

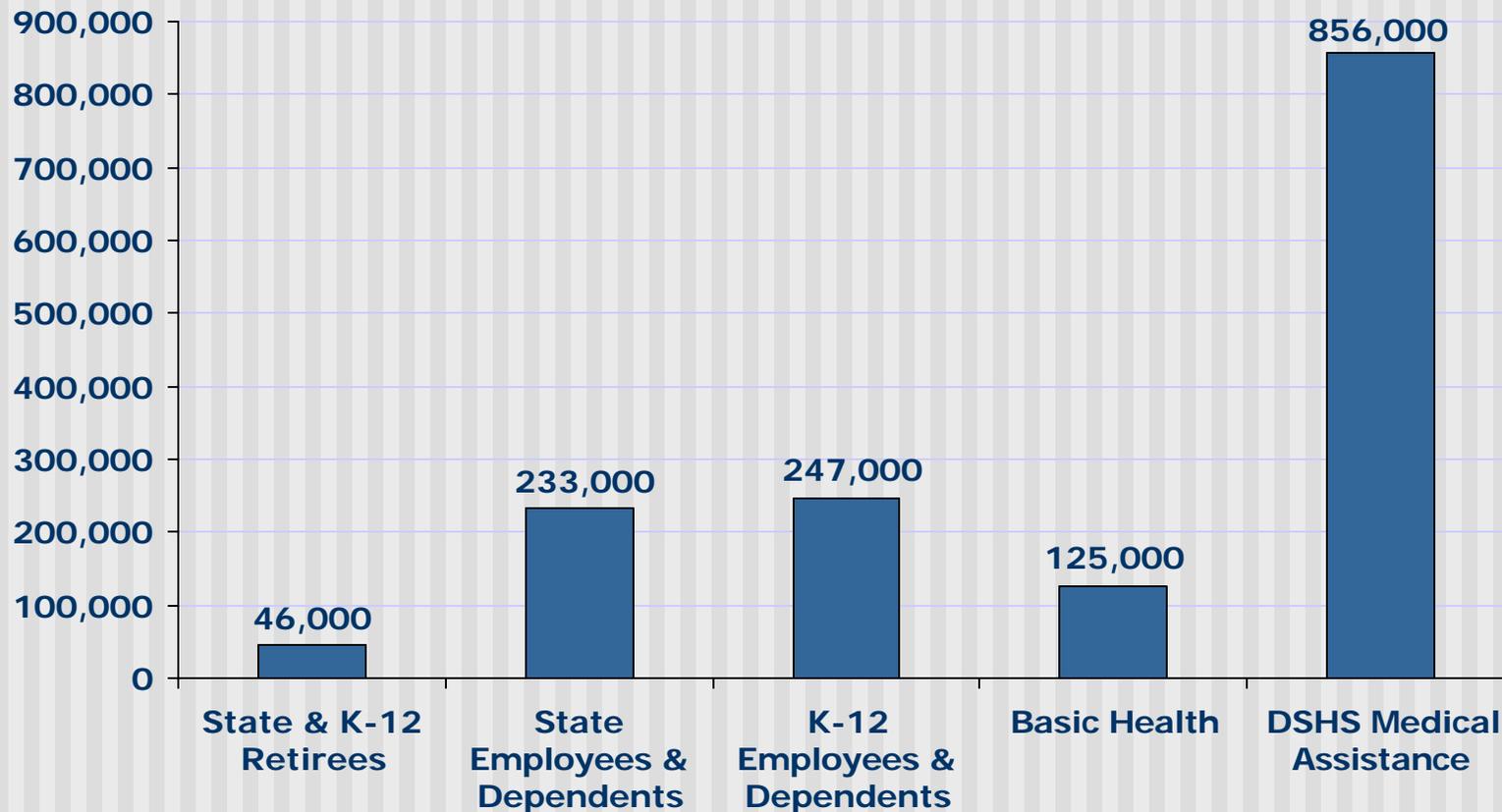
# Medical Costs and the 2002 Supplemental Budget



