

## MEDICAID and STATE BUDGETS

Millions of Americans lost income and health benefits as job losses mounted during the recent recession, leading many to turn to the Medicaid program to provide health benefits for themselves and their families. As a result, Medicaid enrollment increased by 3.7 million people nationally between June 2009 and June 2010, bringing the total number of enrollees above 50 million for the first time in the program's history, according to a survey by the Kaiser Commission on Medicaid and the Uninsured.

The most significant cause of the growth in Medicaid enrollment at the end of this period was the economic decline. Individuals lost jobs and suffered lower incomes. As a result, many became eligible for public coverage under Medicaid or the Children's Health Insurance Program (CHIP).

Growth in Medicaid spending generally inversely tracks the rate of growth in the economy, rising when the economy falls and falling when the economy rises. The current economic recession has been so deep and extended that the need to cut state budgets has collided with the increasing demand for health services through Medicaid. The state-run health program for people with low incomes has eclipsed K-12 education as the most expensive portion of overall state budgets.

### **States' Fiscal Problems Mean Cuts in Medicaid and Mental Health Programs**

Despite the Medicaid program's success in holding down per capita cost growth relative to other segments of the health care system, states are grappling with immediate budgetary crises that may result in significant cuts to the program. Further exacerbating the problem, the enhanced federal Medicaid matching funds from the American Recovery and Reinvestment Act (ARRA ) are set to expire on June 30, 2011, despite the fact that most states' fiscal situation hasn't yet recovered.

While the federal money is credited with preventing even worse financial problems, deficits were so deep that 39 states cut Medicaid payments to providers in 2010, and 20 states reduced benefits, according to Kaiser.

New gaps totaling \$26.7 billion have opened up in state budgets this fiscal year and states face another \$82.1 billion in deficits in FY 2012, according to a fiscal brief released by the National Conference of State Legislatures. In many cases, the expiration of ARRA funds was cited as the reason for the shortfalls. On July 1, the enhanced federal aid will disappear, causing an increase of from 25 to 33 percent in each state's share of Medicaid costs.

Because of federal eligibility restrictions, the options for states are largely limited to cutting benefits that are not federally required, such as mental health services; decreasing payments to physicians, hospitals and nursing homes, and raising taxes on those providers.

In Congress, the Republican House leadership has promised to roll back most federal spending to 2008 levels. That could mean as much as \$100 billion in cuts. The biggest potential target is Medicaid, which accounts for nearly 43 percent of state spending from federal funds.

One proposal under consideration is replacing the funding structure for Medicaid, in which the federal government pays at least fifty percent of the cost, with fixed federal block grants to states. A report from the Center on Budget and Policy Priorities said the block grant plan “would shift costs and risks to states, low-income beneficiaries, and health care providers” and “likely unravel the health reform law, driving up the number of people who are uninsured and underinsured.”

In early February, Health and Human Services Secretary Kathleen Sebelius offered to help budget-strapped governors find ways to reduce Medicaid costs, but did not agree to urgent requests to sharply cut eligibility for the program, which covers 48 million poor, disabled and elderly people. Medicaid and CHIP together cover more than 35 million children.

In a letter to the nation’s governors, Secretary Sebelius said the Patient Protection and Affordable Care Act (PPACA) allows states with deficits to cut people as long as they are adults who are not disabled or pregnant, and they have incomes above 133 percent of the federal poverty level (\$14,500 for an individual). Twenty-one states and the District of Columbia currently offer coverage to such adults above that income level.

The Secretary said she would work with states to help them identify ways to lower Medicaid costs by improving quality, and suggested one way states could save money would be by managing care better for the sickest Medicaid beneficiaries.

### **Medicaid Expansion Coming**

Under PPACA, Medicaid will expand significantly in 2014 when 16 million more people are expected to become eligible for the program. The federal government will pick up all costs for the new enrollees for the first three years. By 2020, states will be required to assume 10 percent of the costs of the expansion.

There is much uncertainty in predictions of costs and benefits. Earlier this month, Congressional Republicans released a report estimating the Medicaid expansion would cost states \$118 billion through 2023. In contrast, a Robert Wood Johnson Foundation report predicted states would receive \$82.3 billion from the federal government in Medicaid and state exchange subsidies.

In mid-February, **Arizona** became the first state to receive approval from the Administration to drop 250,000 childless adults from its Medicaid program. Governor Jan Brewer had requested the waiver to help close a projected \$763 million budget shortfall for 2012. The waiver was needed to exempt the state from a PPACA provision requiring states to maintain their level of Medicaid coverage until 2014.

### **State Budgetary Actions**

In **Minnesota**, officials are working in the opposite direction, expanding Medicaid eligibility to some 95,000 childless adults before 2014, largely to win federal dollars for coverage that was being provided by the state. Advocates claim the move will draw about \$1.4 billion in federal funds to the state, and will help create 25,000 jobs. Opponents say the action is not good long-term policy.

A number of states, **Texas** and **California** among them, are considering further reductions of as much as 10 percent in payments to providers. Medicaid reimbursement is already so low that many physicians refuse to accept the coverage. Texas briefly considered withdrawing from Medicaid altogether, but concluded the loss of federal matching funds would cost the state money in the long run.

