kaiser commission on MEDICAID FACTS

medicaid and the uninsured

THE HENRY J. KAISER FAMILY FOUNDATION

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STATE FISCAL CONDITIONS AND MEDICAID

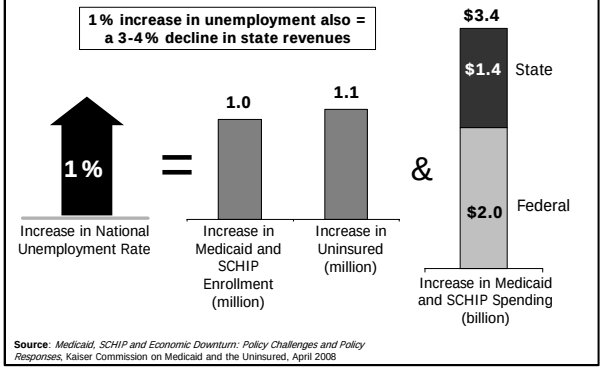
With the nation in the midst of an economic recession, states are faced with slower than anticipated state revenue growth and significant budget shortfalls. Medicaid, the program that provides health coverage and long term care support services to 44.5 million people in low-income families and nearly 14 million elderly and disabled people, is financed by the federal government and the states, and is administered by states within broad federal guidelines. Demand for Medicaid increases when the economy is weak requiring states to manage increases in enrollment and spending just as state budget conditions are most constrained.

State fiscal situation is severe. States were experiencing budget constraints heading into state fiscal year 2009 which began for most states on July 1, 2008. Forty-one states and the District of Columbia are projecting FY 2009 mid-year shortfalls of $42 billion with gaps reaching $145 billion in FY 2010.[i] State revenues are coming in well below projections and unemployment is rising. The national unemployment rate in November 2008 was 6.7%, compared to 4.7% at the same time last year. Unlike the federal government, states are required to balance their budgets annually. States can use reserves, but often they must increase taxes or cut spending to achieve a balanced budget during periods of economic stress.

Medicaid grows during an economic downturn. During an economic downturn, unemployment rises and puts upward pressure on Medicaid. As individuals lose employer sponsored insurance and incomes decline, enrollment and therefore Medicaid spending increase. At the same time, increases in unemployment have a negative impact on state revenues making it even more difficult to pay the state share of Medicaid spending increases (Figure 1).

Figure 1

Impact of a 1% Growth in Unemployment

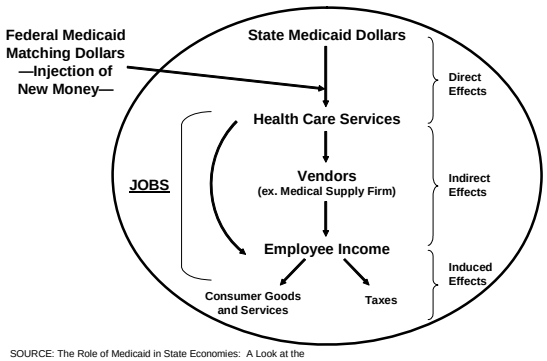


Source: *Medicaid, SCHIP and Economic Downturn: Policy Challenges and Policy Responses*, Kaiser Commission on Medicaid and the Uninsured, April 2008

Medicaid is an economic engine in state economies. In addition to providing health care coverage, Medicaid spending generates economic activity at the state level. Medicaid funding supports jobs and generates income and tax revenues within the health care sector and other sectors of the economy due to the multiplier effect. Medicaid's economic impact is intensified because of federal matching dollars. Reductions in state spending for Medicaid result in declines in federal dollars so a state with a 60 percent match rate must cut Medicaid spending by $2.40 to save $1 in state Medicaid spending. Cutting Medicaid during a downturn can worsen the economy (Figure 2).

Figure 2

Medicaid is an Economic Engine in State Economies

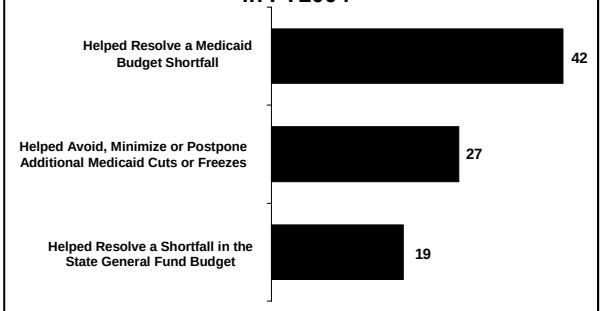


SOURCE: The Role of Medicaid in State Economies: A Look at the Research. KCMU, January 2009.

Fiscal relief proved to be successful in the last economic downturn. In 2003 Congress passed the Jobs and Growth Tax Relief Reconciliation Act that provided a temporary increase in the federal match rate to increase the federal share of Medicaid costs. States were required to maintain Medicaid eligibility levels as a condition for receiving the federal funds. States reported that the increased federal support helped to resolve a Medicaid budget shortfall, avoid additional Medicaid cuts and resolve a shortfall in the state general fund budget (Figure 3).

