NHPF Forum Session
Meeting Announcement

Medicaid in 2003:
Weathering the Perfect Storm

A DISCUSSION FEATURING:

Alan Weil
Director
Assessing the New Federalism
Urban Institute

Barbara Edwards
Deputy Director
Office of Medicaid
Ohio Department of Human Services

Bruce Bullen
Senior Vice President and
Chief Operating Officer
Harvard Pilgrim Health Care

Friday, February 7, 2003
11:45 am — Lunch
12:15–2:30 pm — Discussion

Reserve Officers Association
of the United States
One Constitution Avenue, NE
Congressional Hall of Honor —
Fifth Floor
(Across from the Dirksen Senate Office Building)

To register:
Please call Marcia Howard at
202/872-1392 as soon as possible. Space is limited.

For additional information:
See “There’s Something about Medicaid,” Health Affairs, 22, no. 1 (January/February 2003).
Medicaid in 2003: Weathering the Perfect Storm

The January/February 2003 issue of *Health Affairs* is devoted to discussion of the federal-state partnership that is the Medicaid program. Created in 1965 and implemented in 1966, the program initially served only 4 million beneficiaries and had expenditures totaling $400 million. The Medicaid program has grown exponentially over its 37-year existence. It is no longer a secret that Medicaid, which served 47 million individuals in 2002 at an estimated state-federal cost of more than $240 billion, is now comparable in size to the national Medicare program.

While the significance of the program is no surprise to its devotees, it is doubtful that many in the Congress, the general public, and the broader health policy community were aware that the program that is still sometimes dismissively described as “a welfare program for the poor”1 had grown to the same proportions as the more politically visible Medicare program. In fact, many would be shocked to know that Medicaid accounts for an average of 20 percent of state budgets,2 second only to education spending and a significant contributor to the budget crisis that is currently plaguing the states.

In the opening article of the *Health Affairs* issue, Alan Weil, director of the Assessing the New Federalism project at the Urban Institute, describes the Medicaid program as at least three different programs in one, serving children and parents, serving the frail elderly and the disabled, and providing supplemental coverage for low-income Medicare beneficiaries. Weil notes that Medicaid alleviates an immense amount of human suffering and acts as a true “safety net” for its

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**SESSION OVERVIEW**

This Forum session will build on the recent publication of the January/February 2003 issue of *Health Affairs*, which was devoted to Medicaid. The session will consider the current state of the Medicaid program, reflect on its successes and challenges, and offer thoughts about improving the program. Speakers will offer their insights, based on a wide range of experiences, and provide a platform for discussion with and among participants about how the Medicaid program can be sustained.
beneficiaries, many of whom were once middle class or are children who were born with or have developed a severe or chronic illness. According to the Centers for Medicare and Medicaid Services, the Medicaid program:

- Covers 55 percent of all poor children and 20 percent of children overall.\(^3\)
- Pays for one-third of all child births in the nation.
- Provides long-term care services for the frail elderly and for those with physical and mental disabilities (paying for 40 percent of all long-term care costs, one-sixth of all drug costs, and half of states’ mental health services in the United States).
- Fills in gaps in coverage for low-income elders receiving Medicare (who account for one-third of total Medicaid costs).\(^4\)
- Serves 50 percent of all people with AIDS and as many as 90 percent of children with AIDS.\(^5\)

While the Medicaid program may not have been designed to be a vehicle for providing universal coverage, it has gradually become a larger and larger source of health insurance coverage for the nation’s low-income population and—in part due to the enthusiasm that followed the advent of the State Children’s Health Insurance Program—has in fact acted as a vehicle for reaching the uninsured. Expressing a common viewpoint, Rep. Henry Waxman (D-Calif.), the driving force behind expansions of Medicaid coverage for children, once noted, “Incrementalism may not get much press, but it does work.”\(^6\)

THE PERFECT STORM

States are currently facing the largest budget shortfalls since World War II, and given the significant proportion of the states’ budgets that are currently devoted to Medicaid, the forecast looks quite bleak. Although there have been movements in Congress to help the states by providing them with additional federal funding in the form of enhanced Medicaid matching rates or a flat amount of money to be distributed among the states, larger priorities such as a Medicare prescription drug benefit and economic stimulus proposals will most likely take precedence.

