RITE CARE: RIGHT FOR RHODE ISLAND

A BRIEFING PAPER ON RITE CARE'S POSITIVE ECONOMIC IMPACT ON RHODE ISLAND

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This report was prepared by Michael Miller for Ocean State Action.

30 Winter Street/10th Floor, Boston, MA 02108
(ph) (617) 338-6035
(fx) (617) 451-5838
www.communitycatalyst.org

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SUMMARY

The RIte Care/RIte Share Program has made Rhode Island a national leader in reducing the ranks of the uninsured. Based on current estimates that only 4.2% of Rhode Island's children are uninsured and only 7% of its non-elderly population lack insurance, it can truly be said that Rhode Island is in the first tier of states with respect to insurance coverage.[1] Recently, in the face of an economic down-turn, rising health care costs, and declining state revenues, some have questioned whether Rhode Island can "afford" to maintain its commitment to this impressive level of medical security. They have suggested that RIte Care/RIte Share ("RIte Care") is an economic drag on the state.[2]

This analysis shows that RIte Care is a boon, not a burden to the Rhode Island economy. RIte Care has produced important benefits not just for its direct beneficiaries, but also for the entire state. Rhode Island, like most other states, is required to produce a balanced budget. There are, however, a number of ways to approach this challenge. A single-minded focus on cuts to achieve budget balance will do more harm than good to the health care system and the economy of Rhode Island.

BENEFITS OF RITE CARE

RIte Care is the Rhode Island health insurance program that provides low-income families, children and pregnant women with comprehensive health care. RIte Care members obtain benefits in one of two ways. If they don't have access to coverage through an employer-sponsored plan, they can enroll directly in one of three participating health plans – Neighborhood Health Plan of Rhode Island, United HealthCare of New England, and Coordinated Health Partners/ Blue ChiP. If employer-sponsored coverage is available, the eligible individual or family obtains coverage through the employer, and the state pays the employees' share of the premiums. Since program eligibility requirements were enhanced in 1996, RIte Care enrollment has increased by more than 43,000 individuals. Current total program enrollment is around 117,000.

The primary driver of RIte Care growth has been perceived to be the expansion of the program to cover parents with incomes over 185% of the federal poverty level (FPL). However, along with the expansion to parents, the state implemented a mail-in application, and, in concert with community organizations, undertook an outreach effort that that led to the identification and enrollment of approximately 24,000 children who had always been eligible for the program but had never participated. Many of the parents of these uninsured, very low-income children had not been able to access the program because they were working and could not take time to go to the DHS office to enroll.

The RIte Care program clearly has had a positive effect on the health and well being of its enrollees, but its impact is much broader. It also has had a positive effect on

the general availability of health care within the state, as well as a positive impact on the Rhode Island economy.

●BENEFITS TO ENROLLEES

Reducing the number of uninsured

RIte Care has played a vital role in reducing the number of Rhode Island citizens without health insurance, making the state the national leader in this regard. Only 4.2% of its children, and only 7% of its non-elderly population lack health coverage. These compare with national figures of 12% of children with no health insurance, and almost 16% of the non-elderly population.[3] Rhode Island has experienced a 30% reduction in its number of uninsured since 1996.[4]

As a result of RIte Care's success, fewer Rhode Islanders, especially children, suffer the multiple adverse consequences of being uninsured. Those consequences have been documented in a number of studies. For example, a recent Commonwealth Fund study of uninsured adults found that they were two to four times more likely to go without needed medical care than their insured counterparts. More than half reported not going to a doctor when sick, not filling a prescription, skipping a recommended medical test or treatment, or not seeing a specialist because of the cost.[5] The uninsured are also substantially more likely to suffer a decline in their health status than their insured counterparts.[6]

In addition to foregoing needed care, the uninsured are also almost four times as likely as Medicaid recipients to lack a usual source of non-emergent care according to a study by the Urban Institute.[7] Thus it is not surprising that the uninsured are more than three times as likely to rely on the emergency room for their care than are Medicaid beneficiaries.[8] This over-reliance on emergency care means that the uninsured have little or no care coordination, follow-up, or provider continuity.

