

# Medicaid in 2007: Current Trends and Implications for Medicaid Funding in Education

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for

*National Alliance for Medicaid in Education*

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HEALTH MANAGEMENT ASSOCIATES

# Outline for Presentation

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- What Medicaid has become in 2007
  - Spending and enrollment
  - State Medicaid policy directions
    - Strategies to slow spending growth
    - Expanding coverage
- Outlook for the future
  - State and Federal spending trends
  - Federal policy directions
- Implications of current trends for Medicaid funding for Education

# “Medicaid...

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...has always been under-appreciated, particularly for the role that it plays in the lives of so many Americans.”

- John Iglehart, Editor, *Health Affairs*

# Medicaid Nationally in 2007: A State – Federal Partnership

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**\$340 billion for over 62 million individuals,  
the largest health program in America ...**

- **30 million children**
  - including 1.5 million deliveries and infants
- **16 million adults in families**
- **10 million persons with disabilities**
- **6 million persons age 65 or older**

**Medicaid accounts for 44% of federal funds  
to states, the largest single component**

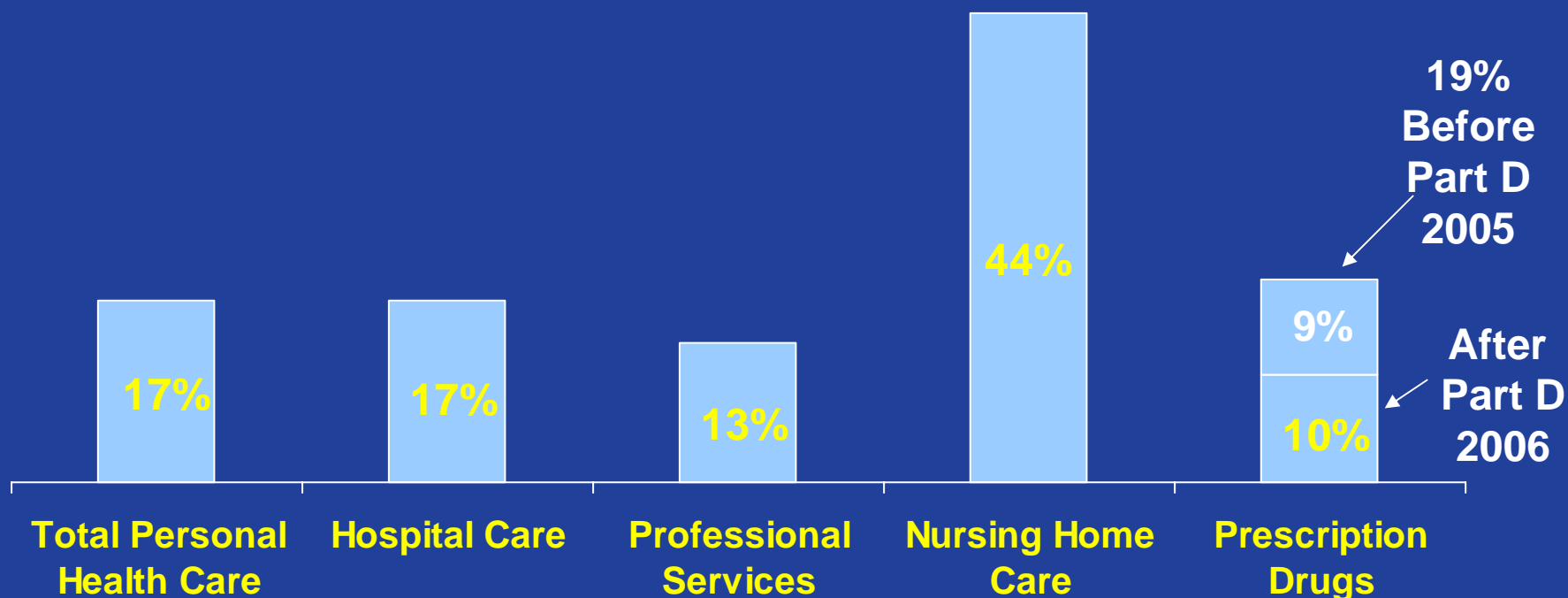
Sources: CBO March 2007 Medicaid Baseline; HMA projections of 2007 total spending.  
All data for federal fiscal year 2007. NASBO, *State Expenditure Report*, 2006.

# Medicaid is the “Financial Glue” of the U.S. Health Care Safety Net

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- *Mental health, public health and schools*
  - over half of publicly financed mental health care
  - *Significant funding in schools*
- *Community Health Centers*
  - Medicaid averages 40% of CHC revenues
- *Hospitals that serve the uninsured*
  - special Medicaid “DSH” payments \$16 billion in 2007
- **Medicare**
  - 7 million low-income elderly and disabled are “dual eligibles”– i.e., on both Medicaid and Medicare
  - “Duals” account for about 40% of Medicaid spending

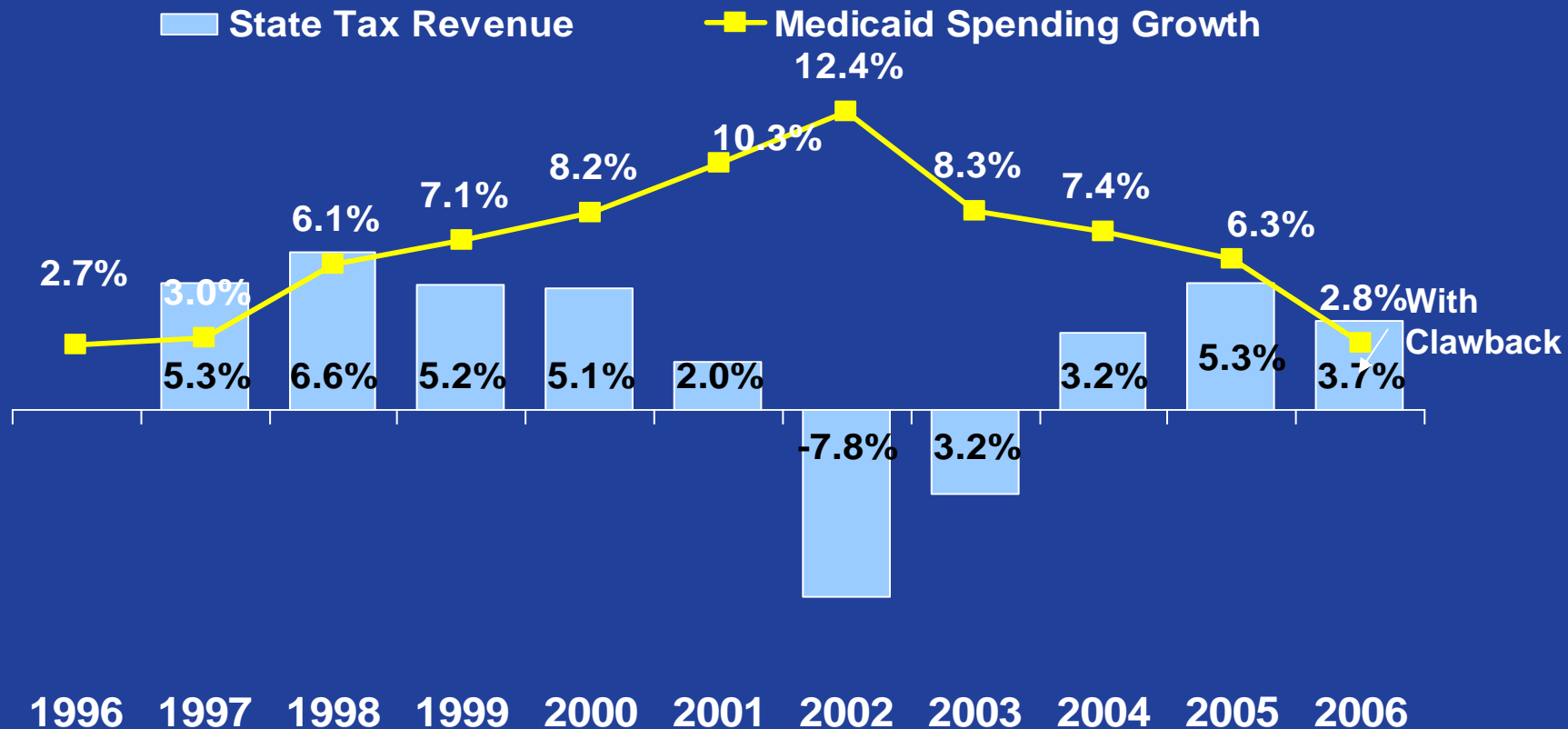
# Medicaid is 1/6 of U.S. Health Spending (and 2.7% of GDP)



Note: Data for 2005.

SOURCE: Aaron Catlin, et.al., "National Health Spending in 2005," *Health Affairs*, January/February 2007. Based on National Health Care Expenditure Data for 2005, CMS, Office of the Actuary, 2007. Part D allocation by Health Management Associates.

# The State Medicaid Challenge: Spending Increases When Tax Revenue Drops Annual Percentage Changes 1996-2006



NOTE: State Tax Revenue data is adjusted for inflation and legislative changes. Preliminary estimate for 2006.