Facing widening budget gaps and no expected recovery until at least 2004, state Medicaid directors are being forced to take cost-containment into their own hands. In his most recent survey of state Medicaid officials, Vernon Smith, a former Medicaid director and leading consultant on Medicaid issues, found that 49 states have plans to reduce their Medicaid spending in an attempt to curtail budget shortfalls or are in the process of doing so. Cost-containment strategies most commonly include placing new controls on prescription drug costs, increasing beneficiary copayments, reducing benefits, and even restricting eligibility.\(^7\)
This state Medicaid budget crisis has been dubbed “the perfect storm,” after the book about a “nor’easter created by so rare a combination of factors that it could not possibly have been worse.” Weil’s interpretation of this metaphor is that the three winds of today’s “Medicaid storm”—growing enrollment, high medical inflation, and plummeting state revenues—have combined and are placing extreme pressure on the program.

While he acknowledges the situation, Weil remains optimistic that, within reason, states have proven to be remarkably able to absorb high rates of Medicaid cost growth (especially since the most recent enrollment increases have been for low-cost children, rather than for the higher-cost disabled population that has actually been growing at a slower pace than in the past). Therefore, the largely unanticipated strain on the states’ budgets is coming from the significant declines in state revenues, which are running 5.6 percent below the original fiscal year 2002 estimates.

If Medicaid is to continue in its role as the “workhorse of the health care system,” taking on “all manner of health-related problems that no other institution or sector of the economy is willing to address,” most observers agree the program will need some help. As seems to happen about once each decade, the debate about improving/reforming/revitalizing Medicaid appears poised to begin again.

**THE STATE-FEDERAL SHUFFLE**

Weil argues that “Medicaid’s crises are an indication of the mismatch between our ambitions for the program and the resources we commit to it.” This point has been increasingly acknowledged and has led some congressional committee staff and state and other policy organizations to speculate that modifications to the Medicaid statute might be in order.

Several broad options have shaped the discussion. Perhaps the most frequently mentioned option is to separate funding for the Medicaid program by population, shifting the costs of coverage for the elderly and disabled in need of long-term care services entirely to the federal government, to be supported by its broader and more stable tax base. The states would continue to administer Medicaid for the less-costly population of children and families.

Another more incremental approach would be for the federal government to take over responsibility for the 6 million individuals that are currently enrolled in both Medicare and Medicaid. Administering health coverage for the growing population of “dual eligibles” would also remove some of the burden from the states. A third, more controversial approach is to restructure the Medicaid program completely and finance it through a direct block grant to the states.
The discussion and speculation about the latest “future of Medicaid” has already begun (some would say it has never stopped) and this Forum session hopes to provide thoughtful insights and objective evaluations of all of the possibilities.

QUESTIONS FOR DISCUSSION

■ Has Medicaid been asked to do more than states are capable of doing? Is Medicaid reform necessary to preserve a safety net for the nation’s vulnerable populations?
■ Is this budget crisis cyclical, or does it reflect a real change in a program with many more people dependent upon it than ever before?
■ Can the private sector effectively serve any or all of the three groups of Medicaid beneficiaries—children and families, the elderly and disabled, and low-income Medicare beneficiaries—or does this safety net program serve different kinds of needs than those met by traditional health insurance?
■ What are the implications of the current administration’s use of Section 1115 waiver authority in Medicaid? Is it time to re-open and update the Medicaid statute to respond to the changing times?
■ Would the enactment of Medicare reforms, including the addition of a prescription drug benefit, solve the major Medicaid problems?

SPEAKERS

Alan Weil, author of the featured Health Affairs article, “There’s Something about Medicaid,” will open the session with a presentation of the key points in his article and further thoughts about improving the Medicaid program. Weil is director of the Assessing the New Federalism project at the Urban Institute and was formerly executive director of the Colorado Department of Health Care Policy and Financing.

Barbara Edwards will provide comments in response to Weil’s presentation from the perspective of her current position as deputy director of the Office of Medicaid at the Ohio Department of Human Services.

Bruce Bullen will also provide comments in response to the presentation and offer his insights from his experience as a former Massachusetts state Medicaid director and as current senior vice president and chief operating officer of Harvard Pilgrim Health Care.

ENDNOTES

1. Health Affairs, prologue to Alan Weil, “There’s Something about Medicaid,” 22, no. 1 (January/February 2003). The prologue’s author notes that Medicaid has not
been able to shed the welfare stigma, as noted by “one powerful congressional com-
mittee chairman... last year.”


6. Lawrence Brown and Michael Sparer, “Poor Program’s Progress: The Unantici-


