



THE KAISER COMMISSION ON  
**Medicaid and the Uninsured**

# **The State Fiscal Crisis and Medicaid: A National Perspective**

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The Henry J. Kaiser Family Foundation

for

“The Future of Medi-Cal”  
The California Health Policy Roundtable  
Sacramento, California  
May 13, 2003

Figure 1

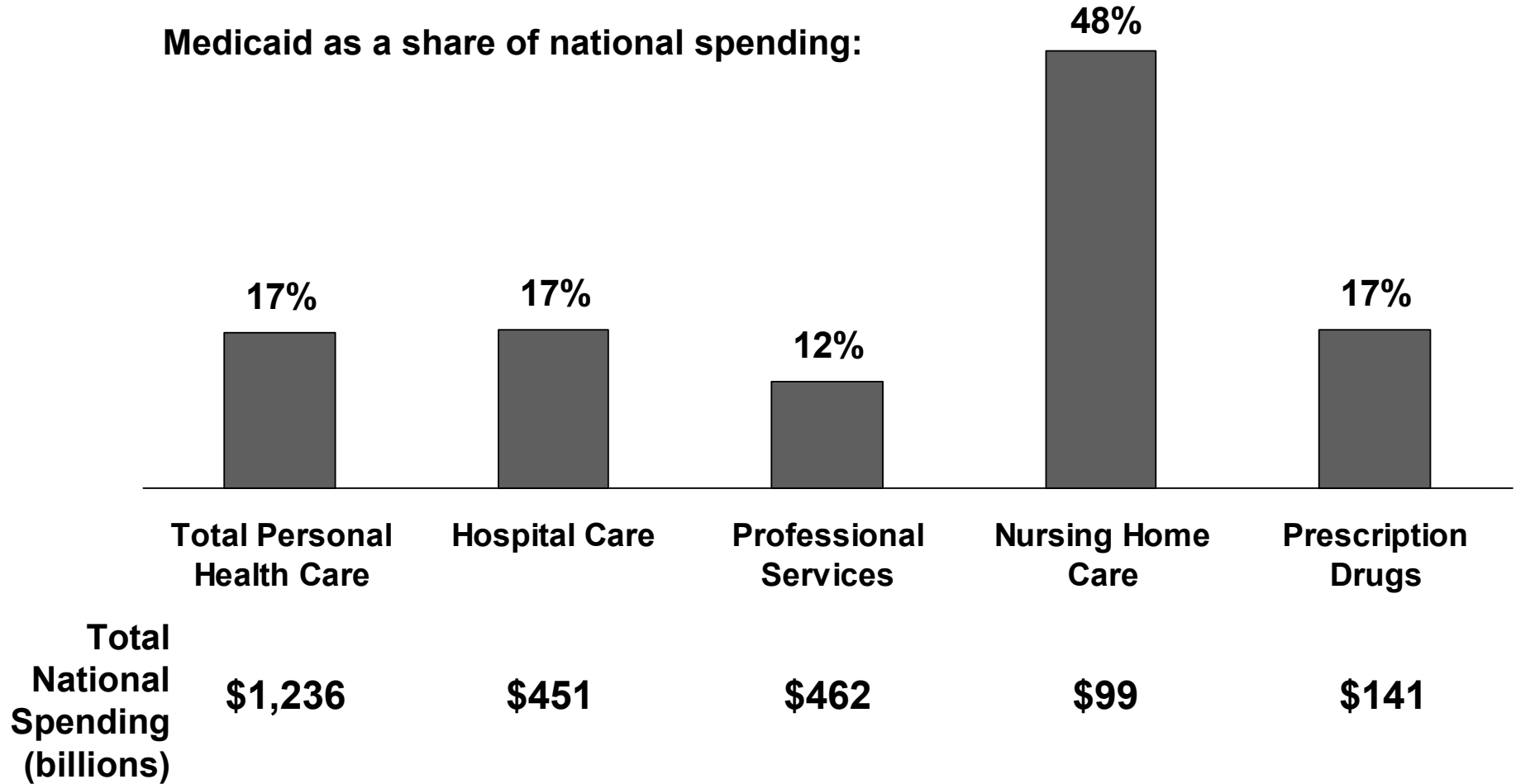
# Medicaid's Role

- **Provides long-term care and health care coverage for over 50 million people**
  - Provides comprehensive, low-cost health insurance for 38 million people in low-income families; covers one in four American children
  - Covers over 12 million seniors and people with disabilities, including over 6 million Medicare beneficiaries who rely on Medicaid for long-term care, prescription drugs, and help with Medicare cost-sharing
- **Guarantees entitlement to states and individuals; open ended financing**
- **Provides 43% of federal funds to states through federal matching payments**

Figure 2

# Medicaid's Role in the Health System, 2001

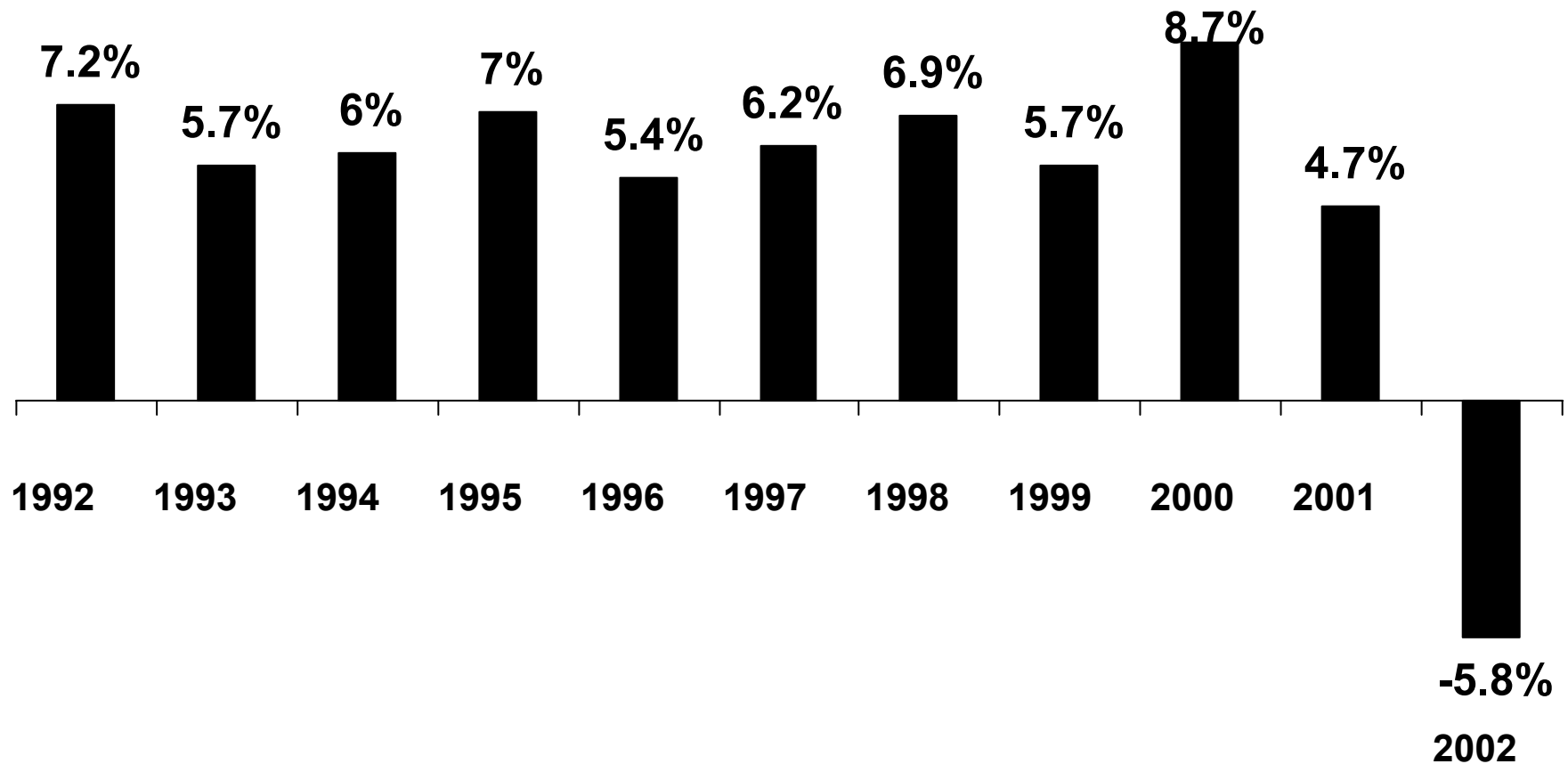
Medicaid as a share of national spending:



SOURCE: Levit, et al, 2003. Based on National Health Care Expenditure Data, Centers for Medicare and Medicaid Services, Office of the Actuary.