SOURCE: Vernon Smith, Kathleen Gifford, Eileen Ellis, Amy Wiles, Robin Rudowitz, Molly O'Malley and Caryn Marks, *Low Medicaid Spending Growth Amid Rebounding State Revenues: Results from a 50-State Medicaid Budget Survey State Fiscal Years 2006 and 2007*, Kaiser Commission on Medicaid and the Uninsured, October 2006. [kff.org/Medicaid/7569.cfm](http://kff.org/Medicaid/7569.cfm)

# U.S. Medicaid Spending: Growth Now at Near-Record Lows

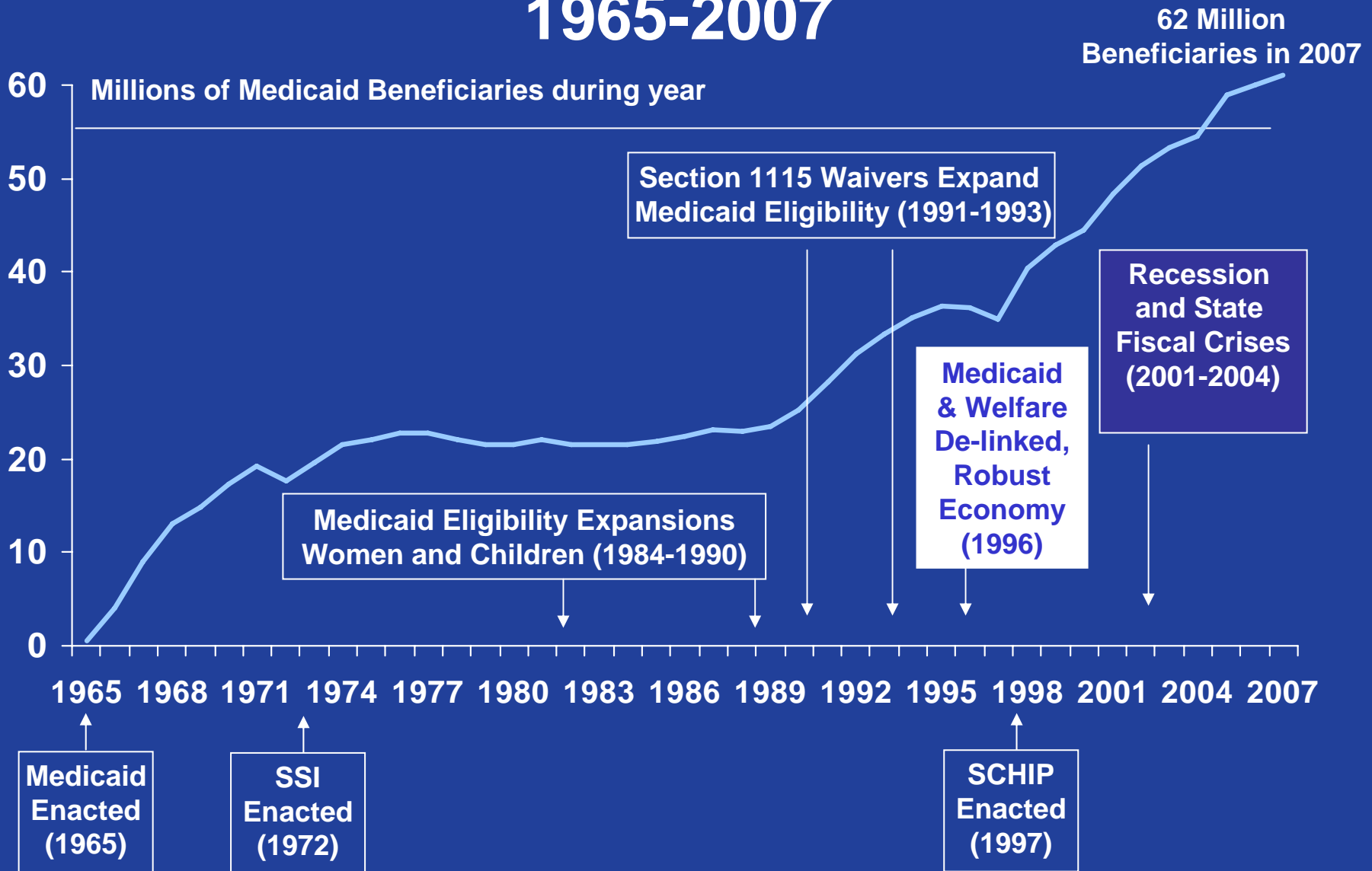
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Due to:

- Low growth in number of persons enrolled
- Slower growth in health care costs
  - Particularly for prescription drugs
- State cost containment actions
  - Cumulative effect of strategies adopted in recent years

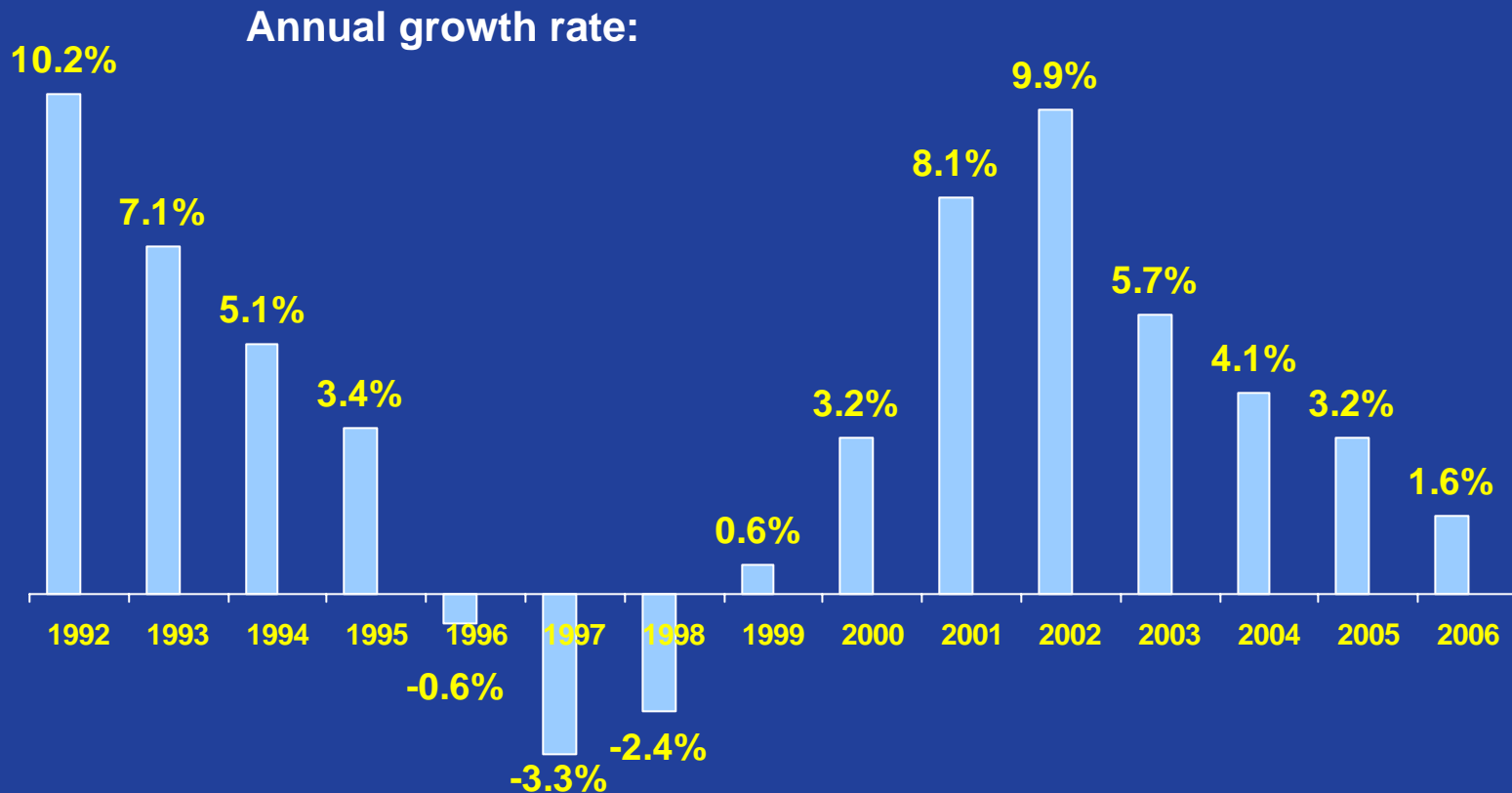


# Medicaid Enrollment, with Key Events 1965-2007



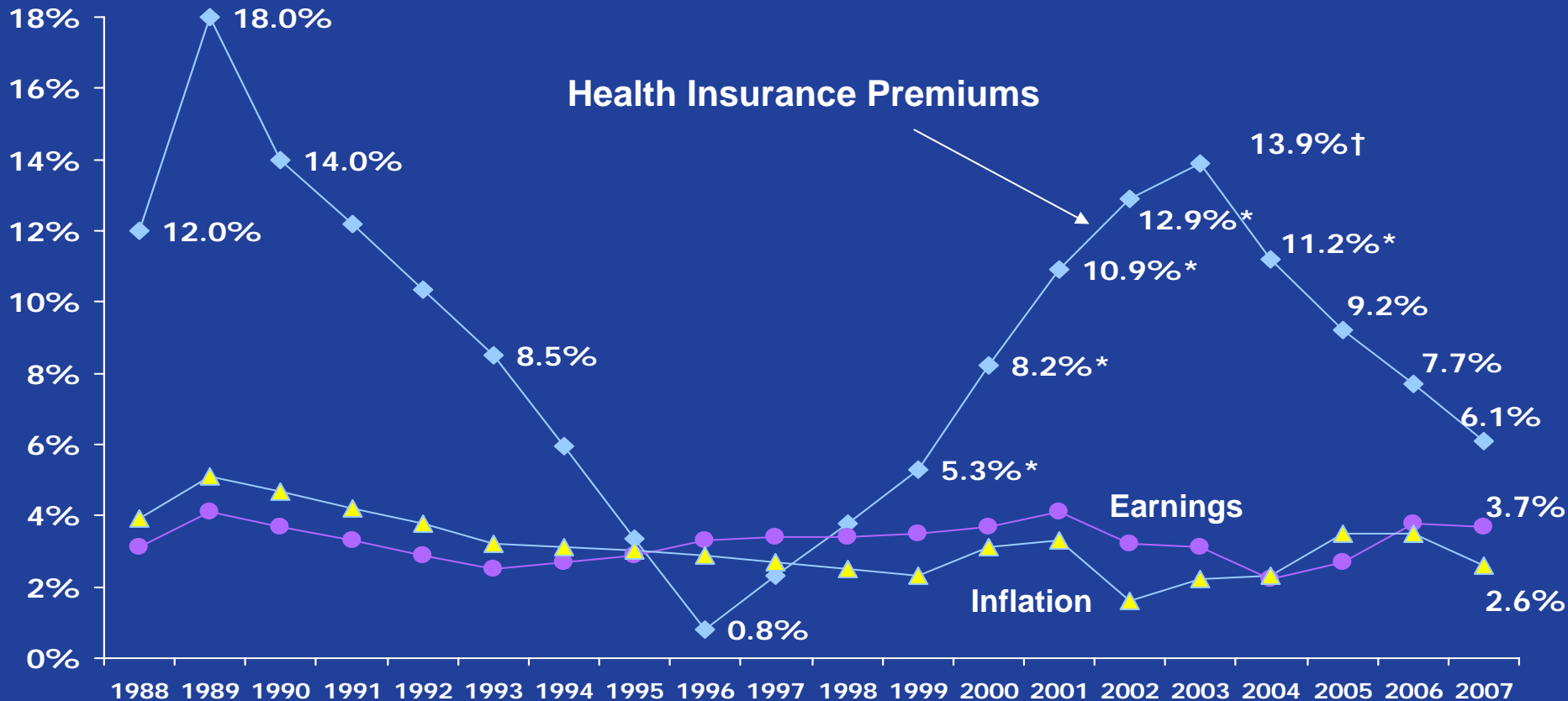
SOURCE: Kaiser Commission on Medicaid and the Uninsured analysis of data from the Centers for Medicare and Medicaid Services, 2004. 2005-2007 HMA based on CBO March 2007 Medicaid Baseline.