Because of their delay in seeking care and their lack of a usual source of care, the uninsured are more likely to be hospitalized for conditions that could be treated more effectively and economically in a primary care setting. These conditions commonly include asthma, pneumonia, dehydration and heart disease. Indeed, there is solid evidence that having a source of health coverage in general – and being a Medicaid recipient in particular -- results in a 22% reduction in preventable hospitalizations.[9] **Reducing preventable hospitalizations both improves health outcomes and saves the system money.**

Positive Economic Effects

The expansion of RIte Care coverage has not only yielded positive health effects for its enrollees, it has also afforded them economic benefits. Being uninsured has serious financial consequences. One study found that a sixth of those without insurance had to change their way of life significantly in order to pay medical bills.[10] The uninsured who single out high medical bills as a particular problem also report that they are unable to keep up with other financial obligations such as utility or car payments, or to purchase

basic necessities.[11] By substantially relieving low-income families of the economic burden of paying for health care, RIte Care enhances the ability of these families to obtain other necessities of life, including food, shelter, clothing, and transportation. An economic analysis of the effect of Medicaid on household spending found a 4.2% boost in total household spending consumption as a result of Medicaid enrollment.[12]

Nearly half of all bankruptcies involve medical debt. Although many of these involve individuals who are under-insured, the uninsured are disproportionately represented among households forced into bankruptcy.[13] In a study focused solely on low-income people who have declared bankruptcy – the same population primarily served by RIte Care -- it was found that medical debt was a factor in eighty percent of bankruptcies and accounted for 42% of unsecured debt.[14] **By providing comprehensive medical coverage, RIte Care contributes substantially to the economic stability of low-income Rhode Island families.**

●BENEFITS TO THE STATE OF RHODE ISLAND

The benefits of RIte Care accrue not only to enrollees, but also to the state as a whole. These benefits include:

- a reduction in the public burden of paying for free care,
- a general economic stimulus effect, and
- a reduction in emergency room overcrowding.

Reducing the burden of free care

Although the uninsured receive less care than the insured, they do not always go without care altogether. Typically, however, their usage patterns differ from people with insurance. As discussed above the uninsured are much more likely to delay care. When they do ultimately seek care, it generally is at a later and more serious stage of illness, and they frequently obtain it through hospital emergency departments.[15] Some of this care is paid for by the uninsured themselves, but much is delivered for free by health care providers, or is written off as bad debt. The cost of this free care is borne by the system as a whole in two ways –through higher insurance premiums, and through weaker financial performance on the part of the state's health care institutions.

RIte Care reduces the financial burden of free care and bad debt on health care providers. Provider costs associated with free care and bad debt are passed on to other purchasers in the form of higher rates. These higher rates generally are reflected in higher health insurance premiums, which in turn cost employers and their employees more. While there has been little analysis of the effect of Medicaid on the demand for free care, the Massachusetts Hospital Association (MHA) has estimated that every dollar spent on Medicaid expansion in that state has reduced the demand for free care by $.25. If the Rhode Island experience parallels that of Massachusetts, it would mean that the growth in RIte Care enrollment has reduced hospital free care/bad debt by $23 million in the current fiscal year.

As large as this projection is, it is very conservative. Another analysis of the Massachusetts expansion suggests an even greater effect than that projected by MHA. For example, in FY 99 total spending on the Massachusetts Medicaid expansion of $336 million reduced uncompensated care billings by roughly $130 million—almost $.40 on the dollar.[16] This suggests that the amount of free care and bad debt in Rhode Island is as much as $36 million lower than it would otherwise be without RIte Care.

RIte Care Reduces Free Care and Bad Debt Expenses

$2159	Average cost per RIte Care enrollee
x 43,424	Growth in RIte Care since FY96
=$93,752,416	
x .25	
=$23,438,104	Savings in free care and bad debt

If there were no RIte Care program, a portion of this free care and bad debt would have been assumed by insurance rate payers in the form of higher premiums, while some of the cost of free care and bad debt is simply borne by providers in the form of weaker financial performance. Absorbing reduced reimbursements could adversely affect health sector employment and quality of care.

Economic benefits

RIte Care boosts the performance of the Rhode Island economy in three ways:

- increasing the flow of federal dollars into the state,
- reducing personal bankruptcies, and
- stimulating spending on the part of participating families.

A recent study by the School of Business at the University of South Carolina observed, "most state government expenditures reallocate spending from one sector of the economy to another—with no net state income or jobs directly resulting from state government spending…State Medicaid funding is, however, a net job and income generator."[17]

RIte Care brings substantial federal dollars into the state. Most state expenditures related to medical assistance are subsidized by the federal government using a state-specific Federal Medicaid Assistance Percentage (FMAP). Rhode Island's FMAP is 52.79%. **Thus more than half of the cost of enrollment growth --or almost $50 million -- is paid for by the federal government.**

RIte Care Brings Federal Dollars to Rhode Island

$2159	Average cost per RIte Care enrollee
x 43,424	RIte Care enrollment growth since 1996
= $93,752,416	
x 52.79%	Rhode Island's Federal Medicaid Assistance Percentage
= $49,491,900	Approximate federal dollars that subsidize RIte Care