Figure 3

# Change in State Tax Revenue Collections, 1992-2002



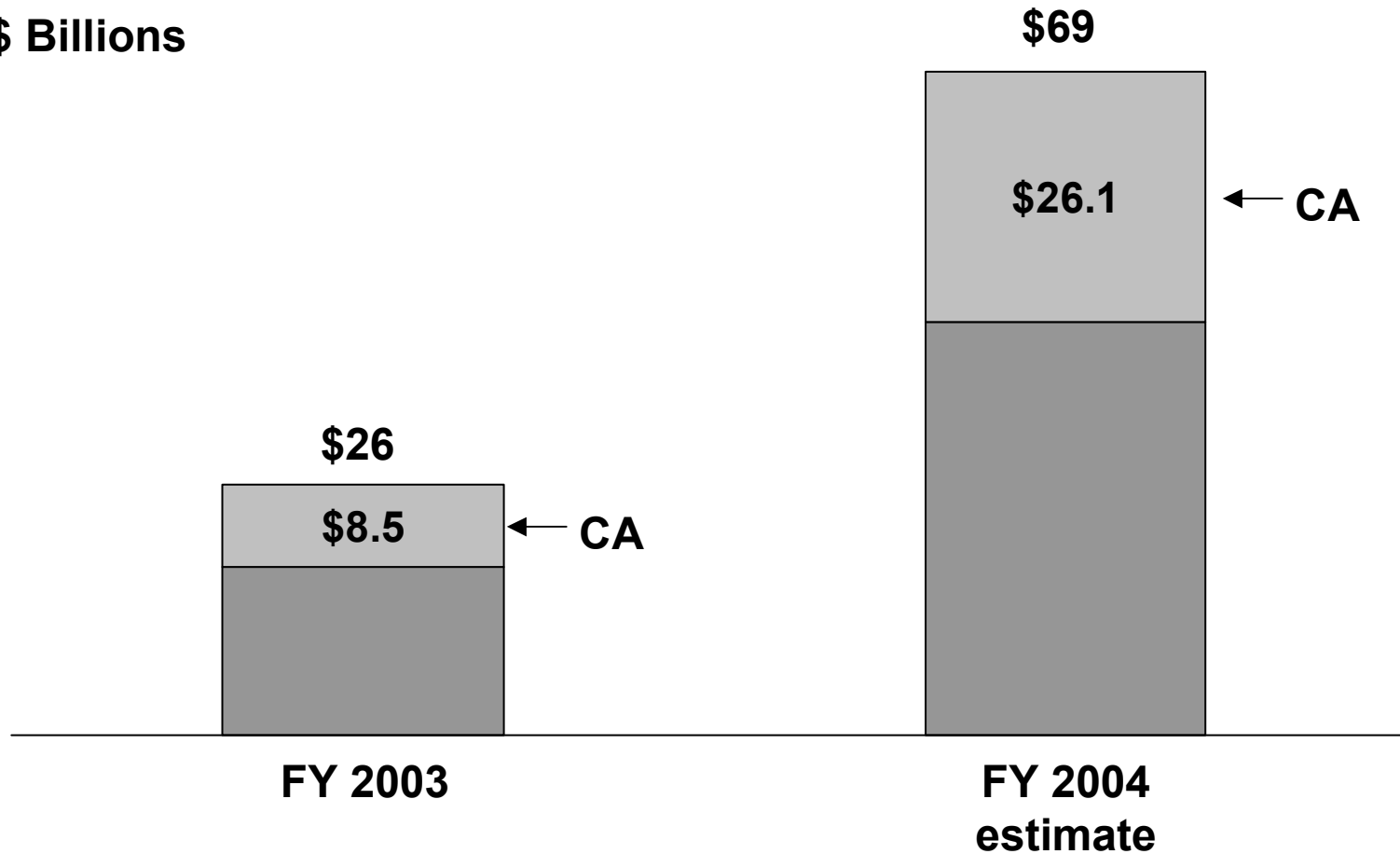
SOURCE: Rockefeller Institute of Government, State Revenue Report, December 2002.

Changes are shown in nominal terms and are not adjusted for tax-related legislative changes