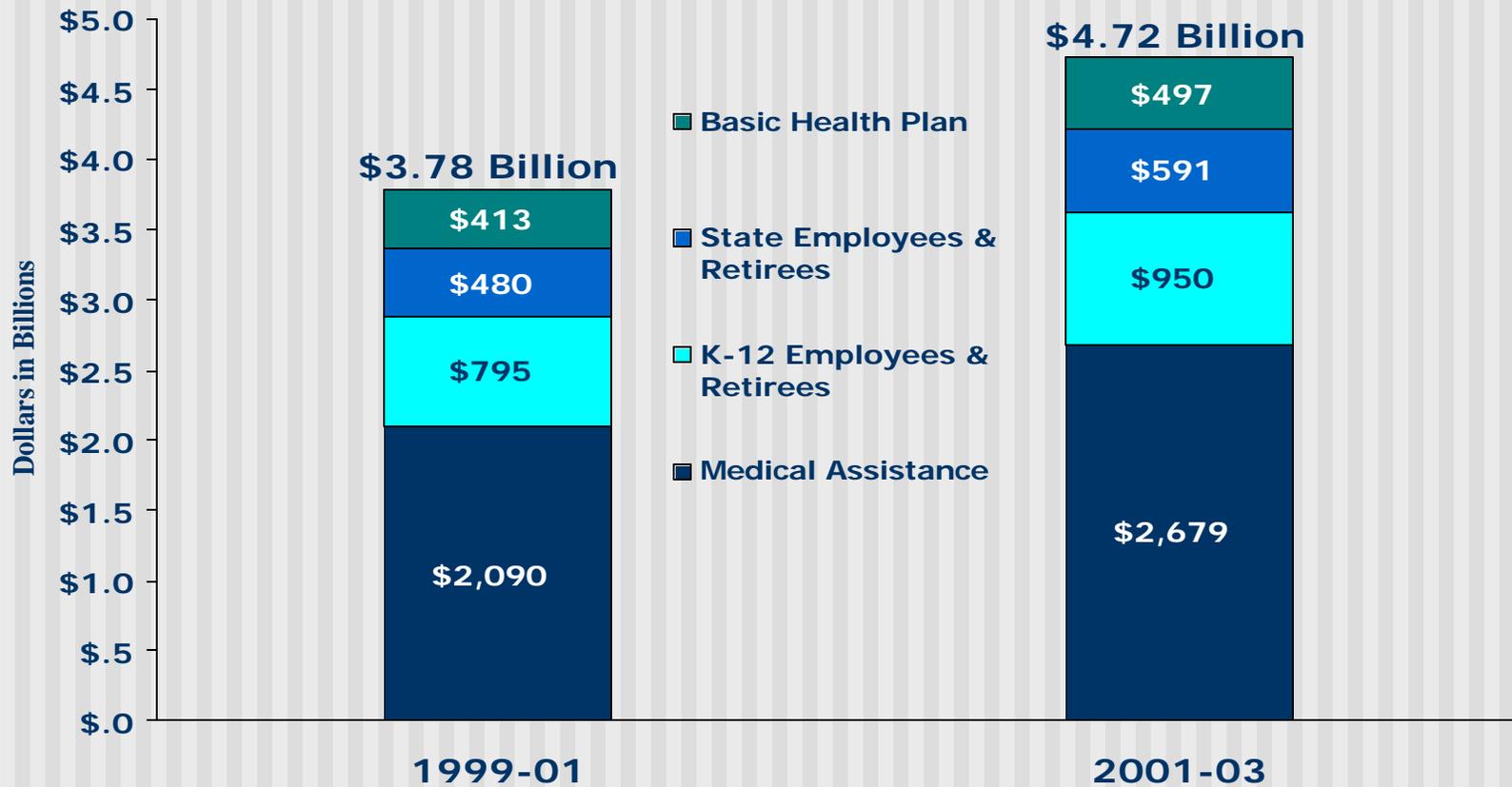
Senate Ways and Means Committee Staff  
January 28, 2002