Most of these federal Medicaid matching funds go to pay for the wages and salaries of health care workers.[18] Assuming a total compensation of $30,000 per person, this is enough to pay for nearly 1000 direct care workers. Health

care is an important economic sector in the Rhode Island economy, accounting for 9.2% of the total workforce in 1999, compared to only 6.9% nationally. Again, assuming compensation of $30,000 per worker, the RIte Care expansion supports approximately 4% of the entire health care workforce in the state.[19]

In addition to their direct effect on the Rhode Island economy, the federal matching funds have a substantial indirect effect. The South Carolina study found, for example, that every million dollars in federal match generated an additional $700,000 in income and 29 new, non-health care related jobs.[20] To the extent that the size of the indirect effect is similar for Rhode Island, **this would mean that an additional $35 million in income and over 1,400 jobs have been generated -- beyond the direct effect on the health care sector -- by the growth of RIte Care.**

In her study of the relationship between medical debt and bankruptcy, Elizabeth Warren noted the lower incidence of personal bankruptcy in states with higher rates of insurance.[21] This benefit ripples through the economy, benefiting creditors who would otherwise have to absorb losses. In addition, the Gruber study calculates that for every 1% of the population added to Medicaid in an expansion, state gross domestic product increases by about .033%.[22] These stimulus effects are more important in a recession since Medicaid is a counter cyclical program, providing greater economic stimulus during an economic downturn.[23]

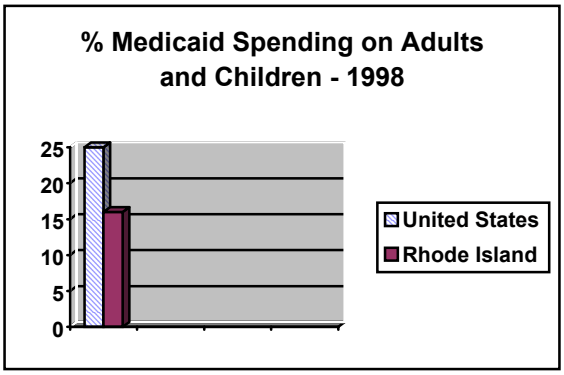
Finally, in addition to providing substantial support to the Rhode Island health care delivery system on which the entire state depends, **RIte Care also helps alleviate emergency room over-crowding -- a problem that affects everyone regardless of payment source.** Over-reliance on the emergency room increases costs and reduces quality for the entire health care system.[24] Overcrowding of emergency rooms also means that everyone – regardless of insurance status – must wait longer for care. Overcrowding also creates the risk of ambulance diversion from the nearest emergency facility, with potentially disastrous consequences in the case of seriously ill individuals.

MAINTAINING BUDGET BALANCE—THE BENEFITS OF SUSTAINING RITE CARE VS. THE HIGH COST OF RELYING ON CUTS

So far this year, the legislature has not seriously entertained any proposals to cut the RIte Care program during its budget deliberations. The costs of cutting RIte Care are the flip side of the benefits of its expansion—more uninsured, higher rates of personal bankruptcy, depressed demand for other non-health goods and services, reduced employment in the health care sector, a more fragile and expensive health care delivery system, and more emergency room overcrowding.

Any proposal to cut RIte Care represents a "high pain/ low gain" approach to budget balancing. Because of the availability of federal matching funds ($.53 of every RIte Care dollar spent is federal money), every dollar cut in services yields the state only about $.47 in savings of state funds. Even these savings are largely illusory when the

costs of higher free care, reduced economic activity, higher insurance premiums and poorer health outcomes are factored in.



Although the children and parents that make up the RIte Care population comprise the bulk of Rhode Island Medicaid enrollment -- about 65% in FY00 -- they account for a relatively small share of Medicaid program costs -- only 18% in FY00. In fact, Rhode Island spends less on the RIte Care population as a percentage of total Medicaid spending than the nation as a whole spends on that group.[25] The overwhelming majority of Medicaid funds actually go to paying for the health care and long-term care costs of low income or chronically ill elders, and the health care costs of disabled adults under age 65. Because the cost per RIte Care enrollee is relatively low, deep cuts in eligibility would be required to yield substantial savings. For example, in order to reduce Medicaid spending by 5%, RIte Care spending would have to be cut by 25%. This translates into an additional twenty six thousand uninsured children and parents—an increase of 30%.

Many proposals to reduce the RIte Care budget are ill conceived and likely to backfire.

As an alternative to reducing eligibility, approaches such as increasing cost sharing sometimes are suggested. This type of approach also has serious drawbacks.

