Fund.
- Establish a new payor assessment, beginning in 2025. The assessment:
  - Shall be equal (annually) to the total defined assessment amount.
  - Shall be assessed on a per member per month basis.
  - Shall vary depending on whether the payor is a Medicaid MCO and, if a Medicaid MCO, if their enrollment meets a standard to be set by EOHHS.
- Direct the combined MCO assessment amount into the Health Safety Net Trust Fund.
- Eliminate existing, standalone, MCO surcharges that support entities and initiatives now funded through the MCO services assessment amount.
- Give EOHHS the authority to propose alterations to the assessment or maintain the current assessment if appropriate federal approvals for the new assessment are not received.

The increased MCO rate payments generated via the \$240 million increased assessment would be deposited into a new Managed Care Organization Services Reinvestment Trust Fund. In FY 2025, this proposed restructuring is anticipated to generate \$57 million for the state's General Fund; and in future years the benefit is expected to increase to \$114 million.

### *Other Savings Initiatives*

- **Annualization of 9C Cuts from FY 2024 (\$125M):** These savings are associated with the annualization of the mid-year spending reductions that the Governor implemented in FY 2024. The reductions made reflect rate adjustments and updated forecasting regarding the implementation and utilization of certain programs.
- **Program Integrity and other Administration Initiatives (\$118M):** This savings assumption reflects updates to the MassHealth program to limit any unnecessary spending, uphold eligibility standards, and actualize administrative cost savings. While program integrity is related to caseload it is not directly impacted by redeterminations.
- **PCA Program Changes (\$57M):** The Personal Care Attendant (PCA) program under MassHealth helps people with chronic or permanent disabilities remain independent and

stay in their community. In FY 2025, the Governor’s budget assumes a number of changes to the program to generate \$57 million in savings. From 2015 to 2022, spending on the PCA program has increased from 6 percent of MassHealth’s budget to 9 percent; and without this intervention, spending on the PCA program is projected to grow to \$2 billion in the next few years. These changes include an increase in the hours of Activities of Daily Living (ADL) support that is required for a member to be eligible for PCA services and a cap on hours authorized for meal preparation.

The savings and revenue initiatives above still leave about \$140 million to \$150 million in additional net savings that will need to be achieved over the course of FY 2025. The ability to achieve these savings will depend on the trajectory of enrollment and the success of other revenue and spending initiatives.

Looking ahead to FY 2025, the largest source of uncertainty for the MassHealth program is the impact of redeterminations and caseload. The new “steady state” of MassHealth enrollment and the characteristics of beneficiaries will have a huge impact on program spending. For context, each 25,000 member average difference in caseload projections changes net spending on the program by over \$100 million. However, EOHHS has ensured that any additional savings needed will not impact behavioral health or primary care rates.

**MassHealth Program Investments**

Despite efforts to constrain MassHealth spending in the Governor’s budget, there are key investments to increase payment rates for critical sectors like behavioral health, medically complex, and primary care. The proposal includes other notable investments in health care coverage for justice-involved individuals, wheelchair repairs, Children’s Medical Security Plan cost-sharing, and the Medicare Savings Program promotion campaign.

*Table 3 – Major MassHealth Program Investments for FY 2025 (Gross)*

<b>Program</b>	<b>FY 2025 – Governor</b>
Rate Increases for Medically Complex Care	\$38
Behavioral Health & Primary Care Rates	\$60
Other Investments	\$15.8
<b>Net New Spending</b>	<b>\$113.9</b>

*\$ in millions*

*Rate Increases for Medically Complex Care*

One of the key investments made in the Governor’s budget proposal is payment rate increases for providers who offer medically complex care for patients. MassHealth will increase payment rates for registered nurses and licensed practical nurses who provide continuous skilled nursing care at a patients’ home or children/adult patients who require medically complex care. The goal of the investment is to further improve workforce capacity in this sector.

### *Behavioral Health & Primary Care Rates*

Another significant investment in the Governor's budget proposal is to maintain increases in payment rates for primary care and continuing to raise payment rates for outpatient behavioral health. The proposal also includes support to further address children's urgent needs like the Children's Behavioral Health Initiative and wage increases for nurse midwives.

### *Other Investments*

- **Insurance Coverage for Justice-Involved Individuals** (\$10M): MassHealth is implementing a program to provide incarcerated individuals with health coverage 90-days pre-release, allowing those individuals a MassHealth covered doctor's appointment or physical prior to their release. The funds allocated would go towards infrastructure in correctional facilities to prepare for health coverage as a part of pre-release services. In the future, additional federal reimbursement revenue will be reinvested to support the implementation of high quality care and post-release support services.
- **Wheelchair Repairs** (\$5M): The proposal also includes a MassHealth investment in wheelchair repair rates with the goal of shortening the turnaround time for members experiencing issues with their wheelchair. This investment works in partnership with the administration's ongoing efforts to streamline access to wheelchair services.
- **Cost Sharing for the Children's Medical Security Plan** (\$600K): MassHealth will remove co-pays for the Children's Medical Security Plan (CMSP), a health plan for low income children who do not qualify for MassHealth or CHIP.
- **Medicare Saving Program (MSP) Campaign** (\$250K): The administration will invest in a public awareness campaign to promote the use of MSP and the FY 2024 eligibility expansion raising the income threshold to up to 225 percent of the FPL and removing the asset limit. This program works to reduce the "cost of aging" by covering up to 90 percent of Medicare costs for low- and middle-income seniors.