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# State government will pay some or all of the cost of medical care for about 1.5 million people this biennium (25% of total state population)

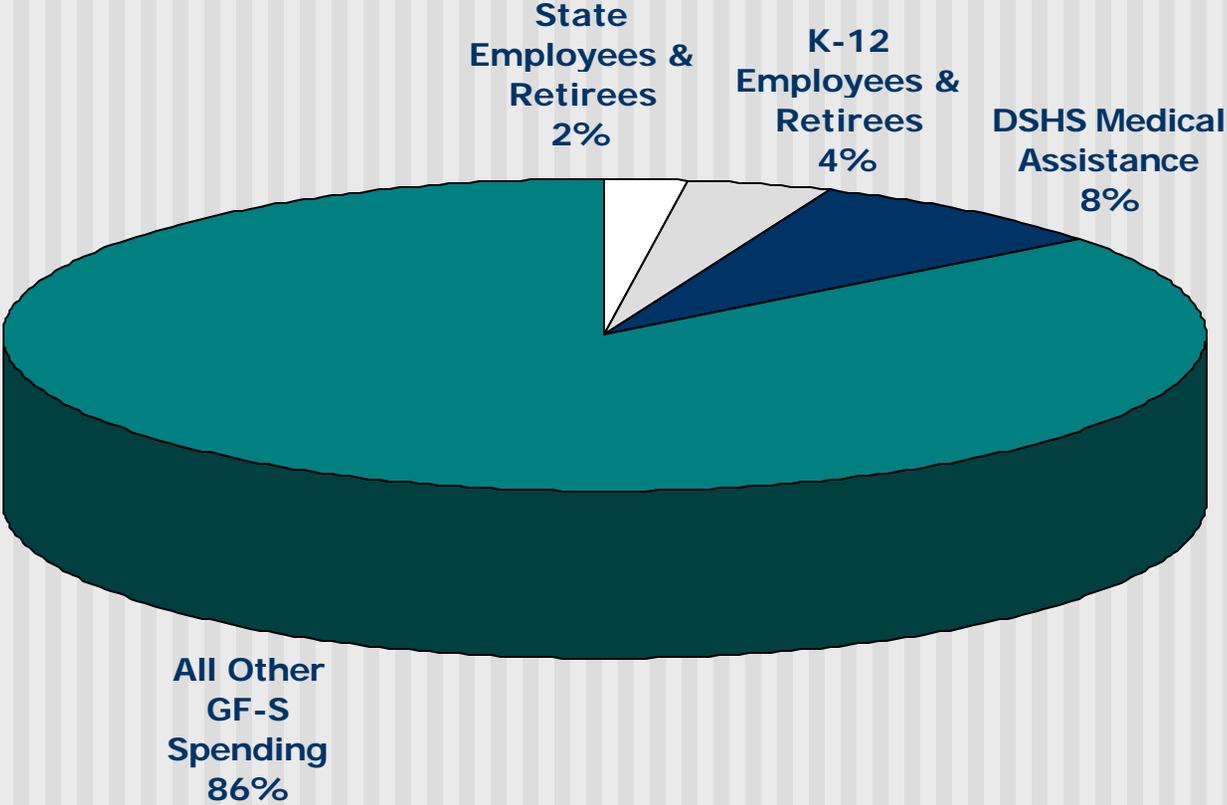


# Total state\* medical spending is projected to increase by \$940 million, or 25%, this biennium

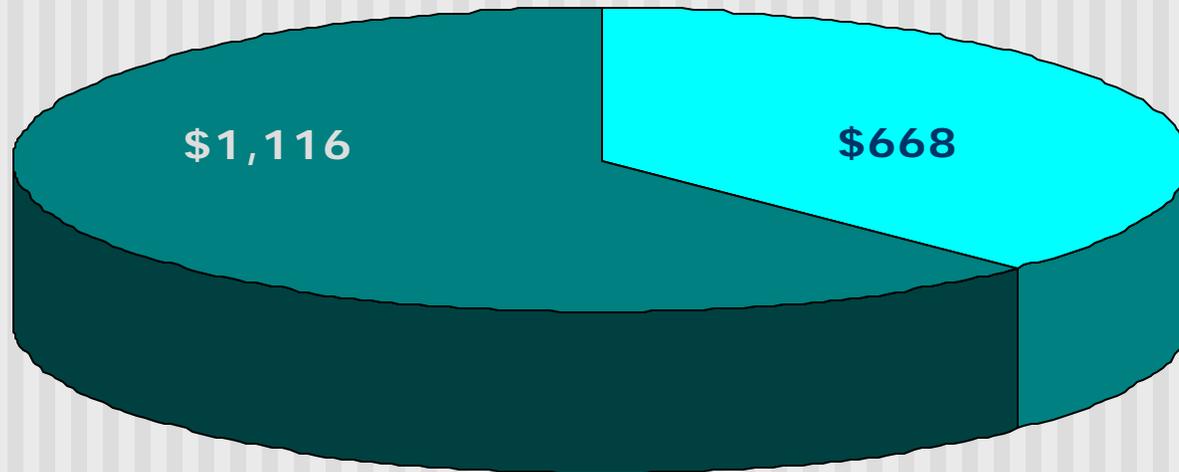


\* General Fund-State and Health Services Account, 2002 maintenance-level forecasts.