# U.S. Medicaid Enrollment: Percentage Changes FY1992 - FY2006



SOURCES: Eileen R. Ellis, Vernon K. Smith and David M. Rousseau, *Medicaid Enrollment in 50 States, June 2005 Update – Preliminary Data*, Kaiser Commission on Medicaid and the Uninsured, June 2006. 2006 data provided by state officials to Health Management Associates for Kaiser Commission on Medicaid and the Uninsured, 2006. For 1992-1997 data are from CMS for federal fiscal years. 1998-2006 are June-June state fiscal years.

# Increases in Health Insurance Premiums, Earnings and Inflation, 1988-2007

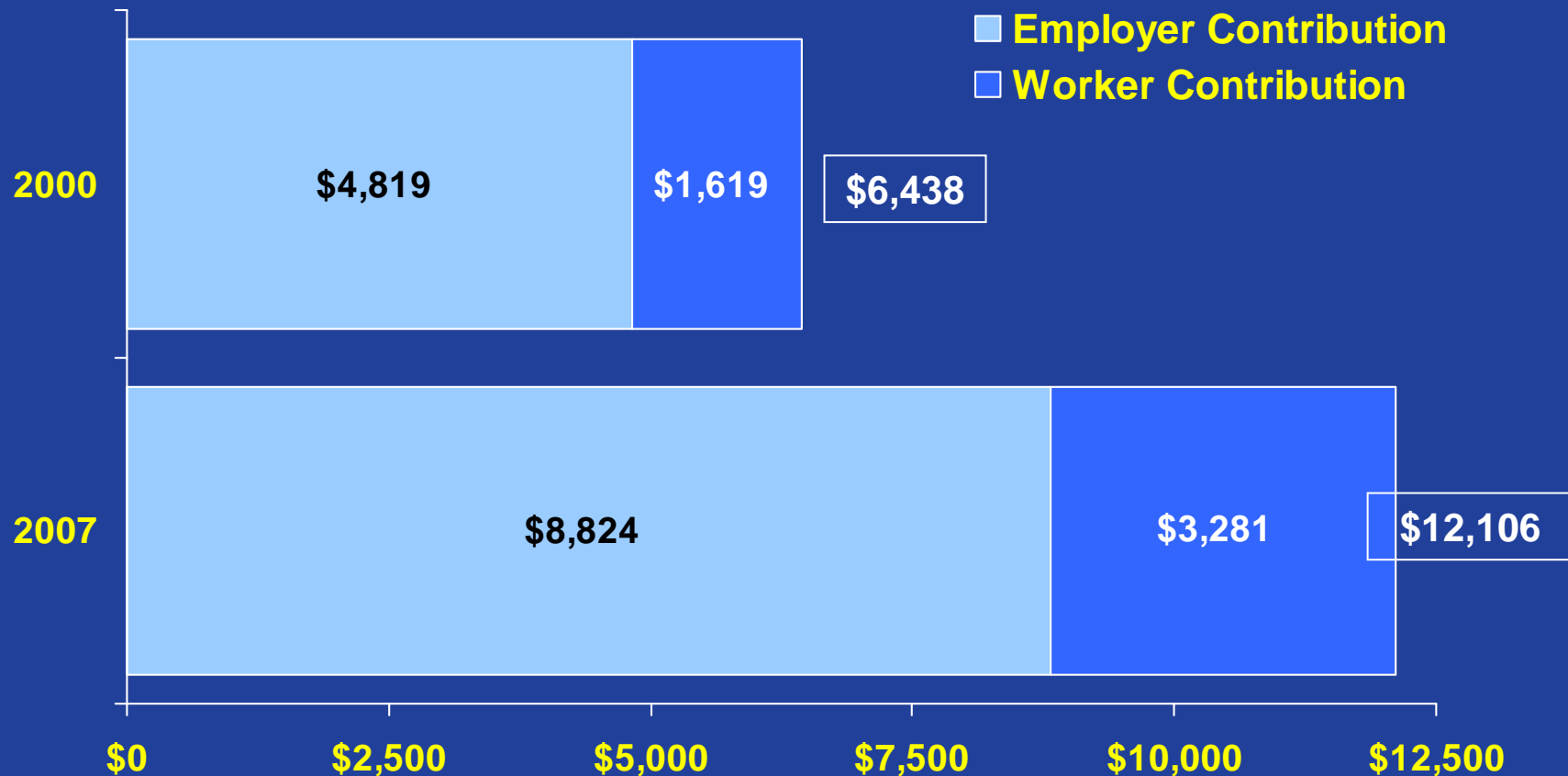


\* Estimate is statistically different from previous year  $p < 0.05$ . † Estimate is statistically different from previous year at  $p < 0.1$ .

Source: KFF/HRET Survey of Employer-Sponsored Health Benefits, 2006; Premium increases for a family of four; Consumer Price Index (U.S. City Average of Annual Inflation (April to April), 1988-2005; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey (April to April), 1988-2007.

# Annual Health Insurance Premium Costs Increased 88% from 2000 to 2007

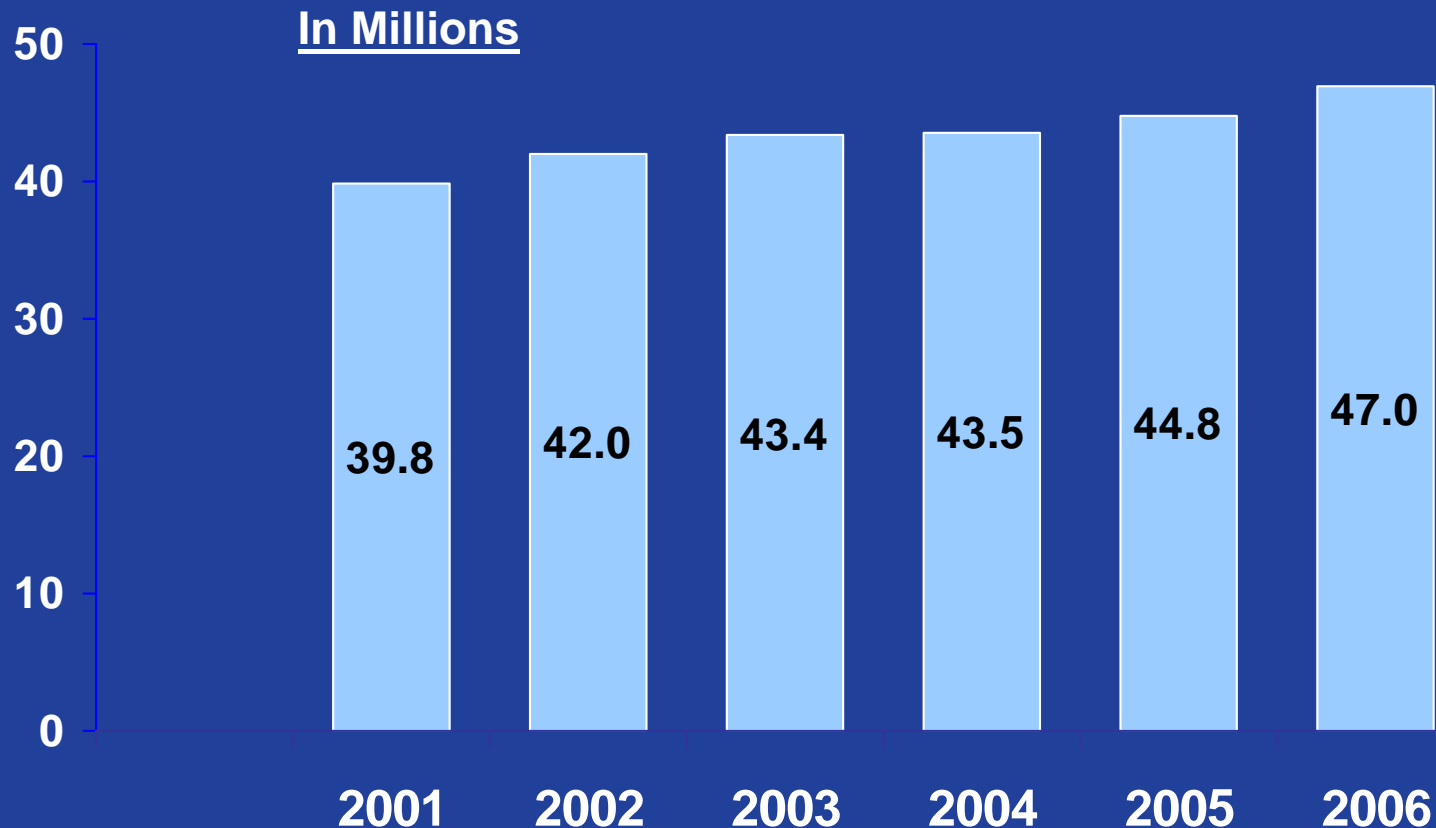
Family premiums increased 88%, while worker's earnings increased 20%.



Note: Family health coverage for a family of four.

SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2000 and 2007.

# Number of Uninsured in U.S. Continues to Increase



SOURCE: U.S. Census, August 28, 2007.

# Growth in the Uninsured Is Related to Growth in Medicaid

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- Total uninsured
  - 15.8% in 2006, up from 15.2% in 2005
  - up 2.2 million in 2006 to 47 million
  - Most uninsured (60%) are working full or part time
    - The share of full-time workers uninsured increased from 17.2% in 2005 to 17.9% in 2006
- Uninsured children
  - up 600,000 in 2006 to 8.7 million, following a 400,000 increase in 2005
  - Only two years of growth in uninsured children since SCHIP enacted
  - 11.7% of all children were uninsured, including 19% of children in poverty – level families

SOURCE: U.S. Census, August 28, 2007.

