Connecticut Department of Social Services
Making a Difference

Testimony Before the Appropriations Committee

Department of Social Services

Projected SFY 2010 Deficiency

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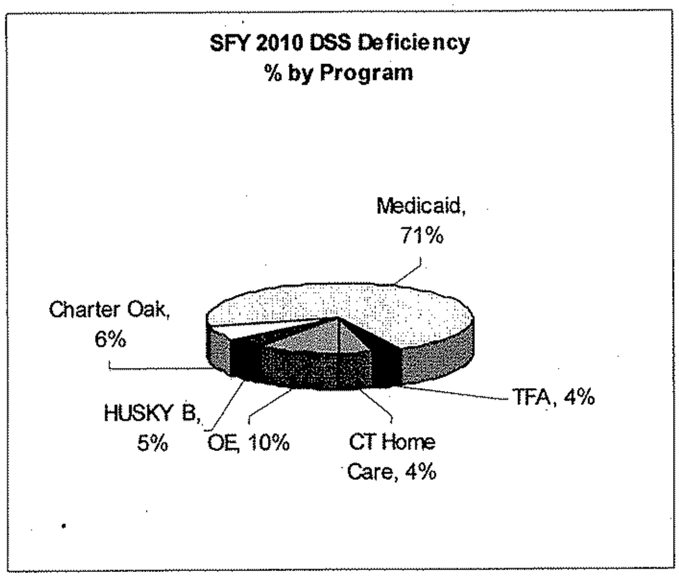
Good afternoon, Senator Harp, Representative Geragosian and members of the Appropriations Committee. My name is Claudette Beaulieu, Deputy Commissioner of the Department of Social Services. I am substituting today for Commissioner Michael Starkowski, who could not be here today. With me are Lee Voghel, Director of Financial Management and Analysis; and Mark Schaefer, Acting Director of Medical Care Administration. Thank you for allowing me the opportunity to review with the committee the status of the budget of the Department of Social Services.

At this time, the potential deficiency at the department is approximately $73.5 million, which represents approximately 1.5% of the department's $5.037 billion General Fund appropriation.

Estimated Deficiencies (In Millions)	
OE	$ (9.5)
HUSKY B	$ (5.0)
Charter Oak	$ (6.0)
Medicaid	$ (68.2)
TFA	$ (3.5)
CT Home Care	$ (4.0)
Total	$ (96.2)
Offsetting Surpluses (in Millions)	
Child Care	$ 10.7
SAGA	$ 12.0
Total	$ 22.7
Estimated Deficiency	**$ (73.5)**



MEDICAID

The Medicaid account has the largest appropriation, $3.85 billion for SFY 2010, and also the most significant deficiency. The $68.2 million projected deficiency represents approximately 1.8% of the Medicaid appropriation. As you are well aware, Medicaid is a federal/state entitlement program that provides comprehensive health care benefits for eligible clients within our state. The amount spent on Medicaid last year was $3.85 billion dollars, the same as this year's appropriation. The appropriation includes funding for Medicaid fee-for-service and general updates to recognize increases in enrollments based on trends we have been seeing, and the department continues to experience significant increases in expenditures due to higher caseloads in several key areas of the Medicaid program, including HUSKY A.

The last legislative session gave the department the authority to implement a number of cost savings initiatives such as restructuring fee-for-service medical services for the Aged, Blind and Disabled Population under an ASO model, which the budget estimated to save

$27.8 million in SFY 2010; and the integration of Medicaid funding and benefits with Medicare. Special Needs Plans, which the budget estimated to save $25 million in SFY 2010. However, implementing language for the budget was passed just over a month ago and we are now over four months into the year, meaning that we will not be able to achieve full year savings in many cases. We have already implemented numerous initiatives that did not require major structural or system change. For changes requiring client notification and federal approval, we have submitted state plan amendments in advance of implementation and are moving as quickly as possible to provide proper client notification. However, even though most of the cost savings initiatives assumed a full year of savings in this fiscal year, we will not realize a full year due to a number of factors, including legal and other logistical considerations, and that is one of the reasons we are here today to notify you of a deficiency in the Medicaid account.