Figure 4

# Total State Budget Shortfalls FY 2003 – FY 2004

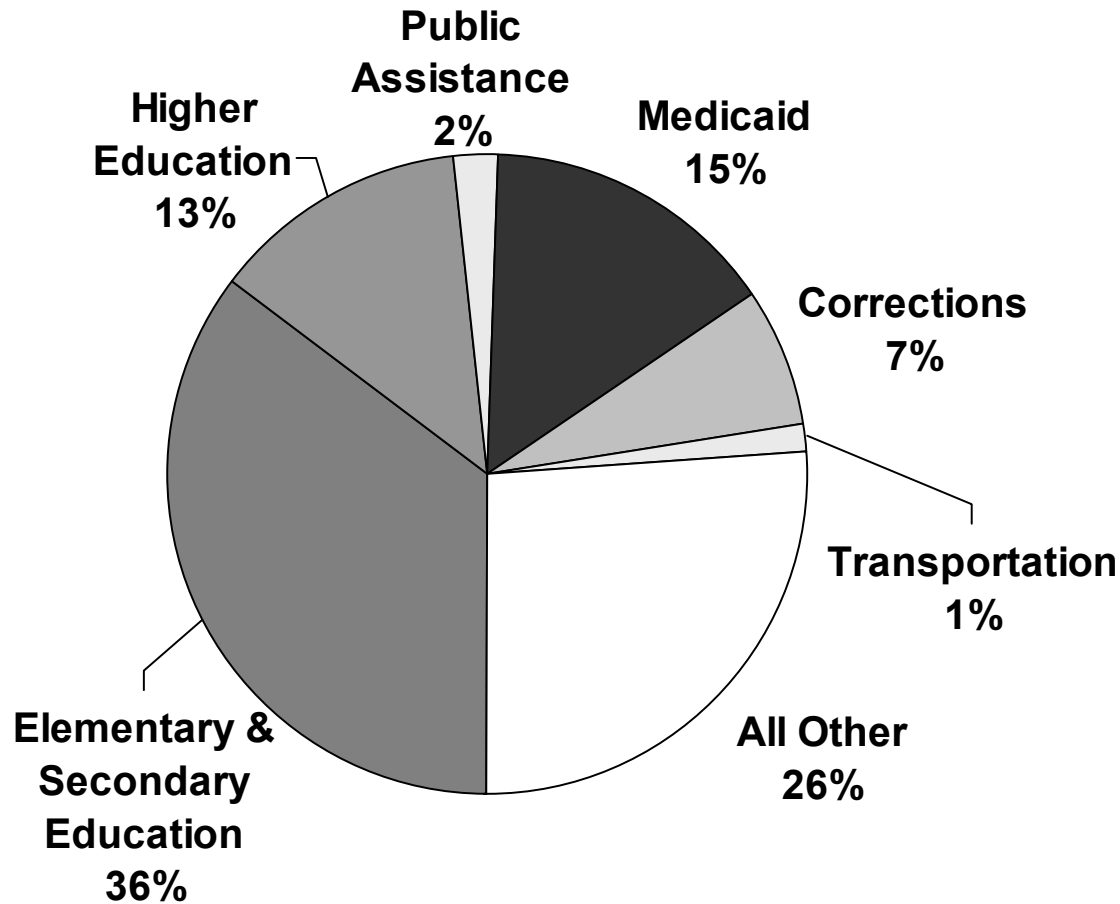
\$ Billions



SOURCE: NCSL, State Budget Update: February 2003

Figure 5

# State Medicaid Spending as a Percent of General Fund Expenditures, 2001



**Total State General Fund Spending = \$489 billion**

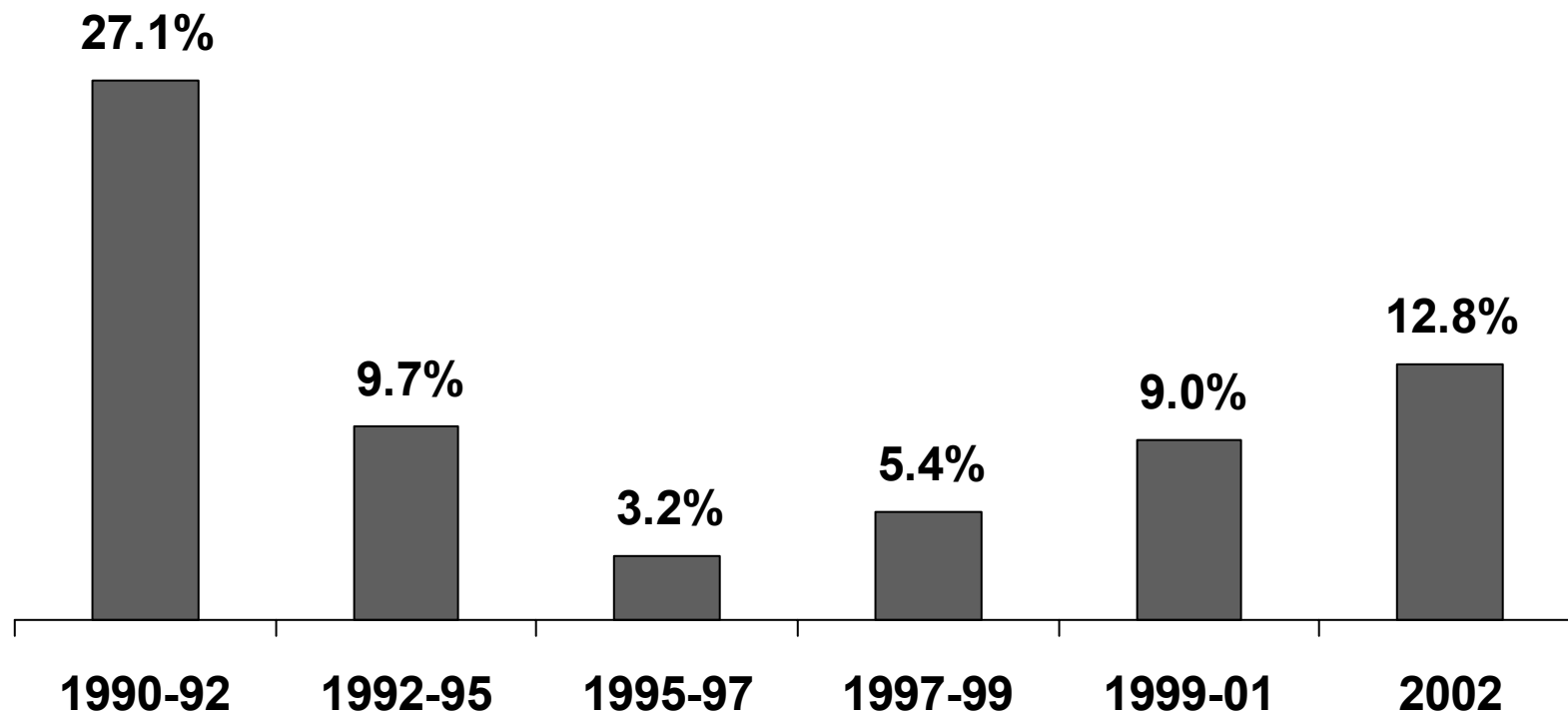
SOURCE: National Association of State Budget Officers, 2001 State Expenditure Report, Summer 2002.

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Figure 6

# Average Annual Growth Rates of Total Medicaid Spending

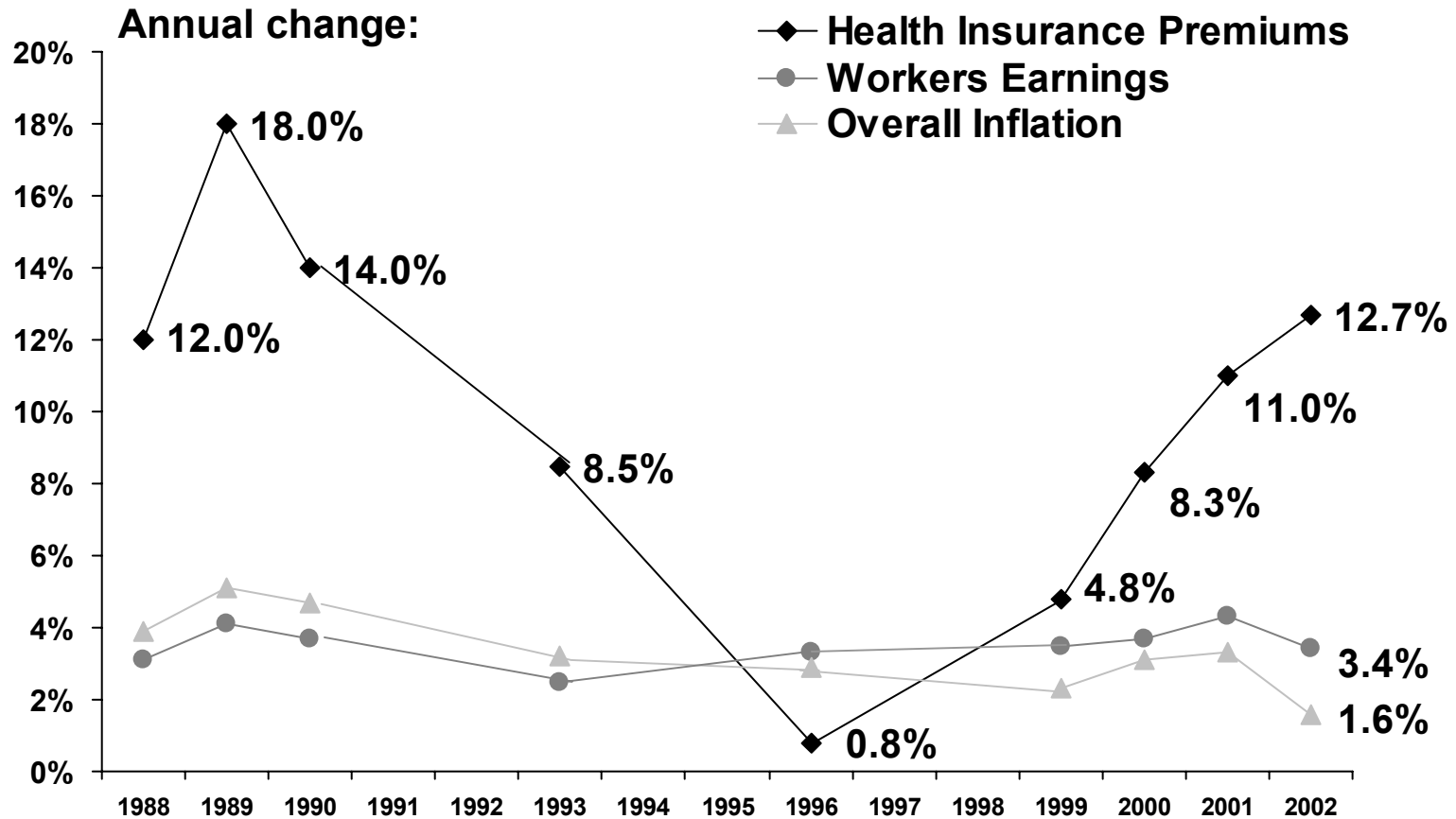
Annual growth rate:



SOURCE: For 1990-1999: Urban Institute estimates prepared for the Kaiser Commission on Medicaid and the Uninsured, 2000. For 2001-2002: Health Management Associates, for the Kaiser Commission on Medicaid and the Uninsured.