# Increase in Uninsured Reflects Employer Response to Rising cost of Coverage

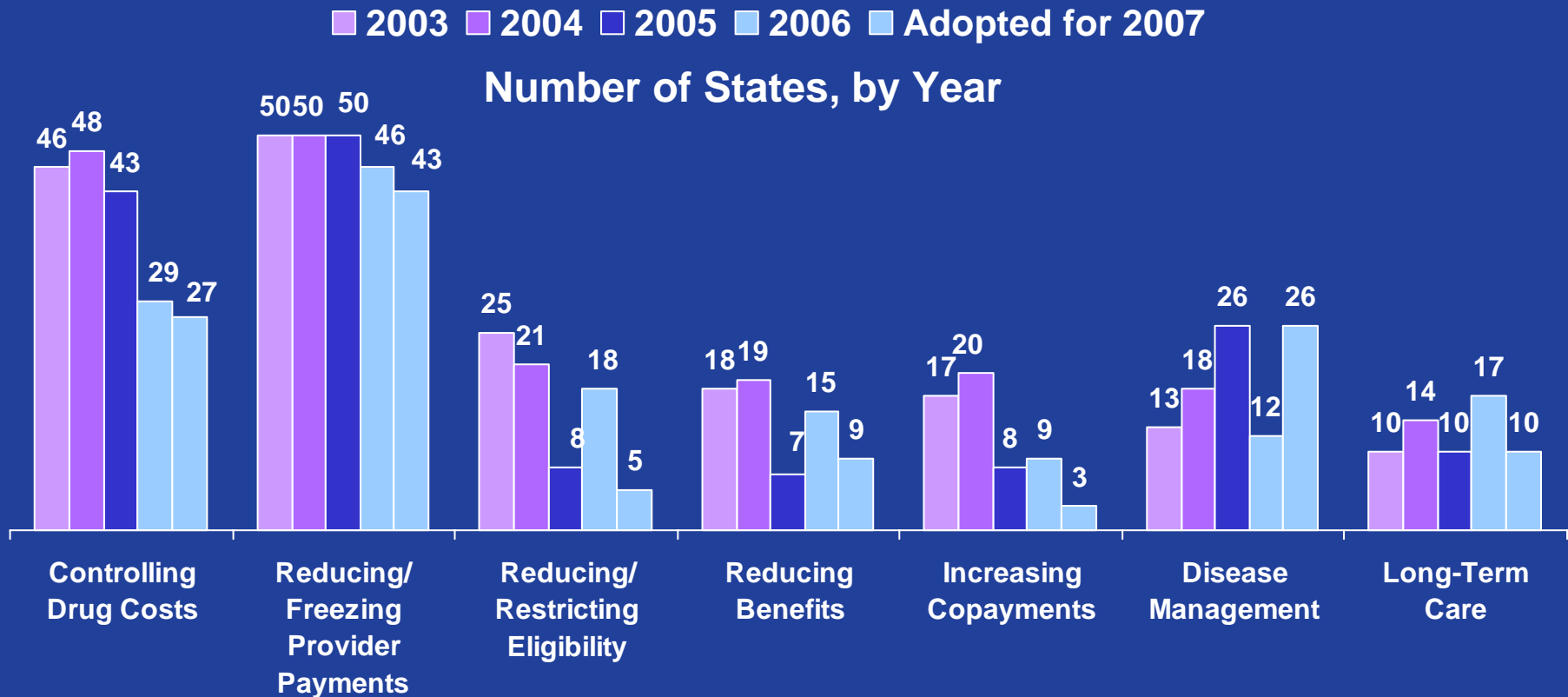
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- Percentage of all firms offering health benefits
  - 2000: 69%
  - 2007: 60%
- “Employers are really feeling the pinch here and as much as possible, they’re trying to limit these increases and push them onto the employees. That means a lot of people drop their coverage.”
  - Douglas Besharov, American Enterprise Institute, quoted in *The New York Times*, August 29, 2007.
- “While the employer-based system slowly unravels, the public system isn’t quite stepping up to the plate to pick up the slack, and therein lies the problem.”
  - Jared Bernstein, Economic Policy Institute, quoted in *The New York Times*, August 29, 2007.

SOURCE: Kaiser/HRET *Survey of Employer-Sponsored Health Benefits*, 2007; *New York Times*, August 29, 2007.

# Fiscal Pressures Forced Every State to Take Medicaid Cost Containment Actions

## FY 2003 – FY 2007



NOTE: Adopted actions are not always implemented. SOURCE: Vernon Smith, Kathleen Gifford, Eileen Ellis, Amy Wiles, Robin Rudowitz, Molly O'Malley and Caryn Marks, *Low Medicaid Spending Growth Amid Rebounding State Revenues: Results from a 50-State Medicaid Budget Survey State Fiscal Years 2006 and 2007*, Kaiser Commission on Medicaid and the Uninsured, October 2006. [www.kff.org/Medicaid/7569.cfm](http://www.kff.org/Medicaid/7569.cfm)



# Medicaid is Constantly Changing: Over 2/3 of States Offered New Proposals in 2007

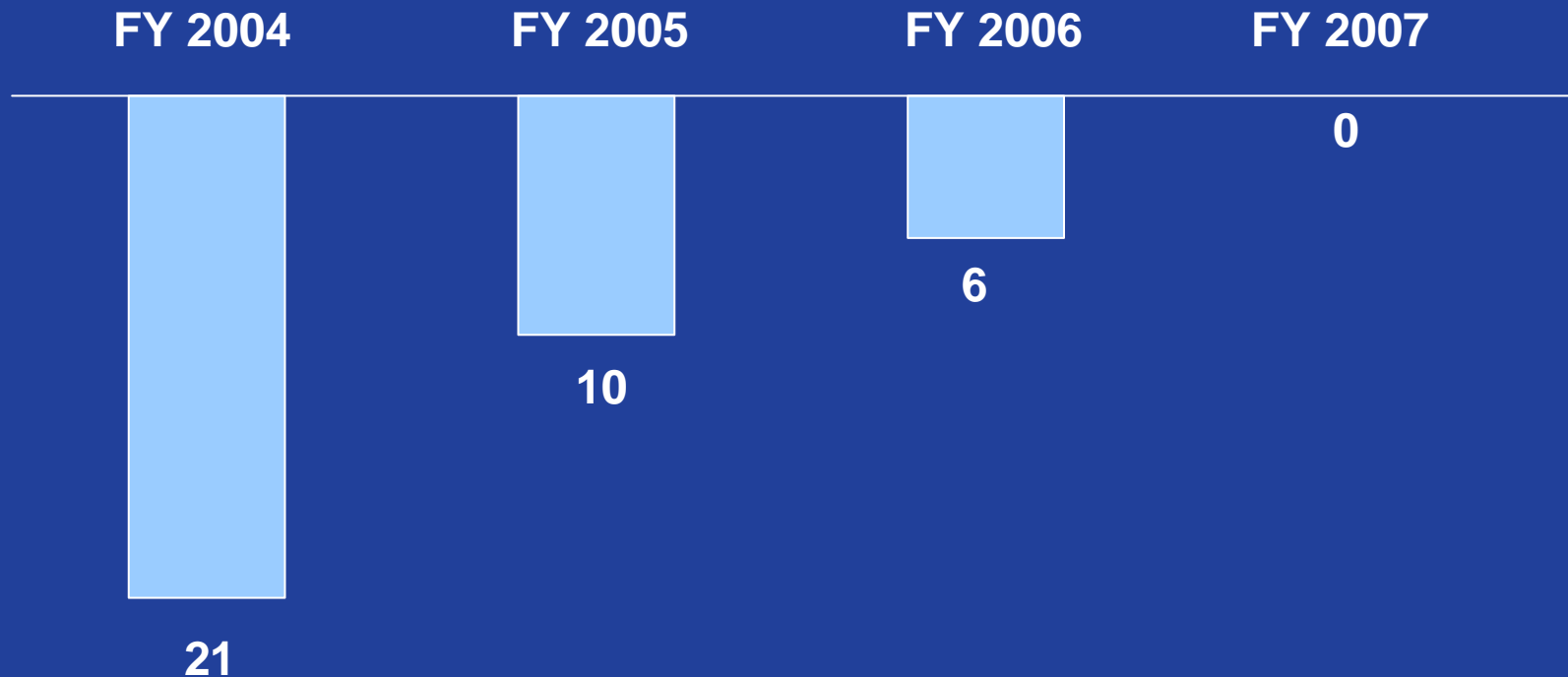
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- Governors in 34 states offered plans to reduce the number of uninsured children, parents, adults, aged and disabled in their state through
  - Medicaid expansions
  - SCHIP expansions
  - Targeted DRA waivers
  - Health reform through major Section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

Source: NASBO, *The Fiscal Survey of States*, June 2007.

# Improving State Revenues Decreased Likelihood of Medicaid Rate Cuts, 2004 - 2007

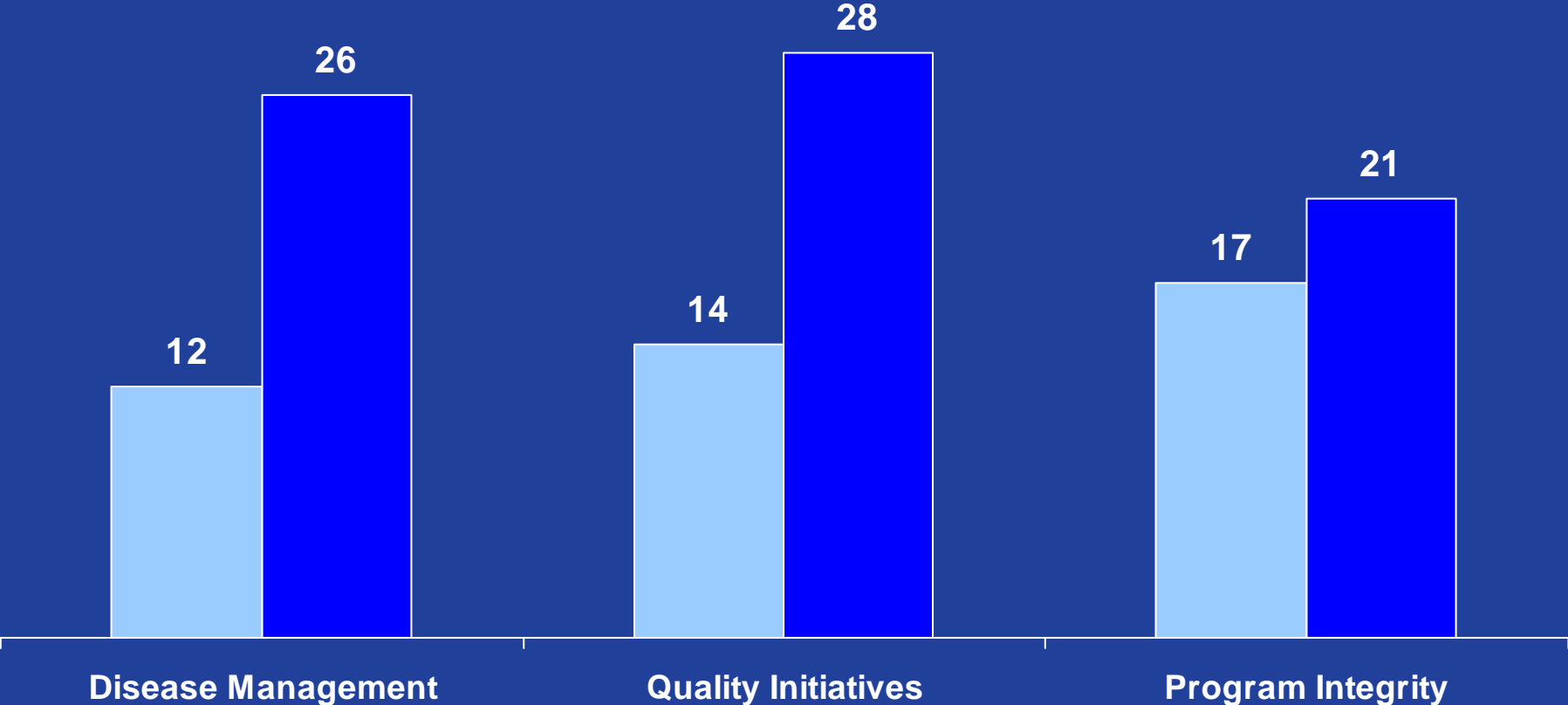
Number of States Cutting Medicaid Rates for Inpatient Hospitals, Doctors, Nursing Facilities or Managed Care Organizations