# State-funded medical coverage comprised 14% of total state general fund expenditures last biennium...

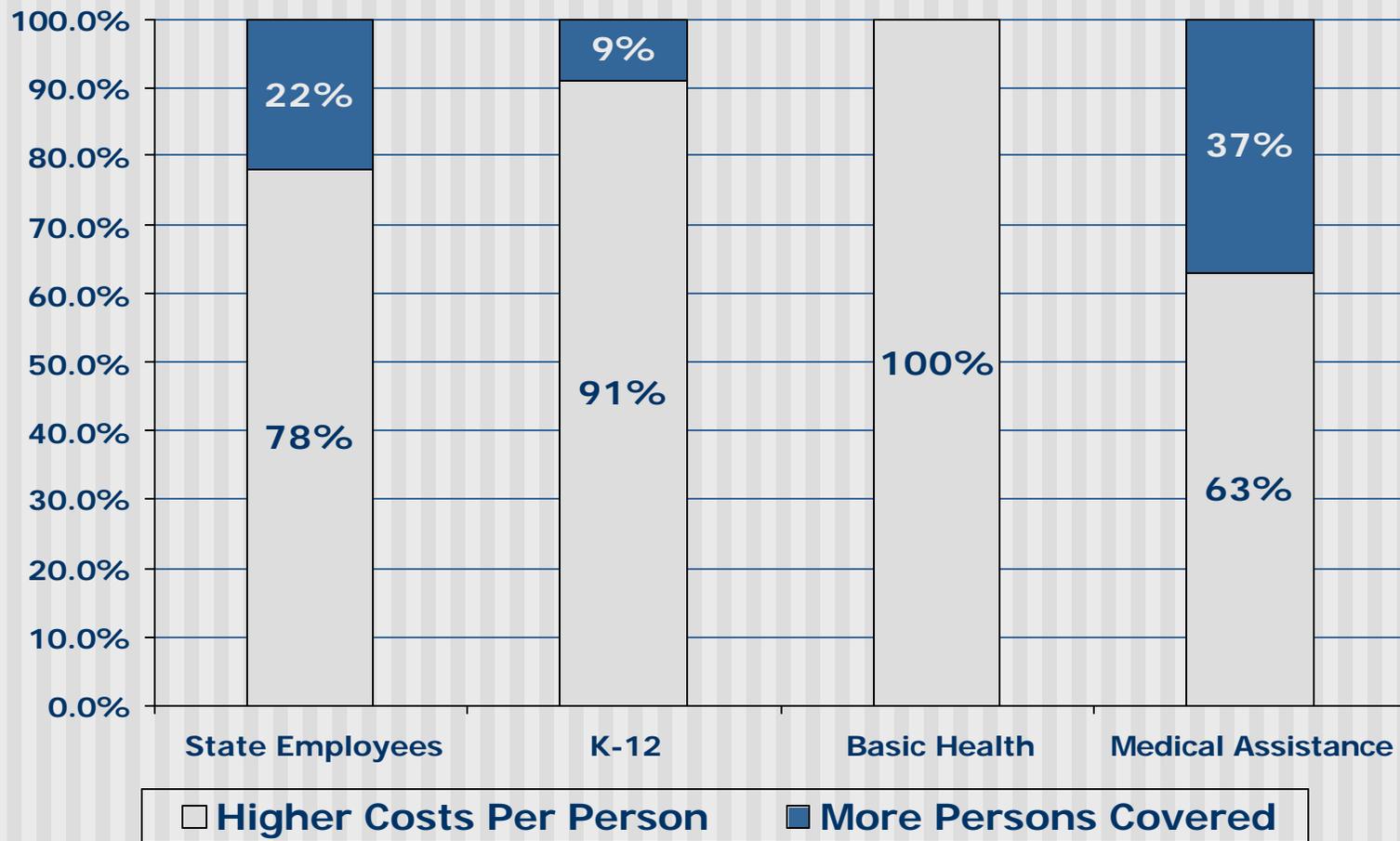


...but required 37% of the increase in GF-S appropriations between last biennium and this

