State Budget Cuts:
How Will Health Care Fare in FY 2009?

Vernon K. Smith, Ph.D.

National Health Policy Forum
Washington, DC
July 11, 2008

vsmith@healthmanagement.com

Health Management Associates
General Outline

• Why Medicaid is so hard to cut, even in hard fiscal times
  – It’s who Medicaid serves, and the impact it has
  – It’s how Medicaid helps states address key health priorities
• What choices states have when revenue growth slows and cost controls are needed
• How States responded in the last recession
• Outlook for 2009 and 2010

The largest health program in America

– 30 million children
  • 26% of all children; 51% of low-income children; 41% of U.S. births

– 17 million adults in families
  • 20% of low-income adults

– 10 million persons with disabilities and 6 million elderly age 65 +
  • 20% of Americans with severe disabilities; 44% of persons with HIV/AIDS; 60% of persons in nursing homes

Medicaid Programs Face a Bigger Challenge, But Cost Less than Private Health Insurance

- Medicaid enrollees are sicker
  - 4 times more likely to be in fair or poor health
- Medicaid per capita costs (adjusted for health status) are lower
  - ¼ less for adults; 1/10 less for children
- Medicaid per capita cost growth has been lower
  - 23% less than for persons with private health insurance

Medicaid Coverage Makes a Difference: Medicaid Access to Medical Care for Children Is Close to Private Insurance

*Note: Physician or any health professional, including hospital. All data age-adjusted. Source: National Health Interview Survey, 2004; CDC, National Center for Health Statistics, 2006.
Medicaid is $360 Billion of “Financial Glue” Holding Together Local Health Care Safety Nets

- Mental health, public health and schools
  - over half of publicly financed mental health care
  - Significant funding in school-based health

- Community Health Centers
  - Medicaid averages 40% of Health Center revenues

- Hospitals that serve the uninsured
  - Medicaid “DSH” payments $16 billion

- Medicare
  - Medicaid pays premiums, copays, deductibles, long-term care and other benefits for over 7 million low-income “duals” – i.e., elderly and disabled on both Medicaid and Medicare
  - “Duals” account for about 40% of Medicaid spending
Medicaid Creates Significant Fiscal Challenges for States

- Medicaid by design is counter-cyclical
  - Spending and enrollment increase when the economy and state revenues turn down
- Medicaid operates within the larger health care market that grows faster than the economy
  - Medicaid accounts for an increasing share of state budgets
- Federal matching rates (FMAP) respond to changes in state personal income, but lag significantly
  - FMAP often drops during an economic downturn, increasing state fiscal stress
  - When FMAP drops, state costs rise, and states must add state funding to maintain program levels
Total Medicaid Spending Growth Rates (Federal and State Funds) 1996-2008

1995-1998
Strong Economy, Welfare Reform, Enrollment Declines, Managed Care

1998-2000
Health Care Cost Growth


2000-2003
Economic Downturn, Enrollment & Cost Growth

2004-2007
Economic Recovery, Enrollment Growth Slows, Part D*

2008 Program Growth, Slowing Economy

State Fiscal Years.


**Annual growth rate:**

<table>
<thead>
<tr>
<th>Year</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate</td>
<td>-1.9%</td>
<td>0.5%</td>
<td>3.2%</td>
<td>7.9%</td>
<td>9.5%</td>
<td>5.6%</td>
<td>4.2%</td>
<td>3.2%</td>
<td>0.2%</td>
<td>-0.5%</td>
<td>2.2%</td>
</tr>
</tbody>
</table>

**NOTE:** Enrollment percentage changes from June to June of each year.

State Revenue Shortfalls Force Difficult Trade-Offs for Medicaid

- Cut provider rates
  - Diminish provider participation and beneficiary access
- Cut benefits
  - Eliminate access to some medically needed services and increase provider uncompensated care
- Cut eligibility
  - Eliminate access to medically needed services and increase provider uncompensated care
- Each cut has long term consequences
  - Impacts can take years to reverse
In 2007 and 2008, Most States Made Positive Changes in Medicaid

