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Health Care Trust Funds: Cost Effective or Costly?

Legislators are contemplating legislation designed to reduce cost in the state's MassHealth program and in the health care industry more generally. The Massachusetts Taxpayers Foundation believes that meaningful legislation in this area is vital to the state budget as well as the overall economy and is on record supporting a host of reforms designed to bring down cost.

This brief focuses on an aspect of state health care spending that is often overlooked, but that deserves closer scrutiny: health care trust fund spending in Massachusetts. Each year, more than $2 billion in state revenues are used to support more than 20 separate trust funds related to health care. With each new round of health reform legislation, new trusts have been created to accomplish a variety of health-related goals. It is now time for the state to review whether these trusts have advanced their stated purposes, if consolidation of some of the trusts is warranted, and if there is an opportunity to redirect resources currently used to fund the various trust funds to more pressing needs.

What are trust funds?

Trust funds* differ from appropriated funds in several material ways. The majority of state revenues are deposited into a few budgeted funds, most notably the General Fund, and the state annually appropriates money from these budgeted funds to various programs and departments. At the end of the year, any appropriations that are unspent are not retained by the original program, but instead revert back to the General Fund. In contrast, spending from most trust funds is not subject to appropriation and trusts are allowed to carryforward a positive fund balance from one year to the next. Trust funds are created for a number of reasons – to dedicate a source of revenue to a particular policy goal, to support expenditures that require multi-year investments, or to protect

* In this brief, "Trust fund" refers to non-budgeted special revenue funds, as defined by and recorded in the Statutory Basis Financial Report. The trust funds referenced in this report do not include non-budgeted funds for which the Commonwealth acts as trustee, but does not own the funds in the account.

a spending program from the volatility of the annual budget process. Collectively, they receive billions in state revenues each year.

While there are benefits from the creation of trust funds, there are also major challenges for effective budgeting associated with them. Unlike appropriations, trust funds are not typically subject to an annual assessment of their cost effectiveness or continued usefulness. Similarly, when a new trust fund is created, there's no process to determine if, or how, the new trust overlaps with the mission of other trusts. Finally, over time, dedicated revenue sources can become mismatched to the underling policy need resulting in a poor use of resources.

In FY 2016, the last fiscal year for which there is complete data, 95 different trust funds received $5.36 billion in revenue, from which $5.17 billion in expenditures were made. Health care represents the largest category of these trusts with 21 active funds and $2.04 billion in FY 2016 revenues.

Why are there so many health care trusts?

The prevalence of health care trust funds is the result of at least three factors:

- *Proportionality* – health care is by far the largest public expenditure in Massachusetts. Therefore, it makes sense that they make up the largest share of trust funds – both in number and in size.

- *Federal requirements* – many financial elements of the state's Medicaid partnership with the federal government have strict requirements in terms of how state matching revenues are generated and how those revenues are spent. Trust funds are a way to segregate the funds to ensure those requirements are met irrespective of other state budget pressures.

- *Proliferation of health care reforms* – Since 2006, when the state's landmark health care reform legislation was passed, the state has passed two additional reforms related to access and cost containment and a host of smaller bills. Each of these laws have used trust funds to dedicate funds for priority areas.

The combination of these factors has resulted in more than 20 active health care trust funds:

Figure 1. Health Care Trust Funds in FY 2016

	Balance at Start of FY 2016	***Revenue***	***Spending***	***Balance at End of FY 2016***
AIDS Fund	$119	$90	$94	$115
Boards of Registration in Medicine	$9,012	$8,861	$8,985	$8,888
Catastrophic Illness in Children Relief	$3,393	$3,033	$2,612	$3,814
Commonwealth Care Trust Fund	$23,253	$317,306	$280,280	$60,279
Community First Trust Fund	$15,602	$0	$2,505	$13,097
Community Hospital Reinvestment Trust Fund		***Created in FY 2017 Budget***		
Delivery System Transformation Initiatives Trust Fund	$1,991	$209,334	$211,324	$1
Distressed Hospital Trust	$74,567	$26,725	$18,647	$82,645
Head Injury Services Treatment	$3,797	$7,759	$5,405	$6,151
Health Care Workforce Transformation Fund	$13,127	$0	$6,736	$6,391
Health Information Exchange	$433	$53	$475	$11
Health Information Technology Trust Fund	$6,198	$72,235	$82,396	-$3,963
Health Insurance Portability and Accountability Act	$3,551	$18,020	$13,928	$7,643
Health Safety Net Trust Fund	$45,191	$414,064	$361,964	$97,291
Healthcare Payment Reform	$15,189	$8,879	$9,459	$14,609
MassHealth Delivery System Reform Trust Fund		***Created in FY 2017 Budget***		
Medical Assistance Trust Fund	$0	$914,025	$914,025	$0
Medical Marijuana Trust	$0	$7,227	$2,232	$4,995
Money Follows the Person Trust Fund	$6,243	$4,353	$2,049	$8,547
Nursing & Allied Health Workforce Development Trust	$633	$488	$597	$524
Prevention and Wellness Trust Fund	$27,825	$12,391	$18,666	$21,550
Quality in Health Professions Trust Fund	$9,225	$10,716	$10,548	$9,392
Substance Abuse Services	$6,256	$5,000	$6,178	$5,078
Total	***$265,605***	***$2,040,559***	***$1,959,105***	***$347,058***

Numbers in thousands

What do these health trust funds do?

As figure 1 shows, the state's health care funds cover a broad spectrum in terms of size and policy scope; however, this brief organizes the trusts into three broad categories:

- trusts related to the state's MassHealth program or Medicaid waiver that are designed to ensure health care access;
- trusts related to the state's MassHealth program or Medicaid waiver that are designed to improve health care delivery; and
- trusts unrelated to the state's Medicaid waiver that are designed to promote a health care or public health goal

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1. MassHealth/Medicaid Waiver Trusts: Access

Figure 2. MassHealth/Medicaid Waiver Trusts: Access

	Balance at Start of FY 2016	***Revenue***	***Spending***	***Balance at End of FY 2016***
Commonwealth Care Trust Fund	$23,253	$317,306	$280,280	$60,279
Health Safety Net Trust Fund	$45,191	$414,064	$361,964	$97,291
Medical Assistance Trust Fund	$0	$914,025	$914,025	$0
Total	***$68,444***	***$1,645,395***	***$1,556,269***	***$157,570***
Numbers in thousands				

Only three trusts relate to the state's Medicaid waiver to support access, but they comprised close to 80 percent of all health care trust spending in FY 2016.

The Commonwealth Care Trust Fund (CCTF) receives all revenues used to operate the Massachusetts Health Connector ("Connector") and provide coverage subsidies to qualifying individuals. Created in the state's 2006 health reform legislation, the Connector provides access to coverage for more than 200,000 state residents and subsidizes coverage for income-eligible members. In addition to premiums paid by Connector members, the CCTF receives dedicated tax revenue through a one dollar surcharge on the state's cigarette tax and a per-employee assessment on businesses. In FY 2016, these two revenue sources provided the CCTF with almost $293 million.

The Health Safety Net Trust Fund (HSN) reimburses providers for their cost of caring for the uninsured population. Like the CCTF, the Health Safety Net Trust Fund was created in Chapter 58 of the Acts of 2006. It serves as a successor to the Uncompensated Care Pool Trust Fund and was reconfigured in recognition of its changing role given Chapter 58's new mandate that all individuals have insurance. The HSN is supported by equal assessments on insurers and provides (in FY 2016 each assessment equaled $165 million) as well as subsidies from the CCTF and the Medical Assistance Trust Fund. Eligible claims receive a reimbursement rate that is a function of the balance in the fund. If there is an insufficient balance, reimbursement is prorated. In FY 2016, $345 million in payments were made, an amount that has barely been adjusted since the fund was first created despite the progress made on health care coverage over the past decade.