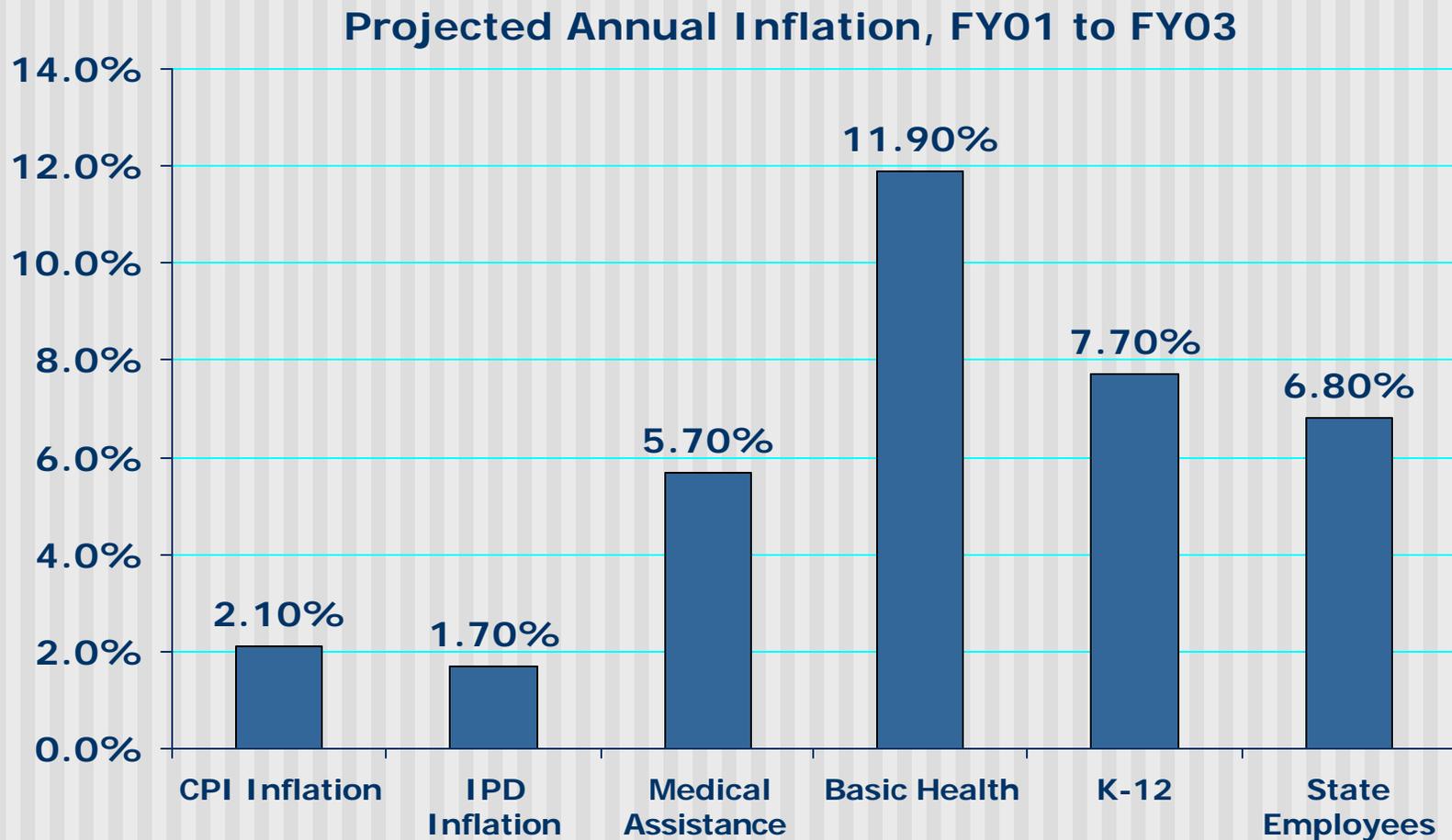


 Increased GF-S Medical spending	37.4%
 All Other GF-S Spending Growth	62.6%

# In every program, a large majority of the expenditure increase is due to higher costs per person covered, rather than to covering more people



# State costs per person covered are increasing 3-5 times faster than general inflation



# Higher per-person medical costs are being driven by a number of factors

- ❖ **12-18% growth in prescription drug spending**
- ❖ **Other technological innovations**
- ❖ **Aging populations**
- ❖ **Relaxed utilization controls due to “managed care backlash”**
- ❖ **Provider demands for improved reimbursement**
- ❖ **Tight labor markets (especially in health sector)**
- ❖ **Insurer profit recovery**
- ❖ **Admin costs of HIPAA, patient rights compliance**

# **Work Session will focus on the Governor's proposals for managing medical cost increases in the 2 largest programs**

## **❖ DSHS Medical Assistance**

- \$2.6 billion current GF-S & Health Svcs. Acct. appropriation**
- \$83 million supplemental increase due to higher caseloads and costs/case**
- additional cost increases likely in February caseload forecast**

## **❖ Health Care Authority/Public Employees Benefits Board**

- \$590 million GF-S for state employees, dependents, & retirees**
- state employee benefits cost drives \$950 million allocation to K-12**

## **Governor's Proposed Cost-Control Efforts in DSHS Medical Assistance**

- ❖ Save \$71 million (\$36 million GF-S) by reducing payments to pharmacies for drug ingredient costs by about 20%**
- ❖ Save \$10 million (\$5 million GF-S) by requiring providers to cover cost of language interpreters**
- ❖ Continue to pursue \$83 million (\$50 million GF-S) of utilization and cost controls authorized in original 01-03 budget**
- ❖ Continue to anticipate \$34 million (\$17 million GF-S) of cost avoidance from enactment of a federal Medicare drug benefit in SFY 03**

## **The Governor's Budget proposes a \$44 million reduction in GF-S spending on State and K-12 employee health benefits through**

- ❖ Requiring state employees to pay an average of about 22% of medical premium beginning in CY 03 (compared to about 9% now)**
- ❖ Raising office visit co-pay to \$20 (from \$10 now)**
- ❖ Reducing drug benefit costs by 15%**