HUSKY A
The deficiency in the Medicaid line of the DSS budget can also be attributed to an increase in expenditures within the HUSKY A Program, in large part due to substantial increases in HUSKY A enrollments. Over the first five months of SFY 2010, enrollment in the HUSKY A program has increased by approximately 15,240 clients or an average of 3,040 clients per month for a total current enrollment of over 357,000 clients. We are projecting enrollment by the end of SFY 2010 of approximately 377,000 clients. As you know, the recently passed State budget included a reduction to managed care rates. The department is currently in negotiations with the MCO's pertaining to changes in program scope, contract terms and capitation rates.

PHARMACY
The department is anticipating Medicaid pharmacy expenditures for SFY 2010 to be approximately $450 million, a 5.9% increase over SFY 2009. We have been able to keep the overall increase at this level because of the many cost savings initiatives from the last session, even though inflation is estimated at 4% and volume increases at 5%. This category represents approximately 11% of the Medicaid budget. As of November 2009, the department has implemented saving initiatives representing approximately $7.9 million of the estimated Medicaid pharmacy expenditures for SFY 2010. On an annualized basis, these changes will result in even higher savings. Some of the initiatives we've already implemented include:

- Effective October 1, 2009, the Maximum Allowable Cost (MAC) reimbursement was reduced from Average Wholesale Price (AWP) minus 40% to AWP minus 45%, resulting savings of $1.8 million in SFY 2010; for those of you not familiar with the MAC programs, these are designed to ensure state Medicaid programs pay appropriate prices for generic drugs.
- Effective October 13, 2009, we implemented a reduction in the dispensing fees paid to pharmacy providers, reducing the fee from $3.15 to $2.65 to bring the state more in line with dispensing fees paid by commercial health insurers. This change is estimated to save $1.0 million in SFY 2010.
- Effective January 1, 2010, under Medicare Part D, we are requiring enrollment in benchmark plans for dual eligibles, those clients eligible for both Medicare and Medicaid, and instituting co-pays.

- Effective October 1, 2009, we are requiring prior authorization for certain high cost classes of drugs to ensure medical necessity.
- Effective October 1, 2009, prior authorization requirements on early refills were changed from 75% to 85% and the change was made to allow for the dispensing of an automatic14-day supply of a drug when no prior authorization has been requested and granted. The estimated savings is approximately $113,000 in SFY 2010.

DENTAL

Dental services were carved out of managed care as of September 1, 2008. We are projecting a 13% increase in costs from SFY 2009 to SFY 2010. This is largely due to the significant enrollment increases in the HUSKY programs. Our monthly costs in the HUSKY programs have averaged $10.6 million in the first quarter of SFY 2010. In addition, with the implementation of the rate increases in April 2008 and the subsequent carve out of dental services, we have seen tremendous growth in the number of dentists willing to participate in the program. To ensure that services are properly being utilized, DSS will begin requiring prior authorization for certain dental procedures and increasing utilization review beginning January 1, 2010.

CHARTER OAK

We are currently projecting a deficiency of $6.0 million in the Charter Oak Health Plan. Caseloads in the program have been increasing at a significant pace. From June to November 2009 there were approximately 3,100 new enrollees in Charter Oak and enrollment now exceeds 12,000. We expect approximately 6,500 new enrollees in SFY 2010, an 80% increase over June 2009. While we anticipate increasing client cost sharing, this may be offset by rising caseloads and pharmacy costs that are higher than anticipated.