SOURCE: Vernon Smith, Kathleen Gifford, Eileen Ellis, Amy Wiles, Robin Rudowitz, Molly O'Malley and Caryn Marks, *Low Medicaid Spending Growth Amid Rebounding State Revenues: Results from a 50-State Medicaid Budget Survey State Fiscal Years 2006 and 2007*, Kaiser Commission on Medicaid and the Uninsured, October 2006.

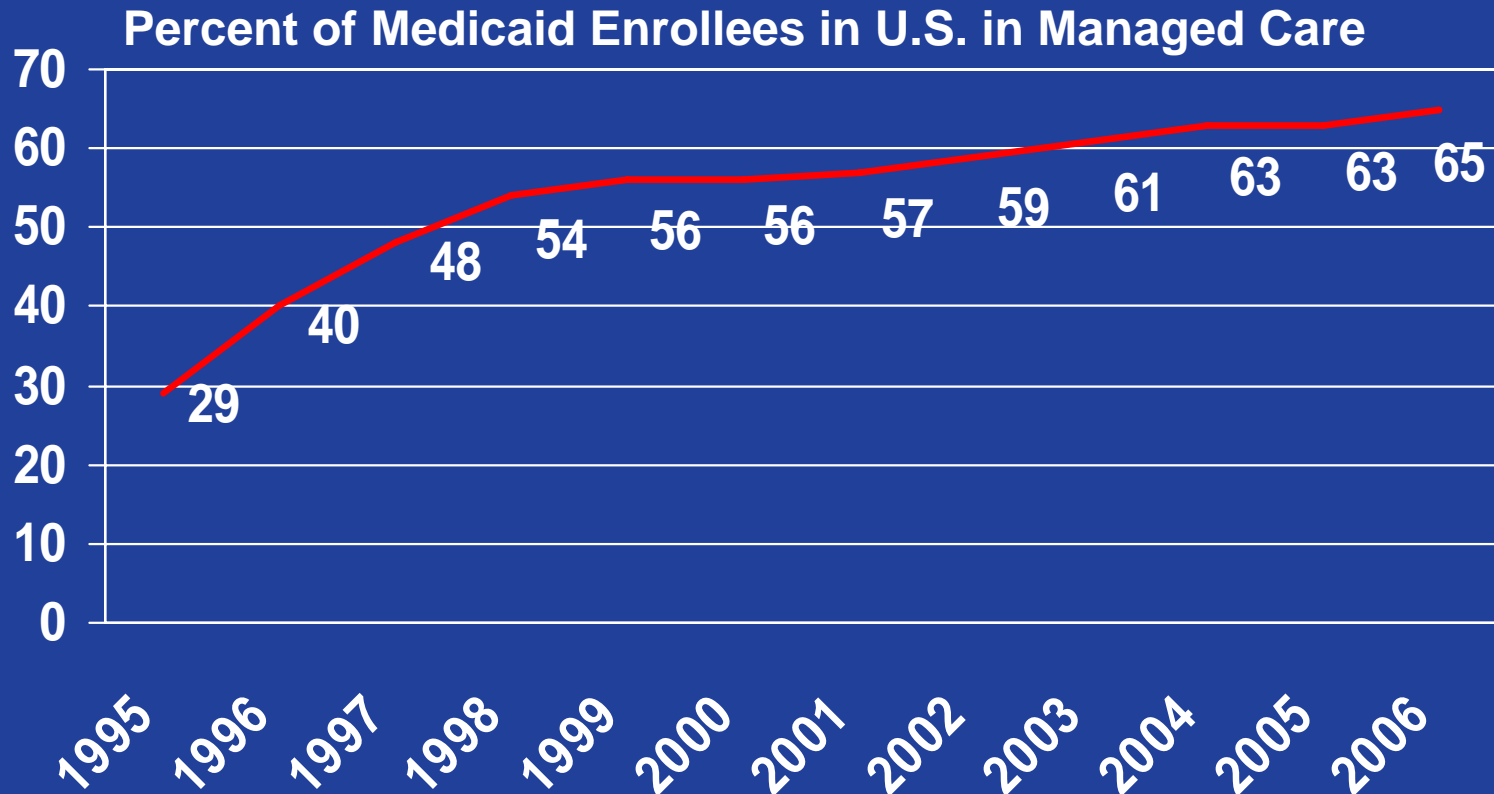
# In 2006 and 2007, States Increasingly Turned to Program and Quality Improvement

Number of States in ■ 2006 ■ Adopted for 2007



SOURCE: Vernon Smith, Kathleen Gifford, Eileen Ellis, Amy Wiles, Robin Rudowitz, Molly O'Malley and Caryn Marks, *Low Medicaid Spending Growth Amid Rebounding State Revenues: Results from a 50-State Medicaid Budget Survey State Fiscal Years 2006 and 2007*, Kaiser Commission on Medicaid and the Uninsured, October 2006.

# Almost 2/3 of U.S. Medicaid Enrollees Are Now in Some Form of Managed Care



Source: CMS, Medicaid Managed Care Reports, 1996-2005

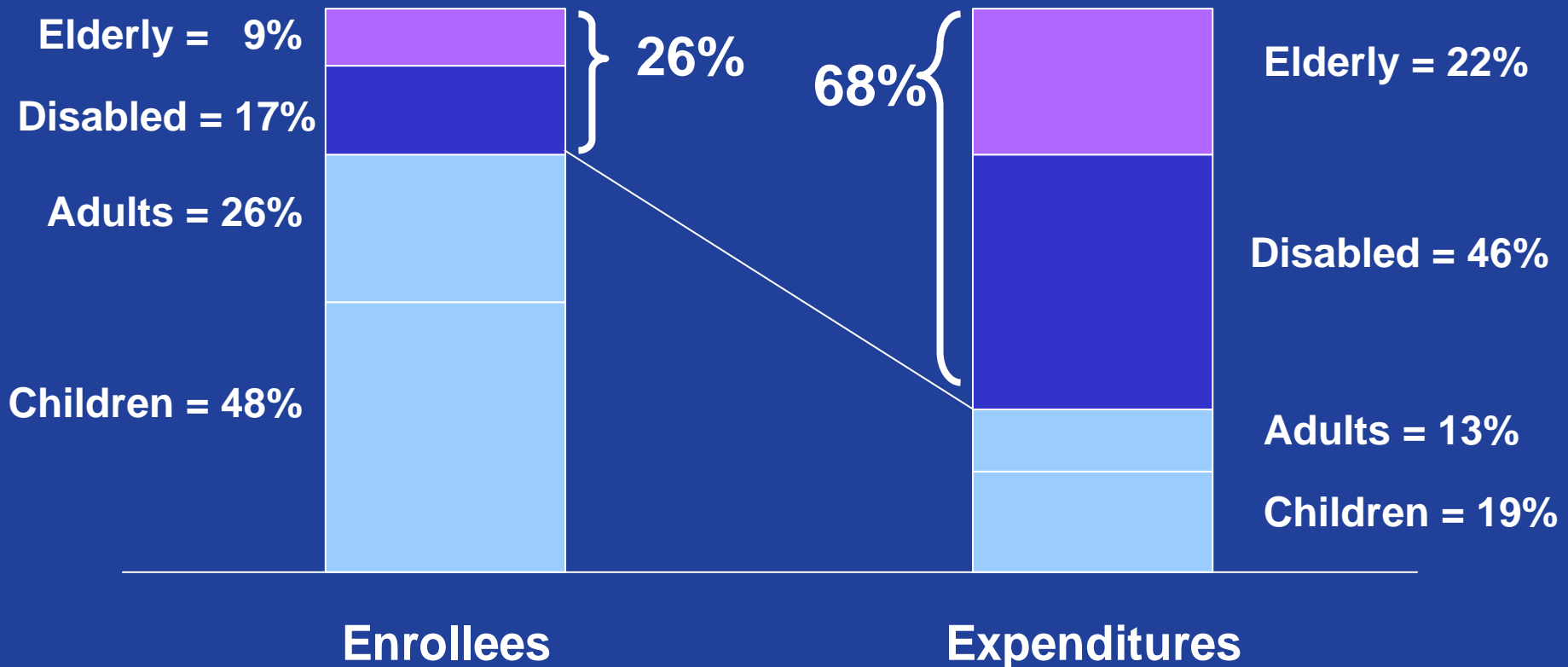
# FY 2007 State Policy Directions Show Commitment to Medicaid Managed Care

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- Enhancements to quality measurement, monitoring and improvement
- Shifts to mandatory enrollment
- Extensions to additional geographic areas, usually rural
- Expansions to additional populations, usually the disabled and dual eligibles

SOURCE: Vernon Smith, Kathleen Gifford, Eileen Ellis, Amy Wiles, Robin Rudowitz, Molly O'Malley and Caryn Marks, *Low Medicaid Spending Growth Amid Rebounding State Revenues: Results from a 50-State Medicaid Budget Survey State Fiscal Years 2006 and 2007*, Kaiser Commission on Medicaid and the Uninsured, October 2006. [www.kff.org/Medicaid/7569.cfm](http://www.kff.org/Medicaid/7569.cfm)

# Elderly and Disabled Account for 68% of Medicaid Spending, 2007



**2007 U.S. Total = 62.2 million**

**U.S. Total = \$305 billion in 2007\***

\*Expenditure distribution based on spending for medical services only and excludes DSH, supplemental provider payments, vaccines for children and administration.