The Medical Assistance Trust Fund (MATF) provides supplemental payments to acute care hospitals which deliver a large percentage of their services to MassHealth members. The fund is supported by an assessment on impacted providers and federal revenue generated by payments from the fund. Because of this financing mechanism, most of the cost of payments are offset.

While each of these funds is a major component of the state's health care financing system, they differ substantially in terms of transparency of information and public oversight. There is a wealth of financial and policy information published about the CCTF each year. The Health Connector, which the CCTF supports, files annual audited financial documents, makes annual reports on finances and policy to the legislature and its board meets publicly. Far less information is made available about the HSN, in spite of the fact that it is larger than the CCTF. The Executive Office of Health and Human Services is required to submit an annual report on the HSN, but this report is typically a 12-15 page PowerPoint presentation that provides limited information. Ascertaining information about the MATF is even more difficult. There is no annual report on the MATF nor is detailed spending or revenue information made publicly available.

2. MassHealth/Medicaid Waiver Trusts: Care Delivery

Figure 3. MassHealth/Medicaid Waiver Trusts: Care Delivery

	Balance at Start of FY 2016	*Revenue*	*Spending*	*Balance at End of FY 2016*
MassHealth Delivery System Reform Trust Fund		***Created in FY 2017 Budget***		
Delivery System Transformation Initiatives Trust Fund	$1,991	$209,334	$211,324	$1
Health Information Technology Trust Fund	$6,198	$72,235	$82,396	-$3,963
Total	***$8,189***	***$281,569***	***$293,720***	***-$3,962***
Numbers in thousands				

In the second category of health trust funds, there are three sizable trusts that provide financial incentives for health care providers to implement technology and service delivery improvements.

The Health Information Technology Trust Fund was created in 2011, and receives funding almost exclusively from federal revenues. It provides incentive payments to health care providers as they move toward a coordinated electronic health records system. Federal support is based on the HITECH Act passed in 2009 and allows hospitals and other providers to receive reimbursements for costs related to adoption and use of EHR systems. Unlike other large health trust funds, the Health IT Trust is supported primarily by federal funds with a small state contribution. The use of those funds is limited to the EHR reimbursement program.

The two other funds in this category provide incentive payments to hospitals that have been approved under the state's Medicaid waiver.

The Delivery System Transformation Initiative Program (DSTI) was created in 2011 as part of the Medicaid waiver negotiated that same year. Under the program, seven hospital systems in the state receive a total of approximately $200 million per year to improve patient access, quality of care, or implement alternative payment models. The program was originally approved for three years (FY 2012 – FY 2014) and was subsequently extended through FY 2017, although due to timing issues, the state will make a further contribution to the DSTI trust fund in FY 2018 to support FY 2017 authorized payments. Beginning in FY 2019, Safety Net Provider payments,

made through the budget, will provide assistance to DSTI and other hospital systems. In total, the DSTI trust fund has received more than $600 million in state revenues net of federal reimbursements and provider contributions. Unlike any of the other major MassHealth trust funds discussed, these state revenues are not from a dedicated assessment or a stream of tax revenue; they come primarily from General Fund revenues. Although the state has been authorized to increase annual DSTI spending since 2014, those increases have not occurred due to General Fund budget challenges.

The MassHealth Delivery System Reform (Incentive Program) Trust Fund (DSRIP) is in some ways a replacement for DSTI, as it is the new Medicaid Waiver approved source of incentive payments to providers beginning in FY 2018. Created in the FY 2017 budget, this fund will make $1.8 billion in payments to providers between FY 2018 – FY 2022 as they move to new models of service delivery. Unlike DSTI, DSRIP is not supported by the General Fund, but instead is funded through a $257.5 million annual assessment on acute hospital providers as well as $360 million in annual federal reimbursements generated by the trust fund's expenditures.