HUSKY B

The HUSKY B program is anticipated to have a shortfall of approximately $5.0 million in SFY 2010. The shortfall is due to significant increases in expenditures resulting from higher caseloads. In state fiscal year 2009 we spent $35.5 million under the HUSKY B program; this year we are projecting to spend approximately $40.2 million, an increase of 13%. HUSKY B is experiencing double digit increases in both its pharmaceutical and dental expenditures. The pharmacy and dental costs for SFY 2010 are estimated at $6.4 million and $6.3 million, respectively. The pharmacy program is expected to increase by 20% over SFY 2009. The pharmacy increases are due to increased utilization and enrollment. The enrollment has increased by approximately 1,500 clients, or 10%, between February 2009 and August 2009.

OTHER EXPENSES

The vast majority of expenses under the agency's other expenses account are not commodity-type expenditures, as is commonly assumed, but rather primarily represent contractual obligations required to support the array of medical programs provided by the department. Approximately 80% of the total funding available for other expenses is utilized for contracts. The largest contracts are for claims processing and other program requirements for Medicaid and state-funded medical programs, including processing applications, premium collections and quality reviews. We have contracts for collection and processing of child support payments and maintenance of the state's automated child support system. The other expenses account also funds a number of contracts required under the Money Follows the Person Program that began last state fiscal year. The payments we make on most contracts qualify for federal financial participation.

In an effort to reduce spending, we are looking at contracts to see if they need to be renewed, rebid, extended at a reduced rate or brought back in-house while maintaining a balance of utilizing internal personnel while maintaining our current level of services.

We are currently projecting a $9.5 million deficiency in the OE account. This is primarily attributable to the consulting contract and general OE reductions built into the budget.

CONNECTICUT HOME CARE PROGRAM

The state-funded Connecticut Home Care Program is anticipated to have a deficiency of $4.0 million in SFY 2010. From October 2008 to October 2009, enrollment in this program increased by 390 participants, or 7%. Although the budget assumed full year savings as a result of increased cost sharing, due to delays in the passage of legislation, this initiative will be implemented January 1, 2010.

TEMPORARY FAMILY ASSISTANCE

We are projecting a $3.5 million deficiency in Temporary Family Assistance through the end of SFY 2010. The department experienced an increase in caseload in June 2009, where an additional 223 cases (1%) were added. Since July, the department has seen a 6% increase in caseload. Application activity for the program has jumped 22% over this same period.

SURPLUS ACCOUNTS

CHILD CARE

Offsetting our deficiencies is a surplus in Child Care, totaling $10.7 million. In an effort to achieve savings, the Child Care Subsidy program for low-income families was closed in May 2009. In order to maintain the required level of effort to qualify for ARRA funds, the program has been re-opened temporarily to maintain the spending level required to meet ARRA maintenance of effort standards.

As the appropriated funding level for Child Care exceeds the ARRA requirement, there is available funding in the amount of $10.7 million to cover other departmental deficiencies.

STATE ADMINISTERED GENERAL ASSISTANCE

Expenditures for the State Administered General Assistance (SAGA) program are expected to be below the appropriated level. Included in the appropriation is $43.3 million for additional expenditures under the SAGA waiver to raise payment levels to the Medicaid rates that would be required under the waiver. Since implementing the waiver is expected to be a lengthy process, we have assumed that it will not be implemented until SFY 2011. Further, federal health care reform proposals may affect the way in which we provide services to clients presently served under SAGA.

The majority of these funds would be required to meet increased medical services expected under the account as caseloads continue to rise significantly. As not all of the funds will be needed, however, $12.0 million is available to offset our deficiency requirements.

In closing, I would caution that the data used to project these shortfalls reflect only the first quarter of activity for the year. Furthermore the impact of the initiatives that we have already implemented or that will begin over the coming months is not yet fully included in that data. The next few months will provide a much better basis for understanding where we will be at the end of the year. While we have been cautious in our assumptions, we will continue to monitor expenditures and will have the benefit of additional months of actual data for all our programs when the General Assembly reconvenes for the 2010 session. We will also look for every opportunity to mitigate our deficiency.

Once again, thank you for the opportunity to come before you to address this issue. I appreciate your continued support of our efforts.