Figure 7

# Insurance Premiums Compared to Other Indicators, 1988-2002



NOTE: Data on premium increases reflect the cost of health insurance premiums for a family of four.

SOURCE: KFF/HRET Survey of Employer-Sponsored Health Benefits and KPMG Survey of Employer-Sponsored Health Benefits, various years

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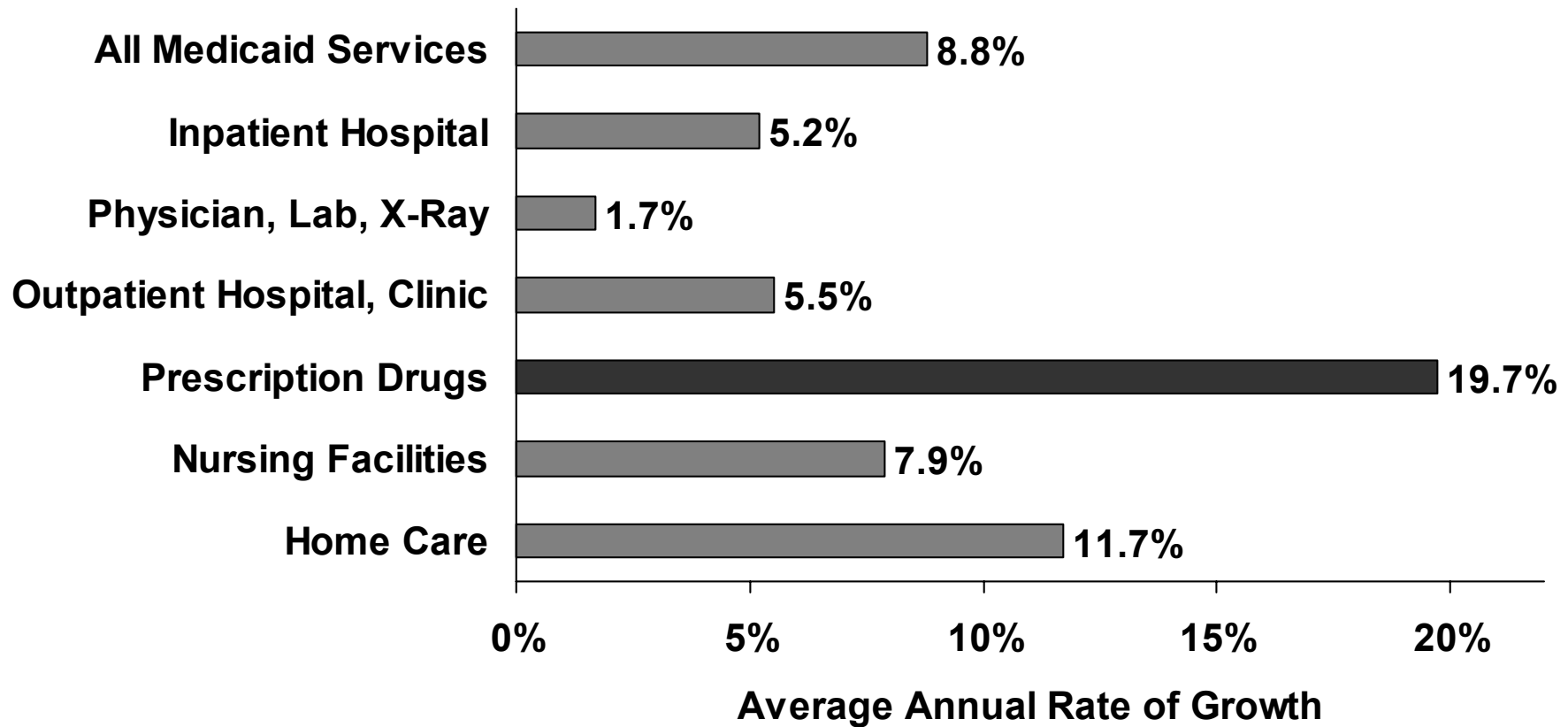
Figure 8

# Sources of Medicaid Expenditure Growth

- **Keeping pace with health care inflation**
  - Pressure to increase provider payments
  - Escalating costs for prescription drugs
- **Changing patterns of health care utilization**
  - Expanding home- and community-based services
  - Increase in prescription drug utilization
- **Expanding enrollment**
  - Economic downturn
  - Growth of the disabled population in Medicaid
- **Use of Medicaid maximization arrangements**

Figure 9

# Average Annual Rate of Growth in Selected Medicaid Expenditures, 1998-2000

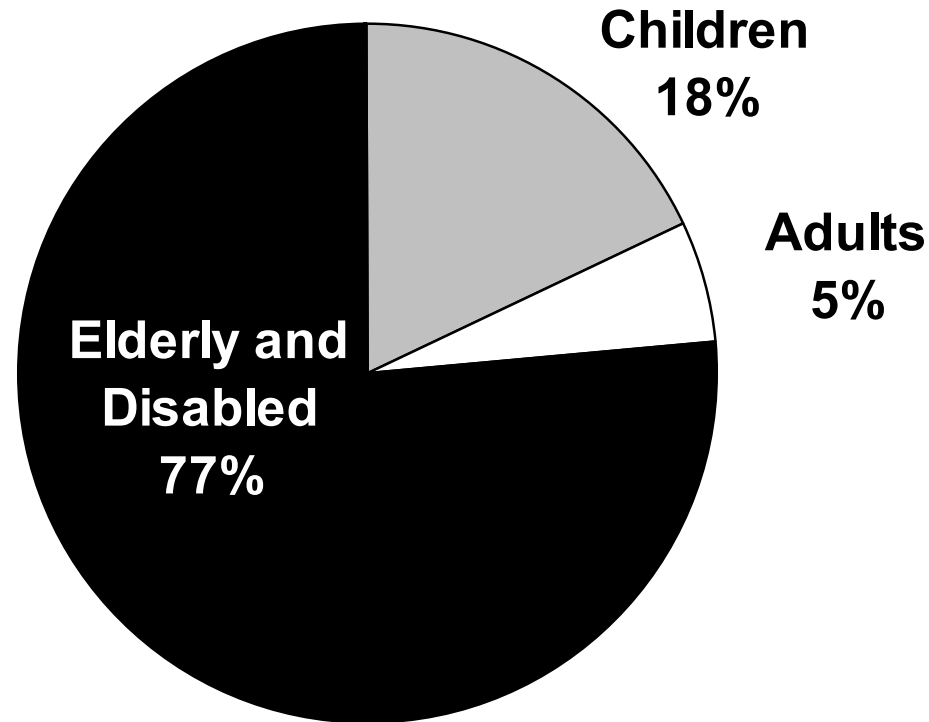


Note: All growth rates shown represent changes in total fee-for-service expenditures for the types of services listed.

SOURCE: Kaiser Commission on Medicaid and the Uninsured / Urban Institute analysis of HCFA-64 data.