- Restored rate, benefit and eligibility cuts made since 2002
- Value-based purchasing
- Focus on quality
- Care and disease management for chronic conditions and high-cost cases
- Home and community based services for long term care
- Strategies to reduce the number of uninsured

Fewer States Decreased Medicaid Payment Rates for 2007 and 2008

Number of States That Cut Medicaid Rates for Inpatient Hospitals, Doctors, Nursing Facilities or Managed Care Organizations

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10</td>
<td>10</td>
<td>6</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>


www.kff.org/Medicaid/7699.cfm
Medicaid Benefits: No States Cut or Restricted Benefits in Initial Budgets for FY 2008

Number of States

FY 2006: 15
FY 2007: 6
FY 2008: 0

Over Half of States Expanded Eligibility in FY2008

Changes in Eligibility Standards and Processes Adopted FY 2008

States with Expansions / Enhancements

States with Program Restrictions

Eligibility Standards

Application and Renewal Processes

In 2007 and 2008, Over 2/3 of All States Offered New Proposals

- Governors in 34 states offered plans to reduce the number of uninsured children, parents, adults, aged and disabled in their state through
  - Medicaid expansions
  - SCHIP expansions
  - DRA waivers
  - Comprehensive Section 1115 waivers
  - Market-based approaches
  - Improving quality through prevention and better management of chronic conditions

In 2008, States Continued To Propose Expansions…Until Revenues Began to Slow

• Governors in over 30 states offered generally modest plans for coverage expansions for FY 2009
• Budget shortfalls caused some states to scale back plans for expansion in 2008.
• Some states will be making cuts or restrictions in provider rates, benefits and eligibility in 2009

Medicaid Cost Containment Now Is Tough Because States Have Already Done So Much
State Actions FY 2003 through FY 2007

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>Adopted for 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Controlling Drug Costs</td>
<td>46</td>
<td>48</td>
<td>43</td>
<td>43</td>
<td>46</td>
</tr>
<tr>
<td>Reducing/Freezing Provider Payments</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Reducing/Restricting Eligibility</td>
<td>25</td>
<td>21</td>
<td>18</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Reducing Benefits</td>
<td>18</td>
<td>19</td>
<td>15</td>
<td>9</td>
<td>17</td>
</tr>
<tr>
<td>Increasing Copayments</td>
<td>20</td>
<td>19</td>
<td>15</td>
<td>9</td>
<td>17</td>
</tr>
<tr>
<td>Disease Management</td>
<td>13</td>
<td>18</td>
<td>12</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Long-Term Care</td>
<td>17</td>
<td>18</td>
<td>17</td>
<td>17</td>
<td>17</td>
</tr>
</tbody>
</table>

Number of States, by Year


www.kff.org/Medicaid/7569.cfm
Medicaid Growth Continues to Exceed Overall State Budget Growth
1985 – 2015 Projected

Total Medicaid Spending as % of State Budgets

<table>
<thead>
<tr>
<th>Year</th>
<th>General Fund</th>
<th>Total Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>14%</td>
<td>8%</td>
</tr>
<tr>
<td>1990</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>1995</td>
<td>20%</td>
<td>14%</td>
</tr>
<tr>
<td>2000</td>
<td>14%</td>
<td>20%</td>
</tr>
<tr>
<td>2005</td>
<td>18%</td>
<td>23%</td>
</tr>
<tr>
<td>2010</td>
<td>19%</td>
<td>24%</td>
</tr>
<tr>
<td>2015</td>
<td>22%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Source: National Association of State Budget Officers, State Expenditure Reports, December 2007 and earlier years; 2010 and 2015 percentages projected by HMA.
Summary and Conclusion

- Medicaid is a difficult program for states to cut, even in tough economic times
  - the impacts are significant and long lasting
  - States are committed to improve quality, improve access and control costs.
- States face difficult challenges to sustain Medicaid fiscally as
  - Costs grow faster than revenues, especially during economic downturns
  - Options are limited to slow growth in spending
- FY 2009 revenue shortfalls will force some states to cut payment rates, benefits, eligibility or other services