Starting in January, 2002, RIte Care families with incomes above 150% of the federal poverty level -- $22,530 annually for a family of 3 -- are required to pay a monthly premium ranging from $43 to $58/month. This represents around 3% of the families' income. Notices to that effect went out to 5,200 of the recipient families in early January. As of April 11, 2002, 549 families representing 1100 children and parents were terminated from the program for failure to pay the premium. Many of these individuals are now uninsured. Data on the effect of these premiums on both potential enrollees and the newly enrolled is not yet available.

Any effort to raise RIte Care premiums as a way of saving state funds will only result in additional families losing coverage for inability to pay. Increasing enrollee cost sharing through office visit or prescription drug co-pays is likely to cause recipients to reduce their service use to some extent. But research has shown that increasing out-of-pocket expenditures inhibits individuals from seeking *medically necessary* care as much as it inhibits their seeking non-critical care. Creating barriers to care is more likely to cause delays in obtaining care, with the result that treatment may have to be shifted to more expensive, intensive settings. The benefits of early intervention are lost. Moreover, since providers generally are obligated to provide services even if co-payments cannot be collected, increased cost sharing often turns out to be a thinly disguised cut in reimbursement rates.

CUTS ARE NOT NECESSARY—THERE ARE BETTER WAYS.

There are a number of opportunities to reduce Medicaid expenditures and protect access for RIte Care enrollees at the same time. They include the following:

- **Reduce spending on prescription drugs**
  The drug industry spends millions of dollars encouraging physicians to prescribe new and more costly medications. Often physicians' only information on the relative clinical effectiveness of medications comes from the industry itself. Efforts aimed at physicians made up over 80% of drug industry promotional spending in 2000.[26] "Counter-detailing" -- which is the term used to describe aggressive outreach and education on clinical and economic issues relating to prescription drugs -- could produce savings not only for Medicaid, but for the entire health care system, while enhancing quality at the same time.[27]

  As noted above, physicians often lack information about the true clinical effectiveness of new and expensive drugs. Neither the FDA nor the drug companies are responsible for providing this information. Princeton economist Uwe Reinhardt notes that this responsibility rests with payers. As one of the largest purchasers of prescription drugs in the state, Medicaid and the RIte Care health plans should take the lead in counter-detailing.

  Finally, a number of states are moving aggressively to negotiate lower prices and supplemental rebates from drug companies for Medicaid and other state health programs. Rhode Island should consider these efforts as a strategy to further reduce prescription drug spending.

- **Develop strategies for enhancing access to primary care and coordinating health care services throughout the Medicaid population, not just among RIte Care enrollees.** Neighborhood Health Plan, RI reports that RIte Care has significantly reduced reliance on emergency rooms among its enrollees. If the level of primary care and care coordination for the rest of the Medicaid population were similar to that provided to RIte Care enrollees, those recipients would benefit, and Medicaid costs could well be reduced. Providing care coordination for individuals with chronic conditions such as diabetes, heart disease, and respiratory impairments can reduce hospitalizations and reduce Medicaid costs while improving individual health and quality of life. In addition, extending care coordination to children with special health care needs could reduce Medicaid costs while increasing access to care.

- **Revenue maximization**
  Although states generally have done most of the obvious things to maximize federal reimbursement, it is unclear that they have exhausted all possibilities. Rhode Island should use the recently convened Advisory Committee, including state and local government, service providers, and consumer groups, to explore

ways of maximizing the flow of federal matching dollars into the state to pay for existing state services.

CONCLUSION

RIte Care has played a critical role in making Rhode Island a healthier and more prosperous state. The program continues to safeguard the health of its participants and the broader public health while simultaneously benefiting the Rhode Island health care sector and the state economy as a whole. The benefits are no less critical today than they were when the program was initially implemented six years ago. Even though the state budget is under stress, it is important to remember that a healthy budget requires a healthy economy. Focusing narrowly on state spending with regard to RIte Care could erase these gains.

Rhode Island lawmakers are on the right track with their budget proposals that sustain the RIte Care program.

Any attempt to reduce RIte Care funding will shrink the Rhode Island economy, increase the indebtedness of its citizens and undermine stability of crucial health care institutions. This approach will not strengthen the state's financial position. It will weaken it. Targeting savings initiatives to areas that improve overall Medicaid program performance, such as reducing unnecessary hospitalizations and prescription drug costs hold out the promise of making the program less costly while enhancing quality and preserving the substantial benefits that RIte Care has delivered to the entire state.

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[21] Warren op cit.
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[27] Carpenter and Kedikoglou, The Cost and Availability of Prescription Drugs, What We Can Do in Massachusetts, Mass. Health Policy Forum, 5/99.