Figure 10

# Sources of Growth in Federal Medicaid Expenditures on Benefits, 2002-2003



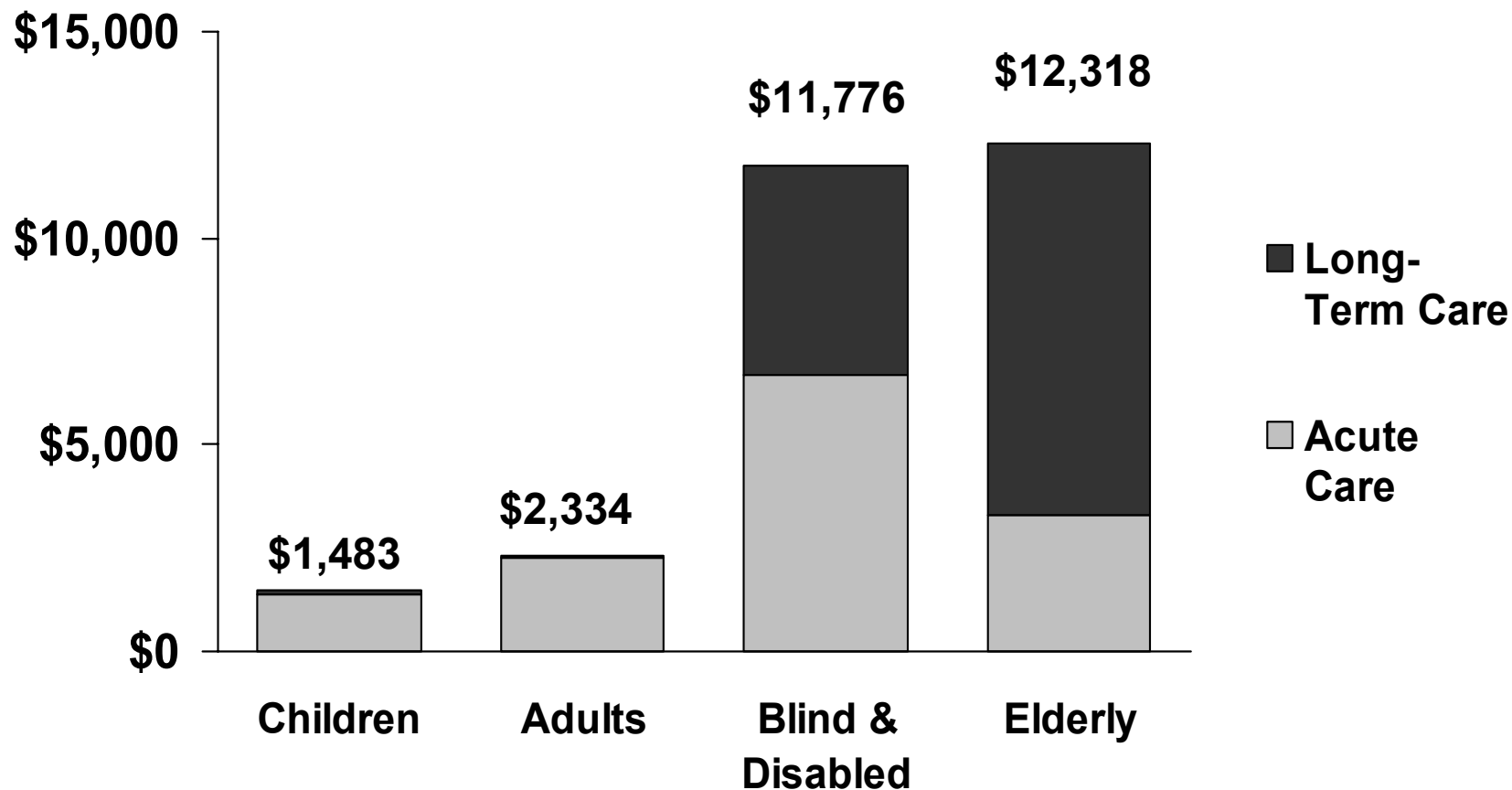
**\$11 Billion Increase  
in Federal Expenditures on Benefits**

SOURCE: KCMU analysis of CBO Medicaid baseline, March 2003.

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Figure 11

# Medicaid Expenditures Per Enrollee by Acute and Long-Term Care, 2002

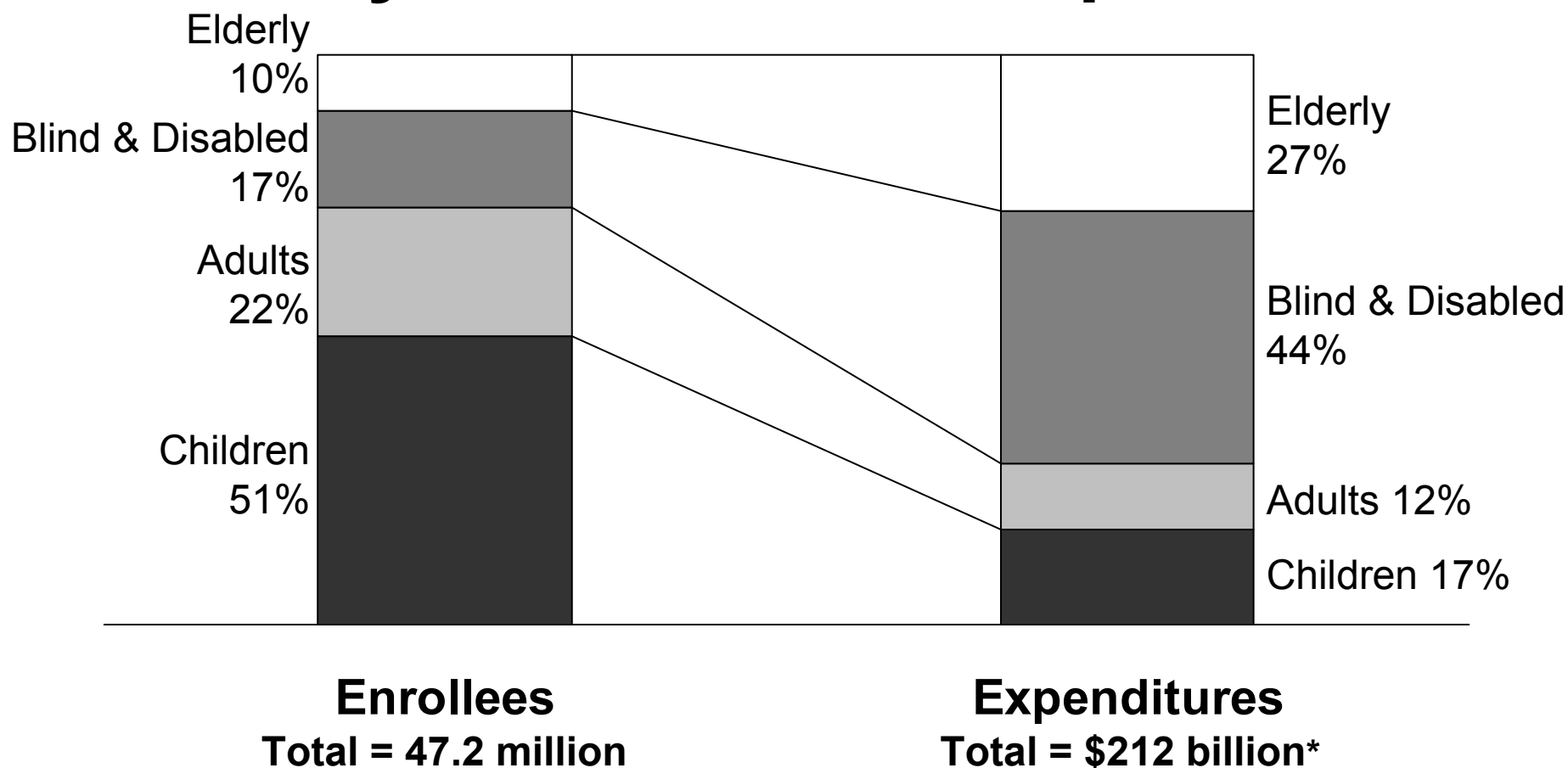


Note: Expenditures do not include DSH, adjustments, or administrative costs. Per enrollee expenditures calculated based on CBO March 2002 baseline assuming a federal share of 57% of total program costs. Long-term care and acute care splits calculated based on Urban Institute estimates using historical data.

SOURCE: CBO and Urban Institute estimates based on HCFA-2082 and HCFA-64 Reports.