Figure 3

How States Used Increased Federal Medicaid Matching Funds from Temporary Fiscal Relief in FY2004



SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, January 2004.

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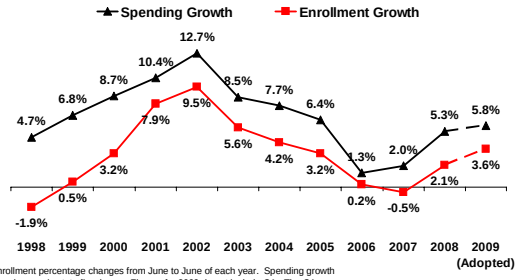
Medicaid spending and enrollment growth are above original projections. With the economy worsening, it was no surprise that states were reporting increases in Medicaid spending and enrollment starting in FY 2008 and going into FY 2009. When state legislatures finalized state budgets for FY 2009, they authorized total Medicaid spending growth that averaged 5.8 percent for FY 2009, up from 5.3 percent the previous year. (Figure 3) Growth was primarily driven by increased Medicaid enrollment and increased costs of Medicaid services. Original estimates showed enrollment growing by 3.6 percent in FY 2009, higher than the 2.1 percent growth for FY 2008.

Two-thirds of Medicaid officials anticipated original appropriations for Medicaid might not be adequate. By December 2008, well over half of Medicaid directors report that program enrollment and spending trends are above the levels projected at the beginning of the state fiscal year.

Figure 3

Percent Change in Medicaid Spending and Enrollment, FY 1998- FY 2009



NOTE: Enrollment percentage changes from June to June of each year. Spending growth percentage changes in state fiscal year. Figures for 2009 do not include CA. The CA budget was adopted on 9/23/08 but caseload and spending projections for FY 2009 were not available.

SOURCE: Enrollment Data for 1998-2006: *Medicaid Enrollment in 50 States*, KCMU. Spending Data from KCMU Analysis of CMS Form 64 Data for Historic Medicaid Growth Rates. FY 2007, FY 2008 and FY 2009 data based on KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, September 2008.

Few good options to control Medicaid spending. Many Medicaid programs are facing mid-year program cut backs; however, after taking aggressive actions to control program spending during the last economic downturn from 2001-2004, Medicaid officials say that there are few good options to cut spending growth. Enrollment growth is driving Medicaid spending growth but on a cost per enrollee basis Medicaid remains a cost effective program with growth in cost per enrollee in Medicaid consistently lower than health care costs and growth per person in the private sector.

When the economy was strong, states moved forward to address the growing uninsured problem by expanding Medicaid coverage, particularly for children. Even in this severe fiscal environment, states are not anxious to cut back on eligibility levels or to roll back recent expansions. However, states are adopting budget-related Medicaid restrictions such as provider rate cuts or freezes.

States are continuing to expand managed care and disease management programs in an effort to both assure quality and manage costs over the longer term. Provider rate cuts or freezes tend to have a more immediate effect on slowing Medicaid spending, but can jeopardize provider participation in Medicaid and access for enrollees. Other cost containment measures enacted in early years have largely been kept in place, particularly strategies that control prescription drug spending. State interest in using the DRA options for more flexibility around benefits and cost sharing has remained low.

Medicaid proves to be a success for individuals who enroll, but some changes could better help those in need. Individuals losing their jobs and employer health coverage often cannot afford COBRA or other health non-group coverage. Often unemployment benefits disqualify individuals from coverage and individuals become uninsured and must go without needed care. Due to the severity of this economic downturn, many who have never relied on public programs have turned to Medicaid for the first time. For those who enroll, Medicaid provides critical access to health care services including primary care, dental and mental health services particularly for children. Better outreach, simplified application processes and broader coverage options for adults could help more individuals in need.

Outlook for state Medicaid programs is largely dependent on federal fiscal relief. This economic downturn comes quickly after the last downturn that ended in 2004 and appears to be both deeper and broader in scope than the last one. As the budget situation continues to worsen, states will fall under increasing pressure to control Medicaid spending at the same time growing demand and enrollment are putting upward pressure on program spending. An economic stimulus package with Medicaid fiscal relief will be one of the first orders of business in the 111th Congress. This strategy proved to be successful during the last downturn and was also an efficient and expedient way to send funds to the states. The debate about an enhanced FMAP is currently focused on the amount of the relief, the distribution to states and the maintenance of effort on eligibility as a condition for receipt of the funds.

In addition to an enhanced FMAP, reauthorization of the SCHIP program could help bring financing stability to the states for children's coverage. Policy makers could also consider other options to bolster Medicaid in a time of growing demand such as shifting some Medicare related expenses from Medicaid to the federal government; rescinding federal regulations that would shift additional Medicaid costs to the states; improving eligibility simplification and outreach; mitigating the burdens of the DRA-imposed citizenship and identity documentation requirements, as well as other options to broaden coverage for adults and families hit by the recession.

This publication (7580-04) is available on the Kaiser Family Foundation's website at www.kff.org.

[i] McNichol, E. and Lav, I. "State Budget Troubles Worsen". Center on Budget and Policy Priorities. Dec. 23, 2008.