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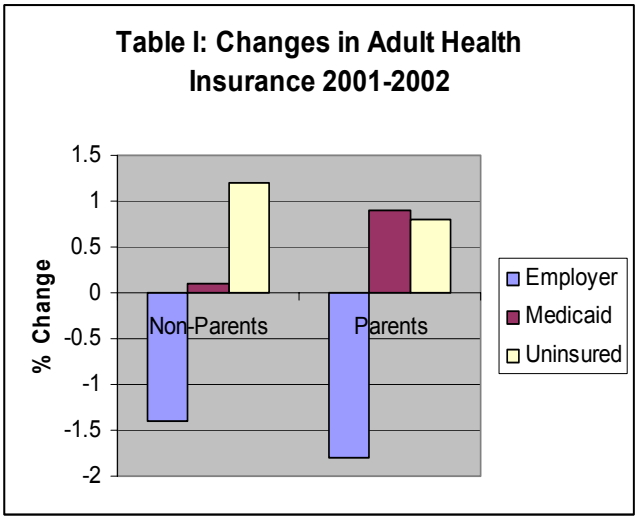
Medicaid Faces Storm Clouds on the Horizon

Already battered by the worst state fiscal crisis since World War II, Medicaid, the health insurance program that covers 51 million low-income children, elders, people with disabilities and other adults[1] faces another year of bruising political fights at both the state and federal level. Despite the economic multiplier effect of Medicaid, where spending state spending generates nearly a three-fold return in state economic benefits[2], many states still feel pressured to cut the Medicaid program in order to obtain immediate relief from fiscal pressures. At the same time, the Bush administration and its Congressional allies are expected to make another attempt to restructure the state-federal partnership by reducing and capping federal contributions to the program.

The pressures on Medicaid stem from several sources:

Rising numbers of low income uninsured people

In 2003, for the third straight year the number of people living below the poverty line increased, from 34.6 to 35.9 million people.[3] Rising numbers of people in poverty means more people turning to Medicaid for their health coverage. At the same time, more and more people are losing their employer based insurance. Employer based coverage declined from 65% to 61% from 2001 to 2004.[4] While many of these people simply lose their health coverage entirely, Medicaid absorbs a part of the decrease[5]. (See Table I)



Increased health care costs

Health care cost increases are expected to continue to outpace both the economy overall and state revenue growth. Prescription drugs, hospitals, and long term care are the major sources of spending growth.[6] (See Table II) While Medicaid spending per capita is growing more slowly than private insurance, Medicaid is not immune to the rising cost of health care.[7]

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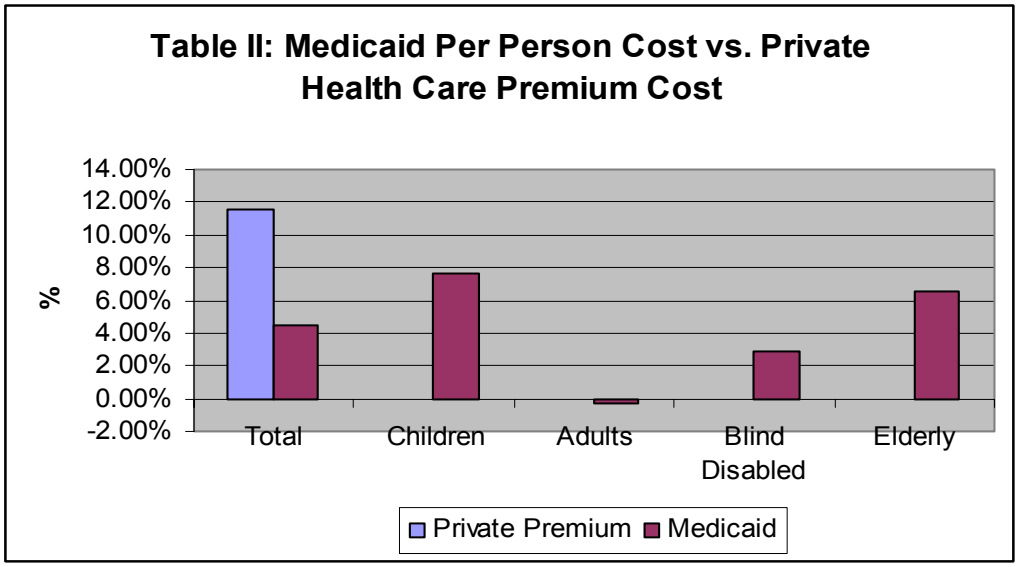
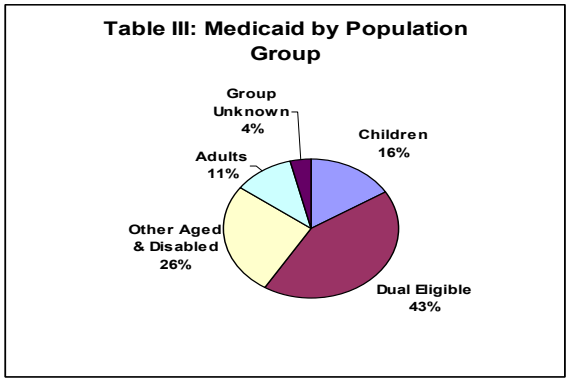
[1] Kaiser Commission on Medicaid and the Uninsured, The Medicaid Program at a Glance, January 2004
[2] Rachel Klein, Kathleen Stoll and Adele Bruce, Medicaid: Good Medicine for State Economies, 2004 Update (Washington Families USA, May 2004).
[3] Center on Budget and Policy Priorities (Estimated from US Census Bureau). Available online at: http://www.cbpp.org/8-26-04pov.htm
[4] Employer Health Benefits Survey, HRET 2004. Available online at: http://www.kff.org/insurance/7148/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=46287
[5] Same as 3
[6] Center for Studying Health System Change. Website available at: http://hschange.org/CONTENT/679/?topic=topic01