Figure 12

# Medicaid Enrollees and Expenditures by Enrollment Group, 2002

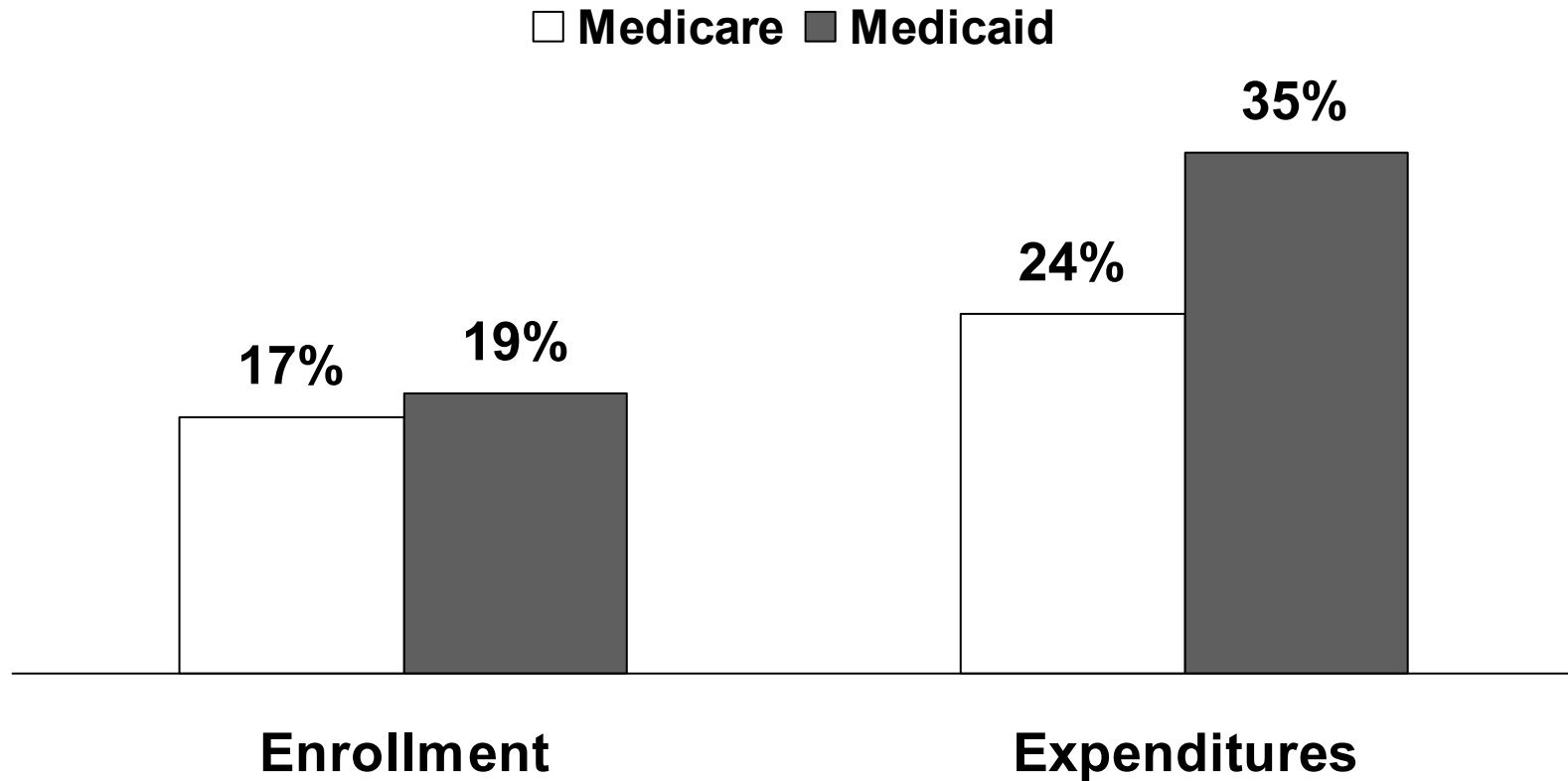


Expenditure distribution based on CBO data that includes only spending on services and excludes DSH, supplemental provider payments, vaccines for children, and administration.

SOURCE: Kaiser Commission estimates based on CBO and OMB data, 2003.

Figure 13

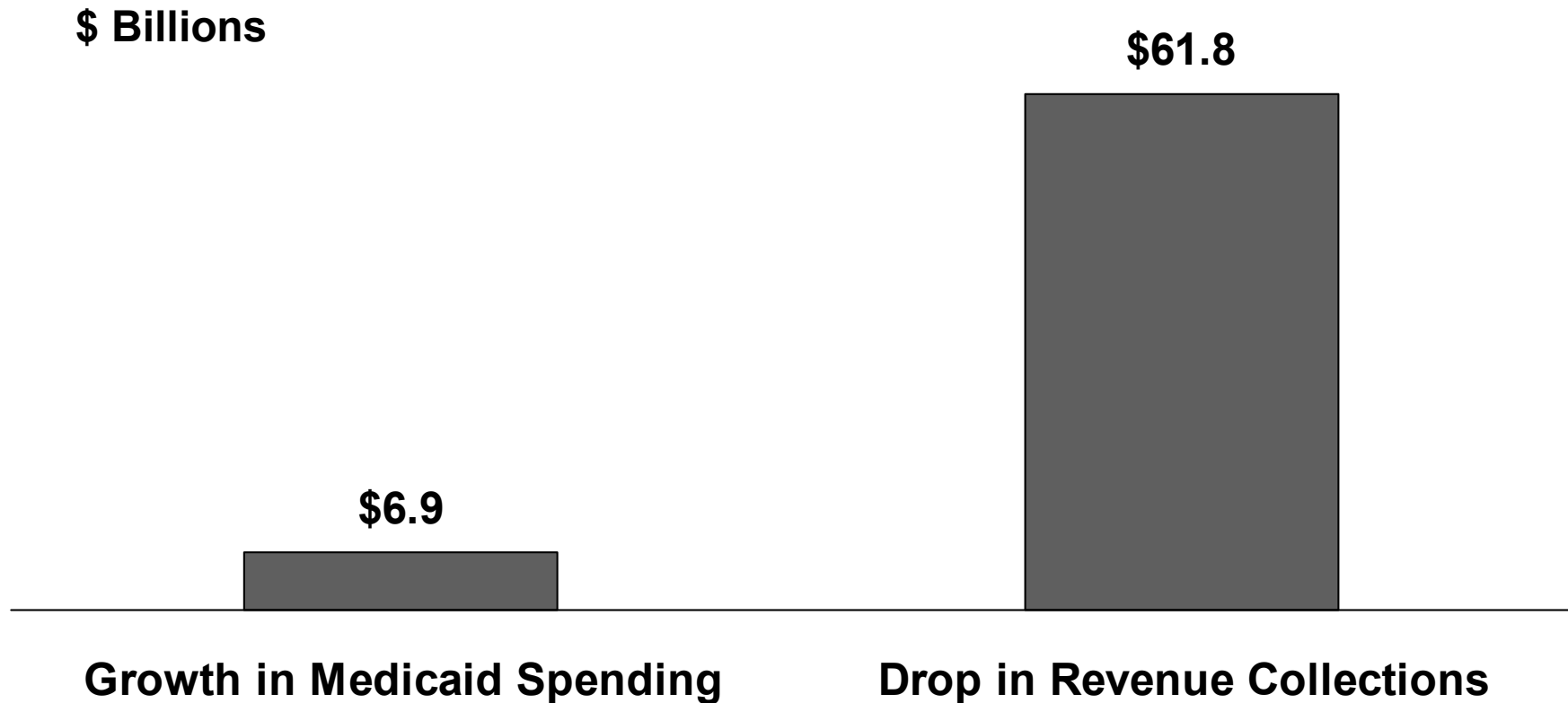
# Dual Enrollees: Enrollment and Expenditures, 1999



SOURCE: ORDI Medicare Current Beneficiary Survey;  
Medicaid Office of the Actuary