**SOURCE:** Health Management Associates estimates based on CBO Medicaid Baseline, March 2007.

# In 2006, the Deficit Reduction Act Provided New Medicaid Options to States

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- New Flexibility Options
  - Benefits or Cost Sharing
  - New HSA-like “Health Opportunity Accounts”
- New Long Term Care Options
  - Focus on encouraging LTC insurance and greater patient control over care

SOURCE: Vernon Smith, Kathleen Gifford, Eileen Ellis, Amy Wiles, Robin Rudowitz, Molly O'Malley and Caryn Marks, *Low Medicaid Spending Growth Amid Rebounding State Revenues: Results from a 50-State Medicaid Budget Survey State Fiscal Years 2006 and 2007*, Kaiser Commission on Medicaid and the Uninsured, October 2006. [www.kff.org/Medicaid/7569.cfm](http://www.kff.org/Medicaid/7569.cfm)

# A Few States Have Adopted Options Created by the DRA in 2006

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- Benefit Flexibility: WV, KY, ID, KS
- Cost Sharing Flexibility: KY
- Targeted disease management: VA, WA
- Health Opportunity Acct: SC
- HCBS State Plan Option: IA
- Cash & Counseling, LTC Partnership : Several

SOURCE: Vernon Smith, Kathleen Gifford, Eileen Ellis, Amy Wiles, Robin Rudowitz, Molly O'Malley and Caryn Marks, *Low Medicaid Spending Growth Amid Rebounding State Revenues: Results from a 50-State Medicaid Budget Survey State Fiscal Years 2006 and 2007*, Kaiser Commission on Medicaid and the Uninsured, October 2006. [www.kff.org/Medicaid/7569.cfm](http://www.kff.org/Medicaid/7569.cfm); and CMS reports, 2007.



# In 2006, Two States Leveraged Medicaid to Move toward Broader, Near-Universal Health Coverage

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- Massachusetts Health Plan
  - Universal coverage, with individual and employer mandates / assessments
  - Subsidies for low-income individuals
  - Health insurance “Connector”
  - Strong quality component
- Vermont – Catamount Health Plan
  - Near-universal coverage, with Premium Assistance for low-income uninsured
  - New individual product for uninsured
  - Employer assessment
  - Chronic care management initiative

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

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- 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

Source: NASBO, *The Fiscal Survey of States*, June 2007.

# One Example: 2007 Indiana Plan

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- *Subsidized private insurance with HSA-like feature*
  - Eligibility up to 200 percent of the FPL
  - Premiums 2 to 5 percent of income,
  - \$500 in preventive care; a \$1,100 health savings account; up to \$300,000 of annual coverage from a private insurer
- *Medicaid eligibility expanded* for for children and pregnant women
- *Other provisions*
  - children to age 24 can stay on parents' health insurance
  - insurance pool created for small businesses
  - tax incentives to encourage employers to offer insurance
- *Financing:* cigarette tax increased by .44 to \$0.995

# Another example: Pennsylvania

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- Comprehensive, 47-point health plan: “Prescription for Pennsylvania”
- Coverage for all children
- “...affordable health insurance to all adults, with payments based on income.”
- Focus on personal responsibility and quality
- No mandates.

# California ...The Boldest Proposal Yet

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Proposed to cover 6.5 million uninsured through

- Expanded Medicaid coverage for all children
- Mandates for Employers (with 10 or more employees) and individuals
- Assessments on providers
  - 2% for doctors, 4% for hospitals

“California will be the first state, I guarantee you, where we will have universal health coverage, where we will insure everybody.”

--Gov. Arnold Schwarzenegger, speaking to the California Medical Association, May 2, 2007

# An Emerging View: Medicaid is Part of the Overall Health System

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“Medicaid is one purchaser in a larger health care market ... the most effective way to control Medicaid spending growth is to pursue strategies to control overall health care spending growth.”

--Richard Kronick and David Rousseau, “Is Medicaid Sustainable? Spending Projections for the Program’s Second Forty Years,” *Health Affairs – Web Exclusive*, February 23, 2007.

# To slow the growth in costs in the long run, slow the demand for treatment

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Chronic disease is the number one cause of death and disability in the U.S.

- accounts for 70 percent of all deaths and more than 75 percent of health care spending

“We should be moving into an era now... that puts much more emphasis on keeping people well and not just paying for costly complications after they happen.”

--Mark McClellan, former CMS Administrator,  
July 17, 2007.

# A Key Example: Obesity is linked to Disease Prevalence and Health Care Spending

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- Total diabetes prevalence increased 53% over the past 20 years
- “All the increase in diabetes is linked to the doubling of obesity prevalence among adults.”
- 27% of the increase in all health care spending is accounted for by the increase in obesity prevalence.

Source: Kenneth Thorpe, 2006



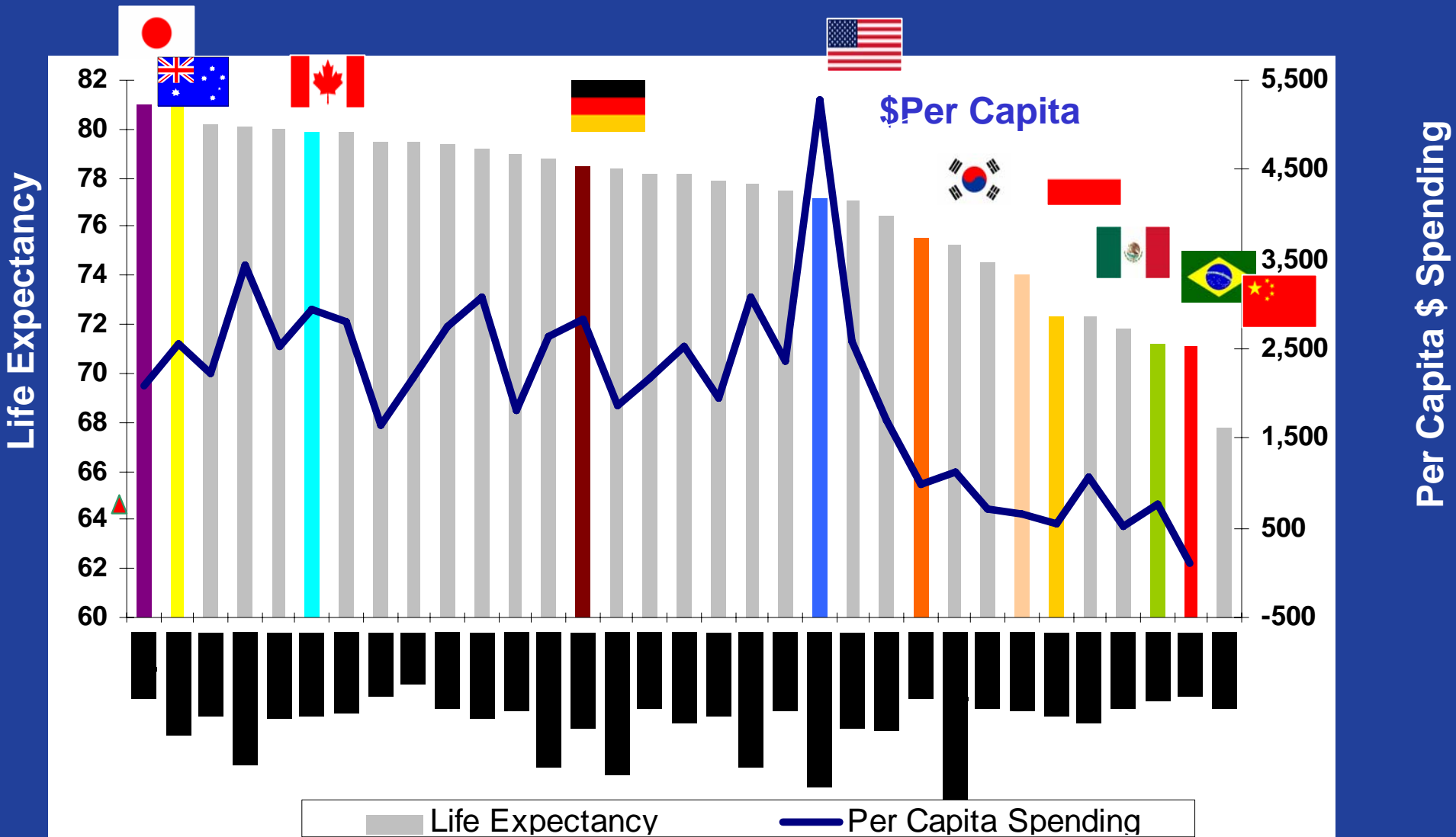
# States Are Focusing on Improving Health Care Quality

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- Studies show chronically ill Americans receive the recommended treatment on average only 56% of the time; examples
  - Congestive heart failure...64% get recommended treatment
  - Depression .....58%
  - Asthma .....54%
  - Diabetes .....45%
- States are focused on disease management and other care management approaches to improve care
- States increasingly are using reimbursement systems to reward higher performance