DSRIP differs substantially from DSTI in its method of financing and provider impact. The state share of DSRIP is generated by an annual assessment on certain providers. In order to mitigate this cost to providers, DSRIP provides directed payments to those providers. These payments are in addition to the $360 million in incentive and other payments also funded through the program. Essentially, the program works as follows:

Figure 4. Simplified Example of DSRIP Financial Activity

DSRIP Financing and Payments			
Revenues In		Payments Out	
Provider Assessment	$257.5	Directed Payments	$265.0
FFP on Directed Payments	$187.5	ACO & System Improvement	$360.0
FFP on ACO & System Improvement	$180.0		
Total	$625.0		$625.0
Note: ACO payments shown above are annual averages over 5 years. Payments in a given year may differ.			

The DSRIP trust fund highlights both the advantages and the drawbacks of trust fund spending. Among the benefits are that the trust is set up with new, dedicated revenue streams so that it has no negative impact on the state budget and is protected from the annual appropriation process. In addition, that protection limits the chances that the state DSRIP spending will run afoul of the governing agreement with the federal government upon which the federal match is predicated. The drawback is that once a trust fund such as the DSRIP program is established, it is not subject to annual revision or review. There is no opportunity to assess whether or not $250 million in annual assessment revenue could be put to a better use than supplemental MassHealth rates. Furthermore, aside from an annual report of basic revenue and spending information from the fund, there is no provision made for any periodic analysis or review of the effectiveness of the program.

3. Other State Health Care Trust Funds

While the aforementioned trust funds comprise more than 90 percent of all health care trust fund spending, they represent just over 20 percent of the total number of existing health care trusts. Over the years, the state has created more than twenty other trust funds related to various healthcare priorities that are still on the books. These trusts vary in purpose and size as the chart below indicates. They also differ widely in their levels of accountability and transparency.

Figure 5. Other State Health Care Trust Funds

	Balance at Start of FY 2016	***Revenue***	***Spending***	***Balance at End of FY 2016***
AIDS Fund	$119	$90	$94	$115
Boards of Registration in Medicine	$9,012	$8,861	$8,985	$8,888
Catastrophic Illness in Children Relief	$3,393	$3,033	$2,612	$3,814
Community First Trust Fund	$15,602	$0	$2,505	$13,097
Community Hospital Reinvestment Trust Fund		***Created in FY 2017 Budget***		
Distressed Hospital Trust	$74,567	$26,725	$18,647	$82,645
Head Injury Services Treatment	$3,797	$7,759	$5,405	$6,151
Health Care Workforce Transformation Fund	$13,127	$0	$6,736	$6,391
Health Information Exchange	$433	$53	$475	$11
Health Insurance Portability and Accountability Act	$3,551	$18,020	$13,928	$7,643
Healthcare Payment Reform	$15,189	$8,879	$9,459	$14,609
Medical Marijuana Trust	$0	$7,227	$2,232	$4,995
Money Follows the Person Trust Fund	$6,243	$4,353	$2,049	$8,547
Nursing & Allied Health Workforce Development Trust	$2,469	$204	$1,277	$1,396
Prevention and Wellness Trust Fund	$27,825	$12,391	$18,666	$21,550
Quality in Health Professions Trust Fund	$9,225	$10,716	$10,548	$9,392
Substance Abuse Services	$6,256	$5,000	$6,178	$5,078
Total	***$190,808***	***$113,311***	***$109,796***	***$194,322***

Numbers in thousands

For these remaining smaller trusts, the two largest are the Distressed Hospital Fund (DHF) and the Prevention and Wellness Trust Fund (PWTF). Both were created in Chapter 224 of the Acts of 2012, the reform focused on health care cost containment. Both were funded through a $225 million assessment levied on certain providers and insurers. Unlike some of the trusts considered earlier, these two trusts provide a reasonably high level of transparency and accountability.