Figure 14

# Contributing Factors to State Budget Shortfalls in FY 2002



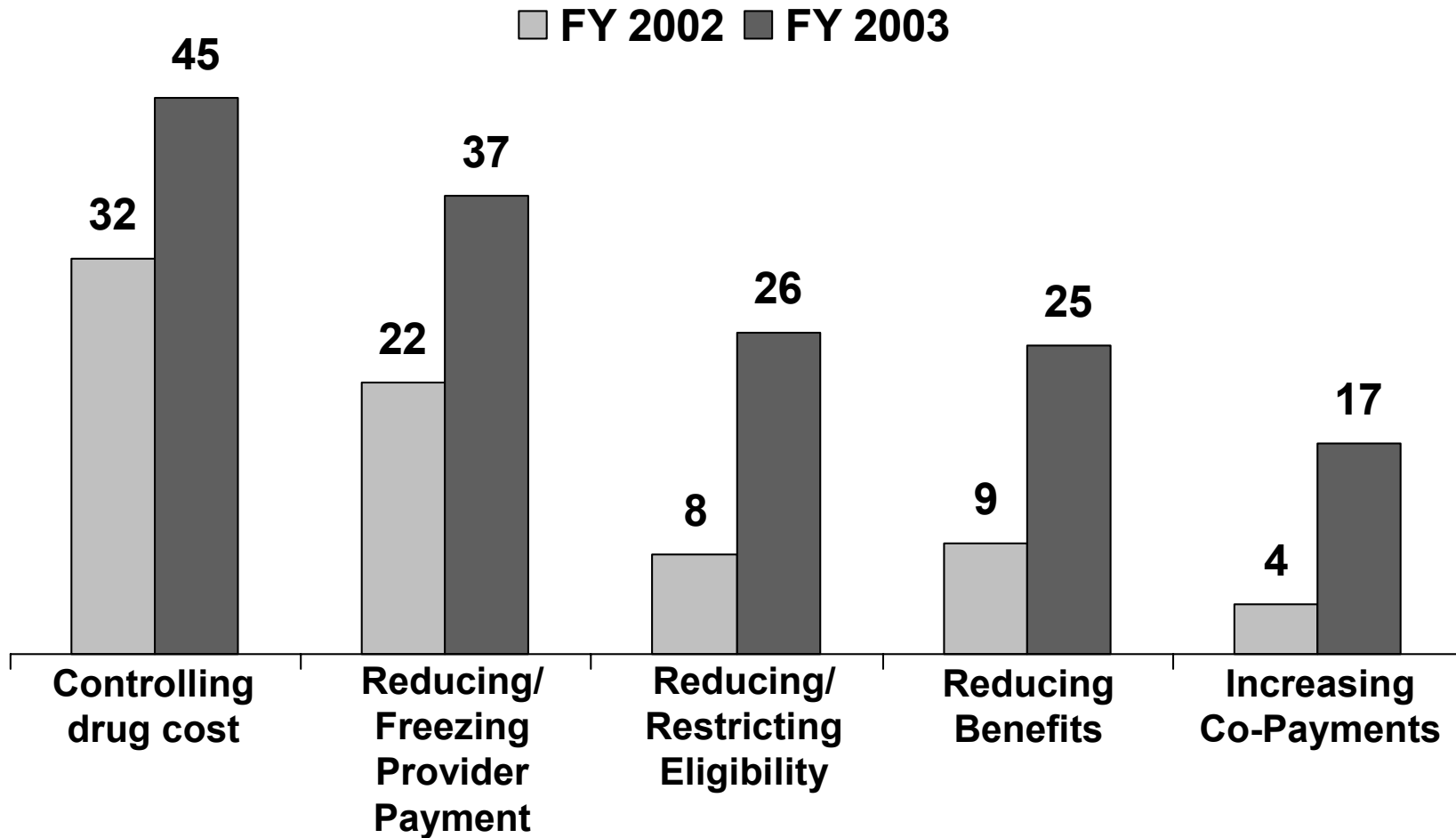
NOTE: Growth in Medicaid spending and drop in revenue collections calculated compared to average growth rates for FY1994-FY2000.

SOURCE: Rockefeller Institute of Government for the Kaiser Commission on Medicaid and the Uninsured.

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Figure 15

# States Undertaking Medicaid Cost Containment Strategies, FY2002 vs. FY2003



SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, June and December 2002.



Figure 17

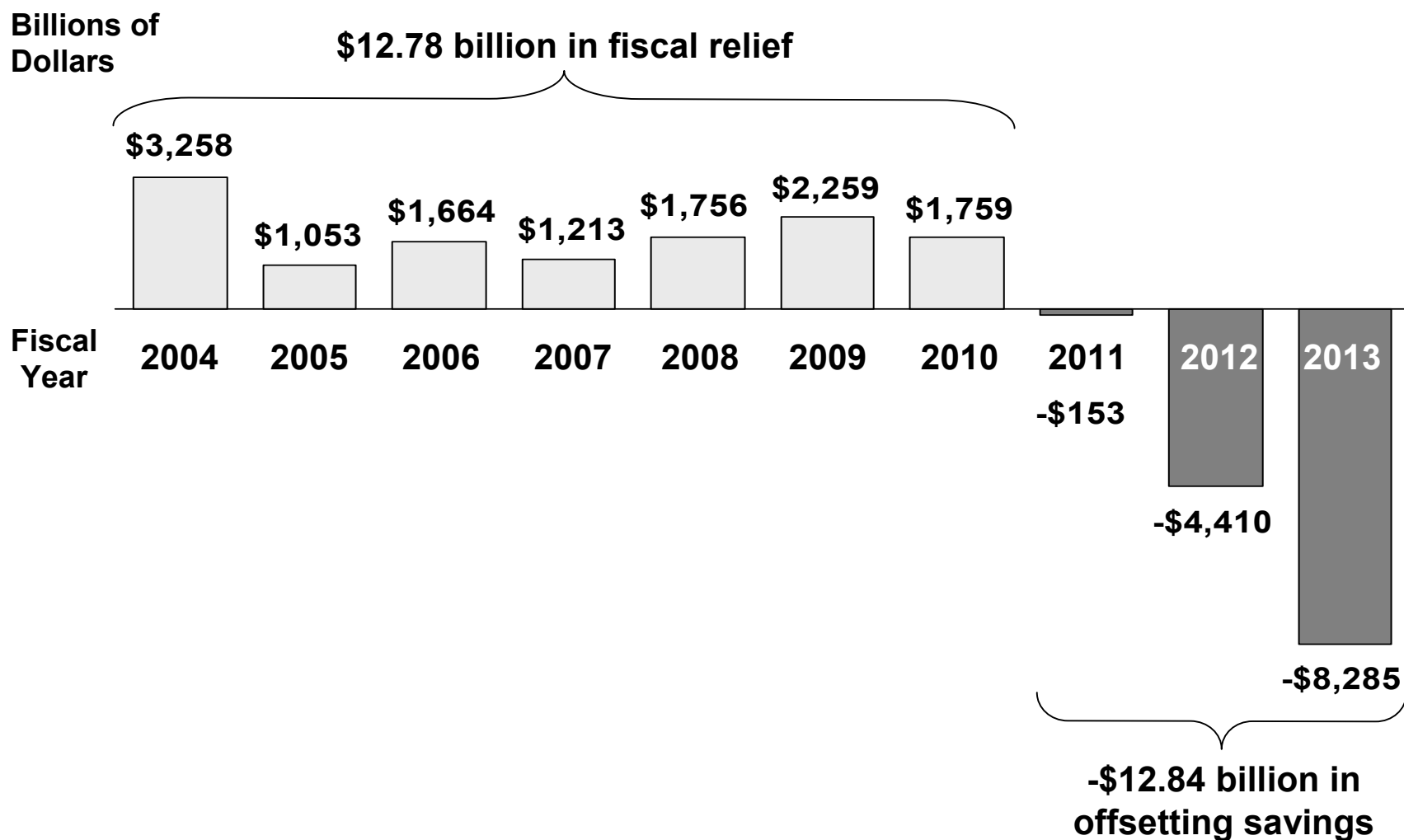
# Administration's Medicaid Proposal: Key Elements

## States could opt into a new system

- **Major changes to financing**
  - Capped federal funding (“block grant”) replaces open-ended entitlement to Medicaid matching funds; SCHIP funds folded in
  - Possibility of upfront fiscal relief that is “repaid” later
  - State “maintenance-of-effort requirement” replaces matching rate system
- **Broad flexibility over use of funds**
  - Must continue to cover “mandatory” groups
  - Otherwise, broad discretion to set benefits, apply cost-sharing, limit enrollment