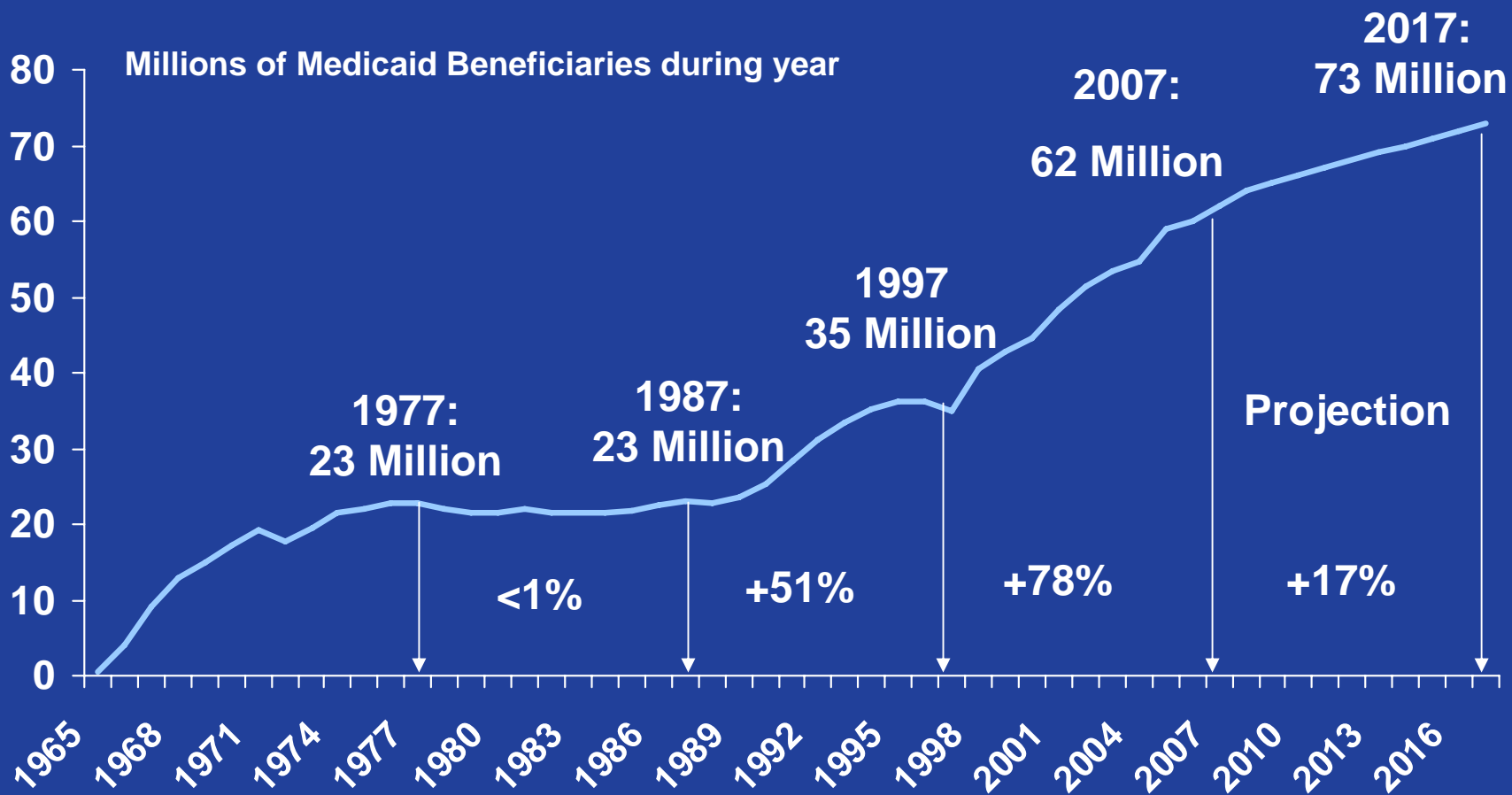
SOURCE: EA McGlynn, SM Asch, J. Adams, et al, "The Quality of Health Care Delivered to Adults in the United States." *New England Journal of Medicine*, June 26, 2003. And: Vernon Smith, et al, *Low Medicaid Spending Growth Amid Rebounding State Revenues*, Kaiser Commission on Medicaid and the Uninsured, October 2006

# Pressure Is Growing to Improve U.S. Health System: U.S. Has the Highest Cost ... but Lower Life Expectancy



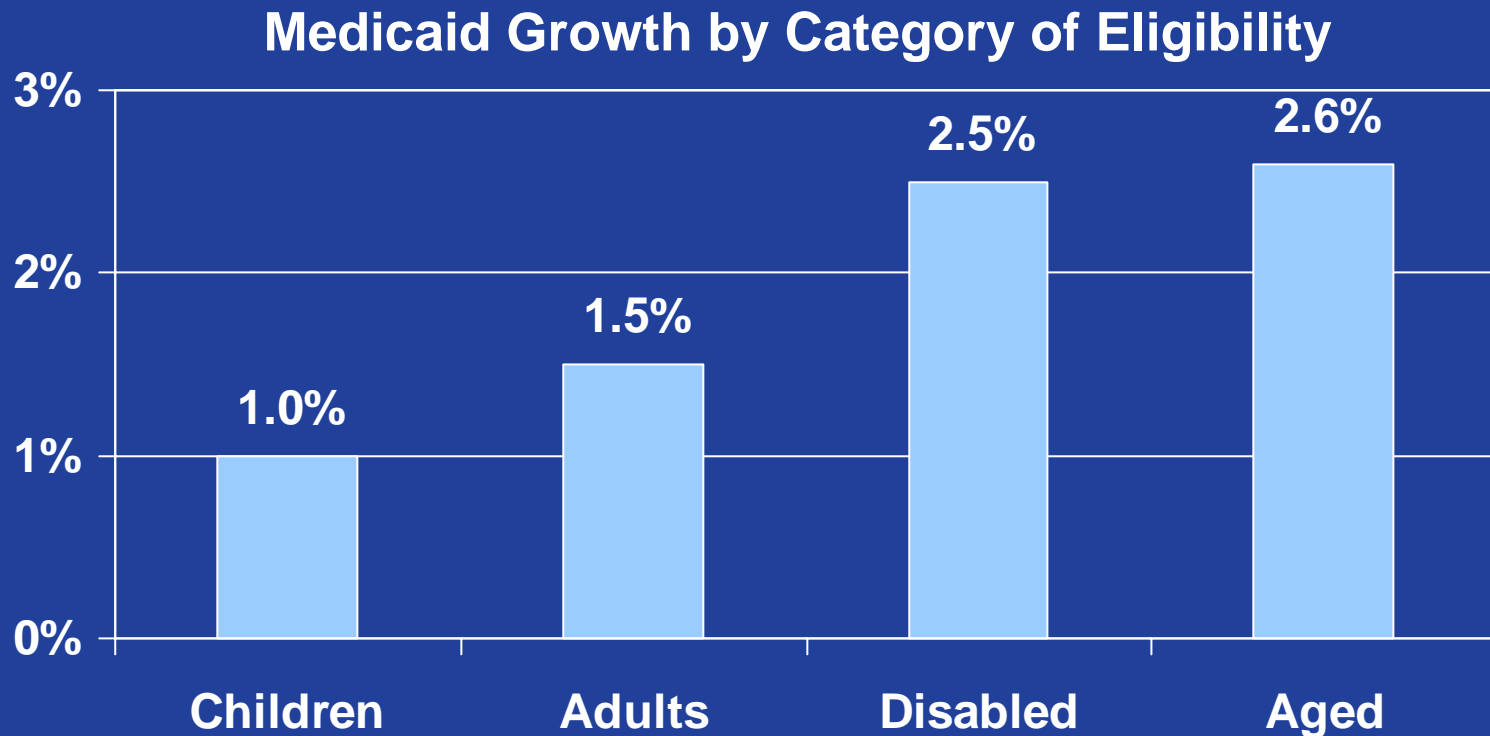
Source: The Commonwealth Fund, based on OECD 2002 Data (Except Brazil and China), 2006.

# Outlook for Medicaid Enrollment: Projected to Grow, but More Slowly



SOURCE: Historical enrollment from Kaiser Commission on Medicaid and the Uninsured analysis of data from the Centers for Medicare and Medicaid Services. 2005-2017: HMA calculations based on CBO March 2007 Medicaid Baseline.

# Growth in Medicaid Enrollees Projected 2007 - 2017



Source: Calculations by Health Management Associates based on CMS historical data and Congressional Budget Office Projections through 2017, March 2007 Medicaid Baseline.

# The Outlook for Medicaid Costs: Increases Similar to Overall Health Spending

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***“Medicaid spending as a share of national health spending will average 16.6 percent from 2006 to 2025 – roughly unchanged from the 16.5 percent in 2005.”***

Even after accounting for “... the anticipated decline in employer-sponsored health insurance and the long term care needs of the baby boomers...”

--Richard Kronick and David Rousseau, “Is Medicaid Sustainable? Spending Projections for the Program’s Second Forty Years,” *Health Affairs – Web Exclusive*, February 23, 2007.

# Medicaid Spending Projections

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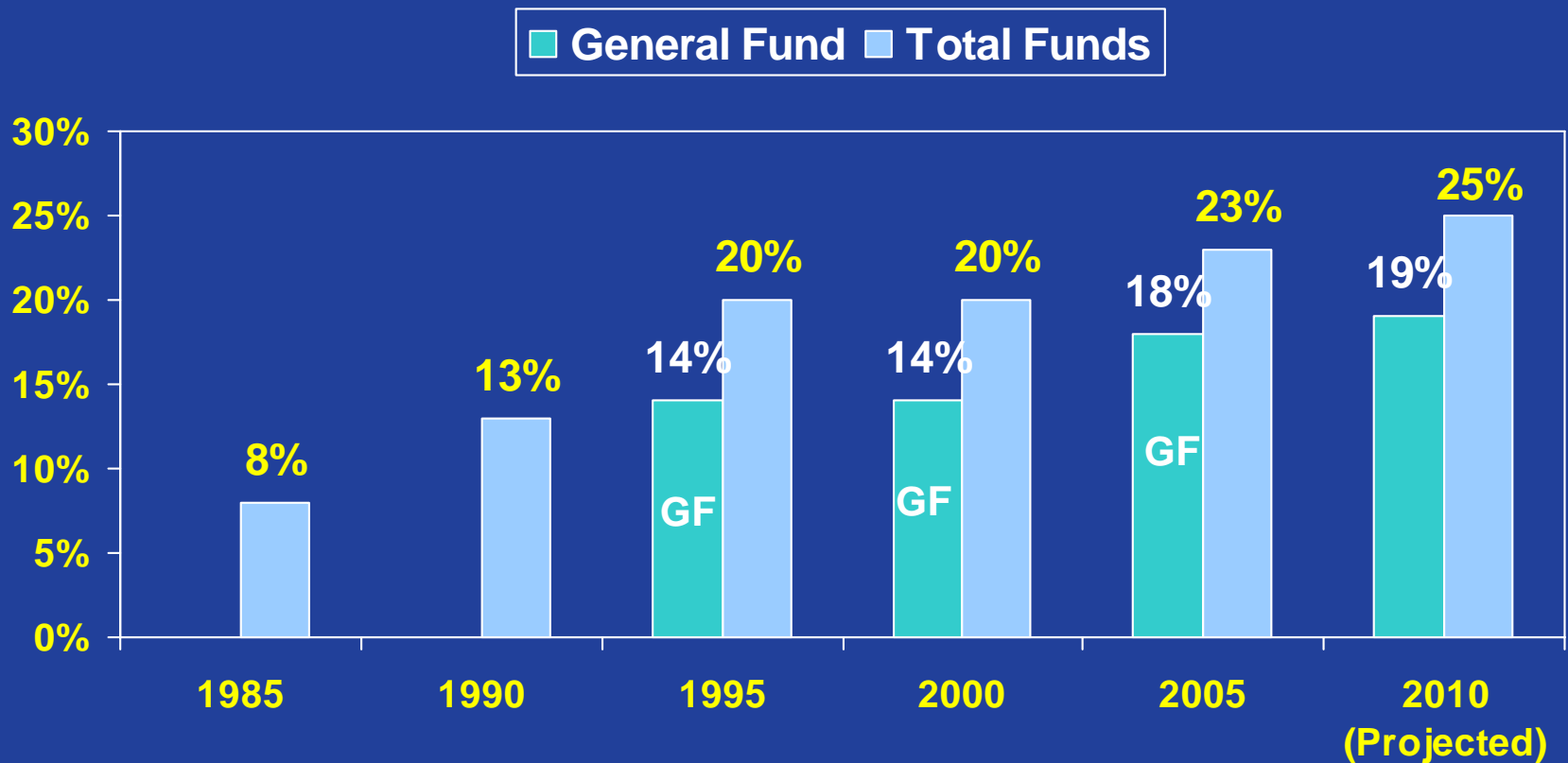
Average annual Medicaid spending growth:

- Ten-year forecast
  - CMS: 8%
  - CBO: 8%
    - 9% for long term care

Sources: Source: John Poisal, et al., "Health Spending Projections Through 2016: Modest Changes Obscure Part D's Impact," *Health Affairs*, 21 February 2007; CBO, Medicaid Baseline 2007.

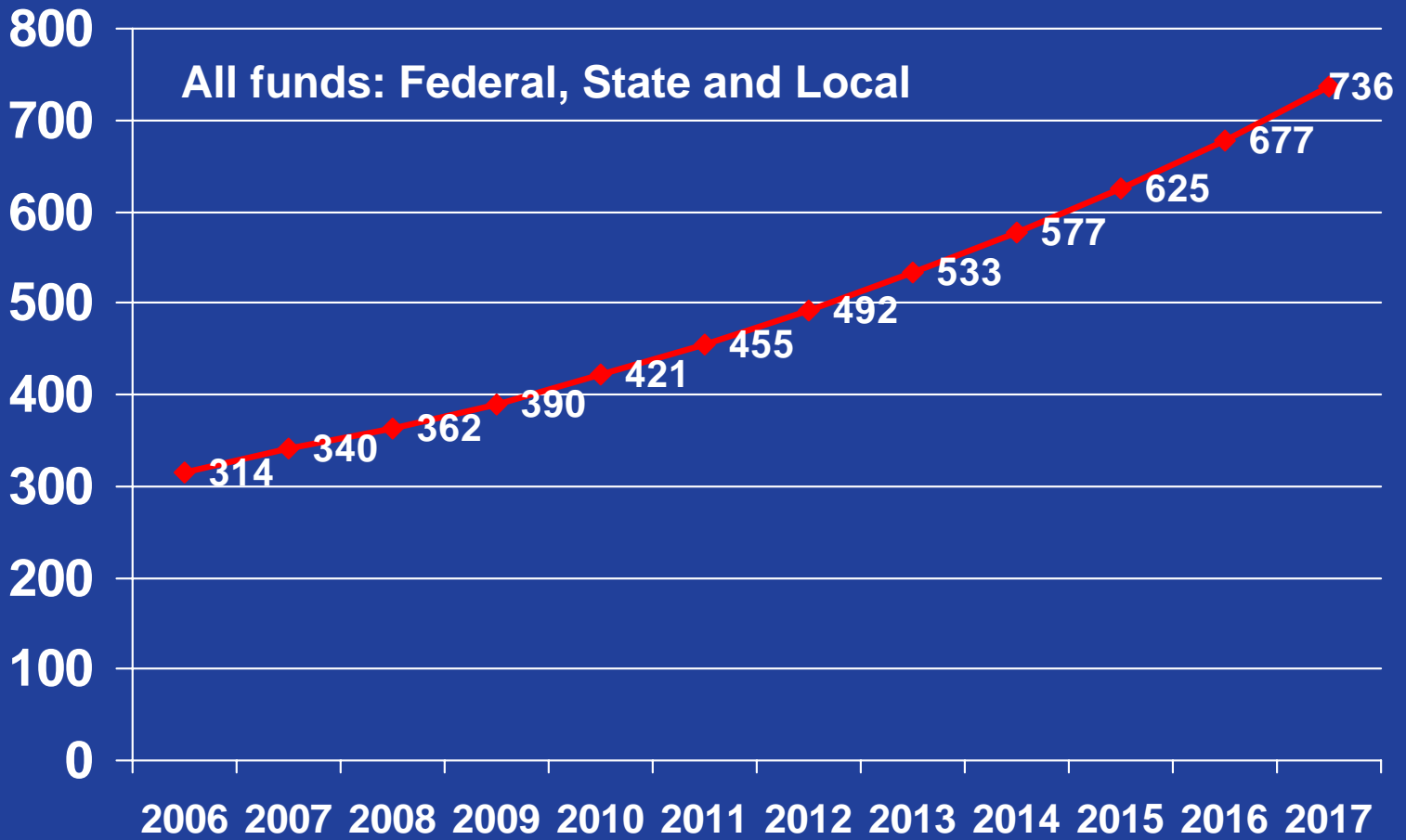
# Medicaid Has Increased as a Share of State Budgets: 1985 – 2010 Projected

Total Medicaid Spending as % of State Budgets



Source: National Association of State Budget Officers, *State Expenditure Reports*, 2005 and earlier reports; 2010 percentages projected by HMA.

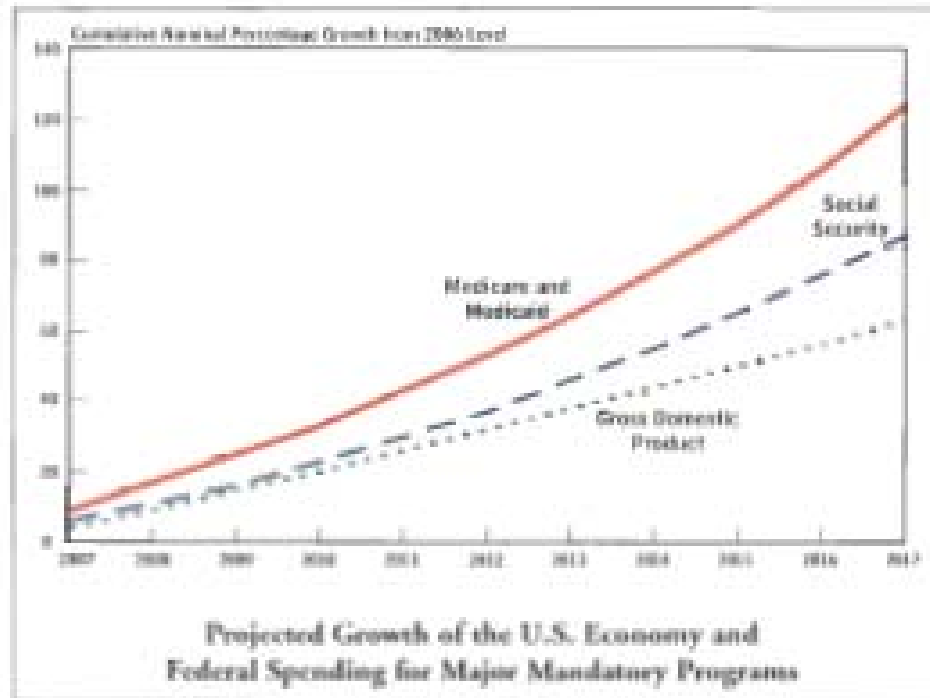
# Medicaid Total Spending Projected to Double to Over \$700 Billion in Ten Years: 2007 - 2017



Source: Health Management Associates estimates based on data from CBO and CMS, 2007.



# The Budget and Economic Outlook: Fiscal Years 2008 to 2017



Projected Growth of the U.S. Economy and  
Federal Spending for Major Mandatory Programs



The cover for the annual CBO analysis of the federal budget highlights the fact that projected Medicaid and Medicare spending growth will exceed GDP growth over the next decade.

The CBO message for federal policy makers: Medicaid spending contributes to the federal deficit, and must be controlled.

# Federal Officials Increasingly Convey a Sense of Urgency

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- “The nation’s long-term fiscal balance will be determined primarily by the future rate of health care cost growth.”
  - Testimony of Peter R. Orszag, Director, Congressional Budget Office, before Committee on the Budget, U.S. Senate, June 21, 2007.

# State Officials Express Concern

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“It is not a good time to be dependent on the federal – state partnership”

--Matt Salo, National Governors Association, August 2007.

# Federal Policies are Aimed to Impact Federal Medicaid Spending

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- Opposition to Congressional proposals for SCHIP reauthorization
- New regulations limiting what qualifies as Medicaid spending

# Current Strategies to Restrain *Federal* Medicaid Spending

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- Just in 2007, Federal proposals would cut spending by about \$20 billion over next five years
  - New, more intense audits, reviews, requirements, oversight and scrutiny
  - Reduced use of Medicaid special financing
  - Restrictions on specific services

# 2007 Federal Strategies

## Issued March-August, 2007 (Page 1)

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- Provider taxes limited: effective 1/2008
- Graduate Medical Education: makes GME not allowable effective 7/2008
- Public providers: more restrictive cost limits
- Pharmacy pricing: new limits from DRA
- Tamper-resistant Rx pads: New Medicaid requirement in Iraq War supplemental

# 2007 Federal Strategies

## Issued March-August, 2007 (Page 2)

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- Rehabilitation services option: defines habilitative and rehab services
- School-based administrative claiming: Eliminates activities of school employees and contractors
- Non-emergency transportation: Limits funding for school transportation for children with IEP or IFSP
- These three account for \$1 billion in FY 2008 and \$6 billion over five years

# Summary and Conclusion

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- Medicaid is the largest health program in America and one of the most significant programs administered by states.
- States are now using Medicaid to
  - Help finance strategies to reduce the uninsured
  - Improve quality of care
  - Improve the health of beneficiaries that could help slow Medicaid costs & overall health costs
- States face increasing challenges relating to their ability to sustain program fiscally and federal actions to limit federal spending