Cost shift from Medicare to Medicaid

"Dual eligible"—people eligible for both Medicare and Medicaid—are among the most expensive enrollees in Medicaid. Not only is the cost of care for dual eligible high, and increasing rapidly, the portion of the cost of their care financed by Medicare is declining, while Medicaid's share is increasing.[8] Over 42% of Medicaid spending now goes to plug the holes in Medicare for low-income and chronically ill elders and people with disabilities.[9] (See Table III)



State fiscal pressures

Although state revenue is recovering, the fiscal position of many states is still not strong. The cumulative anticipated budget shortfall in SFY 2005 is $36 billion compared to $84 billion in 2004.[10] Despite the somewhat improved revenue picture, most state Medicaid directors say pressure on the program is increasing because modest levels of revenue growth are being outpaced by increases in cost and enrollment.[11]

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[7] Georgetown Health Policy Institute's Analysis based on Kaiser/HRET Survey of Employer-Sponsored Health Benefits 1999-2004, CBO Medicaid Baselines 2000-2004. Growth rate for private premiums based on family coverage.
[8] Bruen B, Holohan J. "Shifting the Cost of Dual Eligible: Implications for States and the Federal Government." Kaiser Commission on Medicaid and the Uninsured, November 2003.
[9] ibid
[10] Center on Budget and Policy Priorities, February 2004. Available online at: http://www.cbpp.org/10-22-03sfp2.htm
[11] Kaiser Commission on Medicaid and the Uninsured. Available online at http://www.kff.org/medicaid/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=48004

Many states are facing structural deficits, that is, their existing revenue base simply cannot support the existing level of services. States also have exhausted one-time measures to balance their budgets and have already made significant cuts in Medicaid. Unless they can be persuaded to take a serious look at the relative merits of tax increases versus Medicaid cuts, state administrations and legislatures can be expected to attempt still further cuts to eligibility, benefits, and provider rates while increasing cost-sharing for beneficiaries. Some states may be tempted to go as far as agreeing to a cap on their federal Medicaid allotment in return for greater flexibility to make cuts to the program.

Federal Policy Environment

Given the increasing demands on the Medicaid program and precarious fiscal situation of most states, the last thing we need is for the federal government to reduce its commitment to Medicaid, but that is exactly what is on the table in Washington this year.

The federal policy environment with respect to Medicaid will be influenced by the federal fiscal situation and the policy goals of the Bush administration. In FFY05 the federal budget deficit stood at $413 billion with a projected ten year cumulative shortfall of $4.4--$5.5 trillion.[12] The President has proposed cutting the deficit in half over five years, not only without raising taxes, but while making permanent the 2001 tax cuts. The administration is also seeking to privatize the Social Security program which would entail massive transition costs to preserve benefits for current and near retirees.[13] These policy goals cannot be achieved without massive cuts in other parts of the federal budget. Since military spending is off the table, we can expect the President to propose deep cuts in domestic programs, including Medicaid.

Until the Presidents budget comes out in the first week of February, we won't know for sure whether he will actually revive something similar to his 03 Medicaid block grant idea or instead propose deep cuts and leave the mechanism to implement those cuts to Congress. In either case we know that the key time for influencing federal decision making with respect to Medicaid is between now and March. During this time period, it is critically important to communicate with federal officials and let them know your position on cutting Medicaid.

For more information see:

- Block Grants What Have We Got to Lose?
- Families USA Medicaid Action Center

If you have any questions, contact Czarina Biton at Community Catalyst (biton@communitycatalyst.org , 617-275-2909) or sign up for updates from Community Catalyst at http://www.communitycat.org/index.php3?fldID=192)

[12] Center on Budget and Policy Priorities, October 2004. Available online at: http://www.cbpp.org/10-14-04bud.htm
[13] Center on Budget and Policy Priorities, December 2003. Available online at: http://www.cbpp.org/12-10-03socsec.htm