### **Health Care Policy in the Governor's Budget**

The Healey-Driscoll administration's FY 2025 budget proposal includes 112 outside policy sections, 83 more than the administration's FY 2024 budget proposal. The proposals cover a range of topics related to the lottery, tax, income surtax, etc. There is also a significant focus in health care policy with one-third of the administration's policy sections related to the changes to payor and hospital assessments described above. Some other notable policy proposals regarding health care include:

- **MassHealth Copays** (sections 59 & 61) – These sections eliminate co-pay and cost sharing requirements for the state's Children's Medical Security Plan and the Children's Health Insurance Plan programs. For CHIP, this proposal aligns statutory language with the current practice of not requiring co-pays.

- **Expanded Drug Rebate Negotiations** (section 60) – This section authorizes EOHHS to negotiate supplemental rebates for medical devices, drugs and other medical products not currently subject to the drug rebate program. This language is identical to a provision proposed in the administration’s FY 2024 budget.
- **MassHealth Standing Order** (section 73) – This section authorizes a standing order for physicians to prescribe prenatal vitamins and oral contraceptives for MassHealth and Health Safety Net clients. This section would enable MassHealth members to access over-the-counter birth control, which is expected to come to market in 2025, and prenatal vitamins for free.

The Governor’s FY 2025 budget also includes six standard outside policy sections related to health care, described in the table below.

Section	Title	Description
93	Medicare Savings Program Transfer	Allows a transfer from the General Fund and the Health Safety Net to support the Medicare Savings program.
94	Health Safety Net (HSN) Administration	Allows classification of payments from the HSN as either Medicaid waiver payments or state plan payments and allows up to \$70M in payments to be made from other funds
99	Initial Gross Payments to Qualifying Acute Hospitals	Authorities a transfer from the General Fund to the HSN to make initial payments to qualifying hospitals, to be reimbursed by the HSN later in the year.
100	Inspector General Health Care Audits	Allows the IG to spend up to \$1M from HSN to maintain a health safety net audit unit.
105	Nursing Facility Base Year	Establishes 2019 as the cost base year for MassHealth nursing home rates.
106	Transfer Between Health Funds	Allows a transfer of up to \$15M from the Commonwealth Care Trust Fund to the HSN.

### Looking Ahead to SWM and HWM

MassHealth represents the largest share of the Governor’s budget proposal, totaling 35 percent of overall spending. As the budget process moves to the Legislature, there are some key questions House and Senate policymakers will face.

- **Will the Legislature adopt the Governor’s proposed changes to hospital and payor assessments?**  
*The administration’s budget relies on about \$130 million in new revenue and foregone spending related to two new health care assessments. Both assessments, which will require approval from CMS, will also increase rates and payments to affected health care insurers and hospitals, with significant payment increases for safety net hospitals and behavioral health providers.*



*In FY 2022, the House and Senate adopted an even larger and more complex hospital assessment system put forward by the Baker administration as part of the state's Medicaid waiver renewal process and that proposal did not have a direct savings or revenue benefit to the General Fund. The fact that these assessments would help House and Senate budget makers balance their budget increases the likelihood of adoption. However, legislators will need to closely examine how the assessment and payment mechanisms work and affect individual organizations to ensure that higher assessments do not inadvertently increase fiscal pressure on an already strained system.*

- **How will MassHealth redeterminations impact state spending on healthcare, and how will the state track longer-term impacts on the larger healthcare system?**

*EOHHS has highlighted MassHealth caseload as a significant area of uncertainty going into the FY 2025 budget process. While the redeterminations process will conclude in April, the long-term impacts of this process may not be known for many months. As MTF will highlight in upcoming research, assessing the impact of MassHealth redeterminations on Employer Sponsored Insurance, the Health Connector, and the uninsured population will be critical. Policymakers will need access to detailed information on the final outcomes of the redetermination process, as it will have profound impacts on the state budget and influence decision making on other health policy topics, as well as the overall healthcare system.*

- **Will the Legislature dedicate additional resources toward supplemental rate increases for providers in FY 2025?**

*In recent years, policymakers in the House and Senate have supported increased funding for supplemental Medicaid rates. For example, the FY 2024 GAA included \$112 million for expanded nursing facility Medicaid payments. While these investments improve the recruitment and retention of the nursing facility workforce through increased wages, benefits, and professional development; in FY 2025, policymakers are faced with building a budget proposal using fewer tax revenues available than in prior years. The Governor's proposal primarily focuses on maintaining recent program investments, with targeted new investments in behavioral health and primary care rates. The Legislature must similarly consider a much more constrained fiscal picture when making new health care spending decisions in FY 2025.*