Several states also plan to raise co-payments for beneficiaries. And a number of governors, notably Rick Scott in **Florida**, are considering vast expansions of managed care plans in an attempt to control costs. He also proposes reducing Medicaid provider rates by 5 percent. The state Senate has proposed cutting optional services such as mental health funding, dentistry and optometry for Medicaid patients. In an effort to encourage primary care physicians to continue accepting patients under Medicaid, the Senate is considering legislation to increase payment rates for primary care providers, and enact medical liability reform.

The development of state budgets is a dynamic and quickly-changing process. Here are some snapshots of proposals and actions across the country:

**California** Governor Jerry Brown proposed cutting Medicaid by \$1.7 billion, in part by limiting the beneficiaries to 10 doctor visits a year and six prescriptions a month. The change would affect only 10 percent of Medicaid recipients, according to the state's Medicaid director. But many of them would be among the sickest beneficiaries. Mr. Brown also has suggested eliminating an adult day care program that serves 27,000 people who might otherwise end up in nursing homes.

The administration of **Illinois** Governor Pat Quinn announced rollbacks to proposed cuts for substance abuse treatment funding. The planned \$208 million in substance abuse treatment cuts were first reduced to \$100 million. State officials now say the cuts will total only \$57 million. The current-year cuts come in addition to those proposed in the FY 2012 budget, which would eliminate all \$55 million that Illinois spends on substance abuse treatment from the state's general revenue fund.

On March 18, the **Kansas** House and Senate both rejected a proposal from Governor Sam Brownback to reduce funding for community mental health centers by an additional \$25 million over his originally-recommended reduction of \$15 million. Governor Brownback has also asked the U.S. Department of Health and Human Services to give the state free rein in how to spend the nearly \$2 billion Kansas receives in federal Medicaid assistance.

Proposed changes to **Ohio's** Medicaid program are projected to save \$1.4 billion. The budget would reduce hospital reimbursements by \$478 million and save \$159 million through lower payments to managed care companies that oversee most of the state's Medicaid beneficiaries. The budget would also save \$243 million through changes to mental health services, including implementing a new limit on the hours of psychiatric treatment, counseling, and assessment that Medicaid patients may receive. The budget is now before the state legislature.

After signing legislation in early January to inject \$330 million into the state's Medicaid program, MassHealth, to pay bills, **Massachusetts** Governor Deval Patrick proposed a 2012 budget that would cut \$16 million from Department of Mental Health hospitals and eliminate 165 state

inpatient mental health beds, moving patients to community-based facilities. In addition, the budget would reduce funding for state-administered preventive health services by \$5.9 million. The budget would save \$1 billion through new Medicaid provider contracts, requiring increased care coordination and cooperation between providers.

Governor Peter Shumlin's proposed budget would reduce mental health funding in **Vermont** by \$4.6 million. The budget would also increase assessments on health care providers to raise \$28 million and end the state-subsidized private insurance program, Catamount Health, transferring the program's beneficiaries to the Vermont Health Access Program. The Vermont Medical Association has objected to that proposal, arguing the plan would greatly expand the number of Medicaid recipients, while only reimbursing physicians at "44 percent of the cost of delivering care."

### **Supreme Court to Hear Medicaid Payment Cases**

The U.S. Supreme Court has agreed to hear arguments on three consolidated California cases that challenge Medicaid provider payment cuts. The high court said it would hear one-hour oral arguments on the three cases, most likely this Fall. In all three cases, providers sued the California Department of Health Care Services to stop planned rate cuts that state officials said were necessary amid a severe budget crisis.

At issue is whether California and other financially troubled states have the flexibility to reduce Medicaid payments to physicians, hospitals and other medical providers.

While states have begun to benefit from the upturn in the U.S. economy, disappearing federal stimulus dollars, slow revenue growth and spending pressures ensure that budget balancing tops the legislative agenda in most states this year, according to a survey of state legislative fiscal directors by the National Conference of State Legislatures. That scenario promises a continued bleak forecast for Medicaid and other state programs, at least for the immediate future.

### **To Read More:**

The Kaiser Foundation's Statehealthfacts.org has recently added new and updated data on Medicaid & CHIP, as well as other topics. For more information, go to:

<http://www.statehealthfacts.org/>

The Foundation's Commission on Medicaid and the Uninsured has added a chartpack called Top 5 Things to Know About Medicaid to its many resources about how the Medicaid program works and who it serves. See it here: <http://www.kff.org/medicaid/8162.cfm>

Since 2009, state legislatures have cut nearly \$2 billion in non-Medicaid mental health spending, according to a recent report from the National Alliance on Mental Illness. The report, available at [http://www.nami.org/Template.cfm?Section=state\\_budget\\_cuts\\_report](http://www.nami.org/Template.cfm?Section=state_budget_cuts_report), included state budget cuts to mental health services between 2008 and March 2011 and found that 32 states and Washington, DC, reduced funding by \$1.8 billion.

The National Association of State Mental Health Program Directors (NASMHPD) in February offered a Congressional briefing examining state mental health funding. Here is a link to their presentation:

[http://www.nasmhpd.org/general\\_files/meeting\\_presentations/Hill%20Briefing%20Feb.%202016%202011/Kevin%20Martone%20Powerpoint.pdf](http://www.nasmhpd.org/general_files/meeting_presentations/Hill%20Briefing%20Feb.%202016%202011/Kevin%20Martone%20Powerpoint.pdf)

Please contact Paula Johnson at [pjohnson@psych.org](mailto:pjohnson@psych.org) with questions or comments.