The Prevention and Wellness Trust Fund (PWTF) was created to help the state meet health cost benchmarks by reducing the prevalence of preventable health conditions, increasing healthy behaviors and reducing health disparities. Between FY 2013 and FY 2016, the PWTF received $57 million in assessment revenue and expended $34 million on several public health priorities, leaving it with a balance of $23 million. Transparency is a relative strength for the PWTF. Each year the fund publishes a comprehensive report on expenditures and all grants awarded by the fund

are subject to a third party evaluation to assess effectiveness. Each PWTF annual report includes detailed information not just on program awards, but also on the related evaluation efforts.

The Prevention and Wellness Trust Fund is entirely separate and distinct from other trust funds with similar or overlapping purposes – such as the Substance Abuse Trust Fund and the AIDS Trust Fund. Unlike the Prevention and Wellness Trust Fund, almost all of these other small trust funds lack any requirement to report on expenditures or provide an ongoing assessment of outcomes, making it difficult to ascertain whether the trusts support work that overlaps, duplicates or is at cross purposes with the PWTF .

The Distressed Hospital Trust Fund (DHF) received $128.25 million in assessment revenue over a four year period from FY 2013 to FY 2016. The fund, which is administered by the Health Policy Commission, supports the Community Hospital Acceleration, Revitalization and Transformation (CHART) grant program which provides support to eligible community hospitals to improve care delivery and system efficiency. The CHART program expects to provide up to $70 million in grants through its first two award phases, and fact sheets on grant eligibility and successful applications can be found online. In addition to the CHART program, the Distressed Hospital Trust Fund has also been used to provide one-time revenue to help balance the state budget. For example, the fund will transfer up to $23 million to the General Fund to close the books on FY 2017.

While both of these funds have strong internal oversight, that level of oversight is not common to other small trusts and internal oversight does not address the problem of potentially duplicative trust funds created in separate pieces of legislation. In 2016, just four years after the creation of the Distressed Hospital Trust Fund, a separate trust fund was created to provide additional support to Community Hospitals. The Community Hospital Reinvestment Trust Fund (CHRTF) is also intended to provide financial support to community hospitals, but is administered by the Executive Office of Health and Human Services and not the HPC. Between FY 2017 and FY 2021, the CHRTF will receive $45 million in transfers from Center for Health Information and Analysis. Unlike CHART grants, the CHRTF funds are distributed through a formula based on community hospital price and revenue information. Awards are not subject to meeting any policy goals or success metrics.

Figure 6. Comparison of Community Hospital Trust Funds

	Distressed Hospital Trust Fund	Community Hospital Reinvestment Trust Fund
Beneficiary	Community hospitals	Community hospitals
Administering agency	Health Policy Commission	Executive Office of Health and Human Services
Total Funding	$128.25M	$45M
Funding Source	Provider/insurer assessment	CHIA assessment
Award basis	Competitive application	Formula
Non-financial success measures	Yes	No
Statutory reporting requirement	No	No

Why is this a problem?

It is unacceptable for Massachusetts to spend billions annually on various health care trust funds, the majority of which are subject to little or no accountability at a time when both the public and private sectors are struggling to reduce health care costs. Reviewing how this money is spent and whether each of the existing trust funds serves a worthwhile or duplicative purpose is a good place for the state to start as they try to take cost out of the health care system.

While trust funds can be a great tool to ensure that funds intended for a certain purpose are protected from the annual appropriation process, the Commonwealth's proliferation of health-related trust funds has gone too far. Trust financial activity is much less transparent than the regular budget – itself not known for exceeding levels of transparency. Finding even the most basic financial information for a trust – such as total revenue or spending in a given year – requires delving deeply into the state's annual financial statements. More detailed information, such as the specific sources of revenue or the purpose of expenditures, is even harder to find, and in some cases, impossible without inquiring at the administering agency. Hand in hand with this lack of transparency is an utter lack of consistency for how trusts are to be assessed for effectiveness. While some trusts, such as the Prevention and Wellness Trust, are required to produce high quality annual evaluations of program expenditures, they are very much the exception and not the rule.