Figure 18

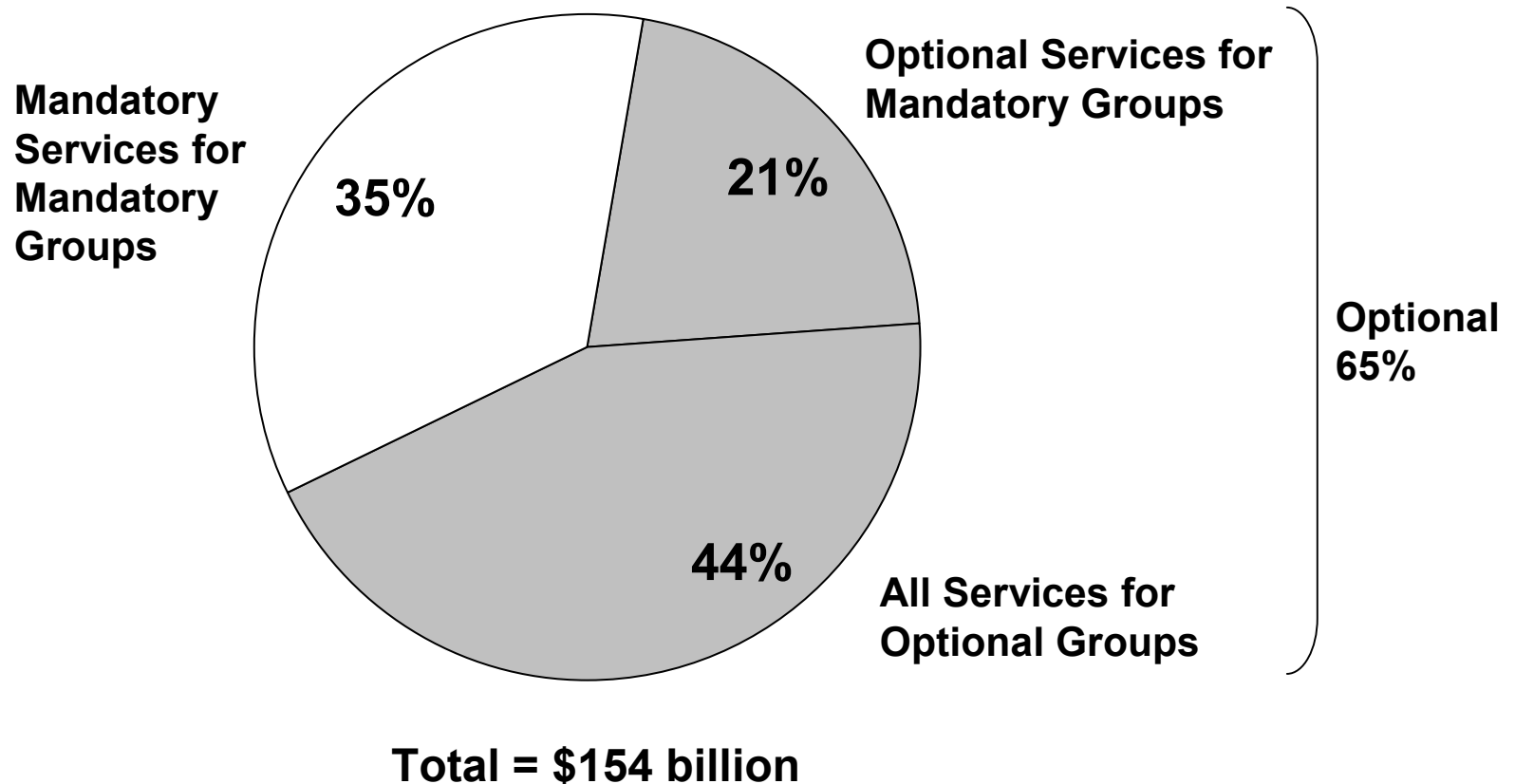
# Administration's Estimate of Effect of its Proposal on Federal Medicaid/SCHIP Spending Relative to Current Law



SOURCE: FY2004 Budget

Figure 19

# Medicaid Expenditures by Eligibility Group and Type of Service, 1998



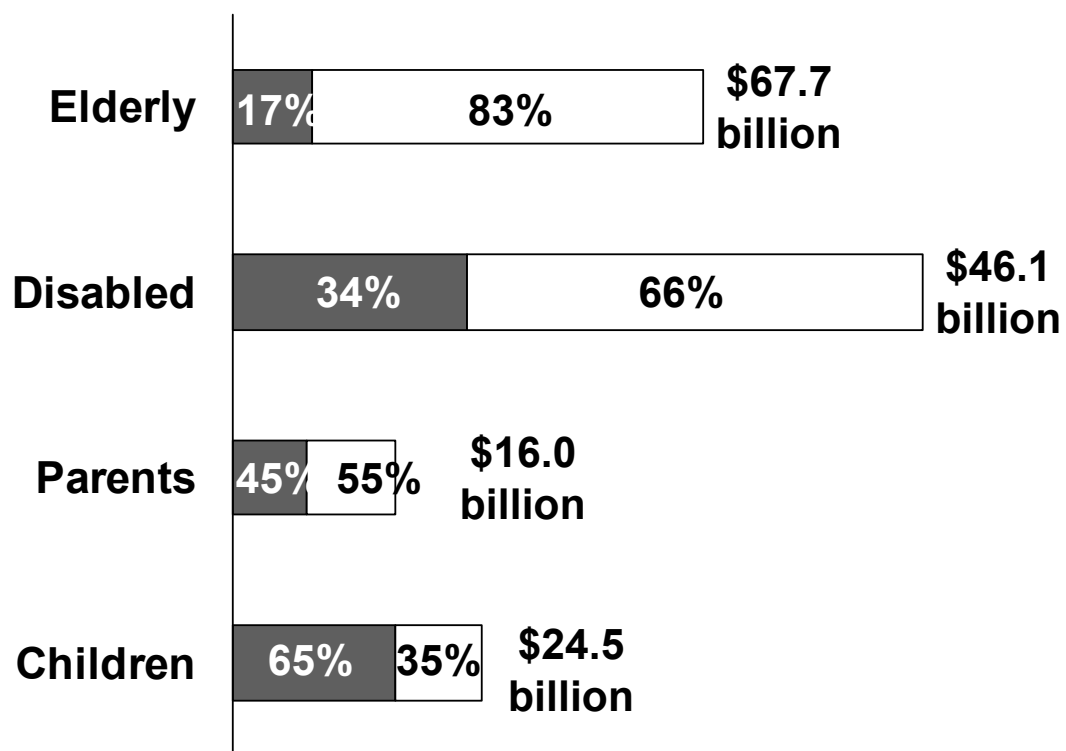
Note: Expenditures do not include disproportionate share hospital (DSH) payments, administrative costs, or accounting adjustments.

SOURCE: Urban Institute estimates, based on data from federal fiscal year 1998 HCFA 2082 and HCFA-64 reports, 2001.

Figure 20

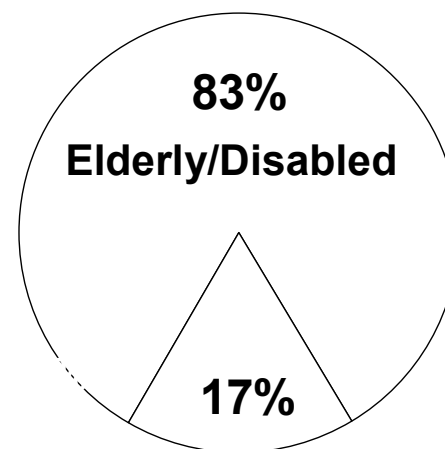
# Distribution of Medicaid Spending by Eligibility Group and Type of Service, 1998

■ Mandatory Services for Mandatory Groups      □ Optional Services/ Population Groups



## OPTIONAL SPENDING

Total = \$100 billion



Children/Parents

Note: Expenditures on services.  
SOURCE: Urban Institute estimates, 2001.

Figure 21

# Other Medicaid Proposals Under Consideration

- **In Congress**
  - Proposals to increase Medicaid matching rate
  - General fiscal relief to states
  - Medicare prescription drug benefit
  - Discussion of how to finance care for individuals enrolled in both Medicare and Medicaid
- **Governors' Medicaid Task force**

Figure 22

# Policy Concerns

- **State revenue growth remains weak**
- **Increases in private health care costs put pressure on Medicaid to keep pace**
- **Recent state progress in extending and simplifying coverage is in peril**
- **Cutbacks in Medicaid coverage leads to increases in the number of uninsured**