This lack of transparency and failure to report on outcomes is particularly problematic because trusts are not subject to annual review and appropriation through the legislative process. While many budget programs could stand more rigorous analysis on effectiveness, those programs are evaluated against others as part of the appropriation process each year. The very nature of an annual appropriation process requires some level of evaluation to be applied to each line-item; a process that can result in programmatic elimination or funding adjustments based on changing priorities or financial necessities. For example, in the FY 2018 Conference Committee budget 229

different budget line-items were either reduced from their FY 2017 funding level or eliminated entirely.

When major spending takes place outside of that budget process, the need for consistent and rigorous review becomes even more apparent. That is simply not the case for trust funds, which makes it difficult to know if some trust expenditures have outlived their purpose or could be put to better use. In addition to the obvious problems created when major expenditures are not subject to regular review and evaluation, it also increases the likelihood of duplicative or wasteful spending. As we have already seen, two separate trust funds created years apart in separate legislative vehicles are designed to help community hospitals meet long-term financial challenges. In spite of the obvious overlap in the goal of these trust funds, they are administered by different agencies and are not coordinated in any public way, which could result in redundant spending. Similarly, multiple trust funds have been created over time to address health care work force needs, health care technology needs and healthcare payment reform efforts. In each case, the creation of the new trust fund has not occurred in conjunction with the elimination of the old trust fund. It is not always obvious that policymakers are aware that similar trust funds already exist when new funds are created.

Finally, the number of health care trusts adds unnecessary levels of complexity to an already complex health care financing system. At least eight different assessments finance five off-budget health trust funds and these costs are typically not accounted for in the state's aggregate healthcare spending figures. Separate assessments on insurers support the Health Safety Net and the Distressed Hospital Trust Fund. Health care provider assessments also undergird those two trust funds, in addition to the Medical Assistance Trust Fund and the Delivery System Reform Incentive Program Trust Fund. Two different employer assessments help finance the Commonwealth Care Trust Fund and consumers ultimately pay for the assessments on insurers in the form of higher premiums and providers in the form of higher medical costs. It is difficult to see how this overlapping system of assessments to various funds improves the efficiency and cost effectiveness of the health care delivery system.

What improvements can be made?

There are several straightforward fixes that can improve the transparency and accountability of health care trusts, while reducing complexity in the larger health care financing system. First and foremost, the state should avoid creating new health care trusts. The last two major health care reform laws in 2012 and 2006 created seven new health care trust funds, while eliminating just two. The legislature should refrain from creating additional trust funds in the pending healthcare legislation unless accompanied by the elimination or consolidation of other existing funds. This reform should impose a review of all existing funds to determine their usefulness, eliminate those that are unnecessary, and create an ongoing annual review process for the remaining ones.

Secondly, each major health care trust should be subject to annual reporting requirements and measurable outcome goals. Policy makers need to be able to easily access and understand the financial operation of these trusts, their goals and their track record for making positive change in

the health care system. This information will allow for better health care policy and budget decisions and the ability to change course if necessary.

Finally, each trust fund should be subject to periodic legislative renewal. A renewal process will ensure that each trust fund – and its associated revenue – continues to make sense within an ever-changing health care picture and will allow for common-sense adjustments. The state's Health Safety Net Trust Fund (HSN) is a case in point. The HSN was created in 2006 to help providers recover some costs for services provided to the uninsured or underinsured. At that time, it was decided that the HSN would be primarily supported by assessments on providers and insurers. The amount of those assessments going to the HSN ($345 million in FY 2016) has barely changed in more than ten years and yet over that same time the number of uninsured residents in the state has declined and the number of members on MassHealth has doubled. In light of these seismic changes in our health care system, it makes sense to review how the Health Safety Net Trust Fund fits into our larger goals and if adjustments are necessary.