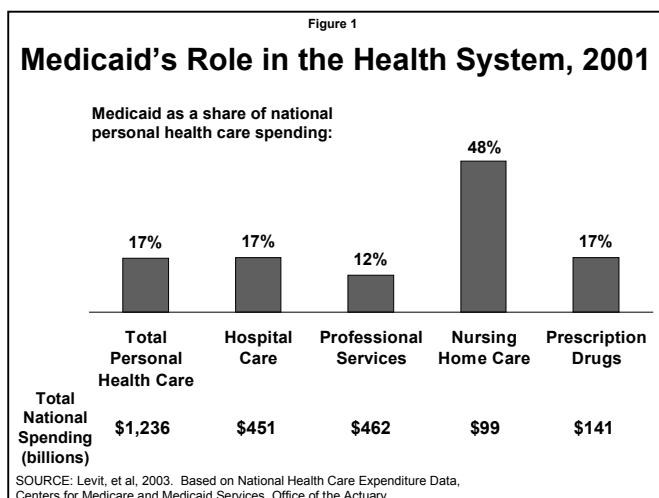


## THE MEDICAID PROGRAM AT A GLANCE

Medicaid is the nation's major public health insurance program for low-income Americans, financing health and long-term care services for 47 million people. The populations whom Medicaid covers are many of the poorest and most vulnerable. The program is often the only source of health insurance for 35 million children and parents, and it is a critical source of acute and long-term care coverage for 8 million people with disabilities. Further, Medicaid assists over 6 million low-income seniors and individuals with disabilities who also receive Medicare.

Medicaid plays a major role in the U.S. health care financing system, accounting for 17% of all personal health care spending. Medicaid finances 17% of all hospital care, 12% of physician and other professional services, 17% of prescription drug spending, and nearly half of all nursing home care (Figure 1).



Authorized by Title XIX of the Social Security Act, Medicaid is a means-tested entitlement program. Accordingly, individuals must meet financial (as well as other) criteria to qualify, but all those who do are guaranteed Medicaid coverage by statute. The federal and state governments finance Medicaid jointly and, within broad federal guidelines, the states administer it. The federal government matches state Medicaid spending for specified categories of people and benefits, based on a formula that compares each state's per capita income to the national average. The federal share of Medicaid spending varies by state, ranging from 50 to 77%, but is 57% overall. In 2002, federal Medicaid spending was \$147.3 billion. State and federal Medicaid expenditures together totaled about \$258 billion.

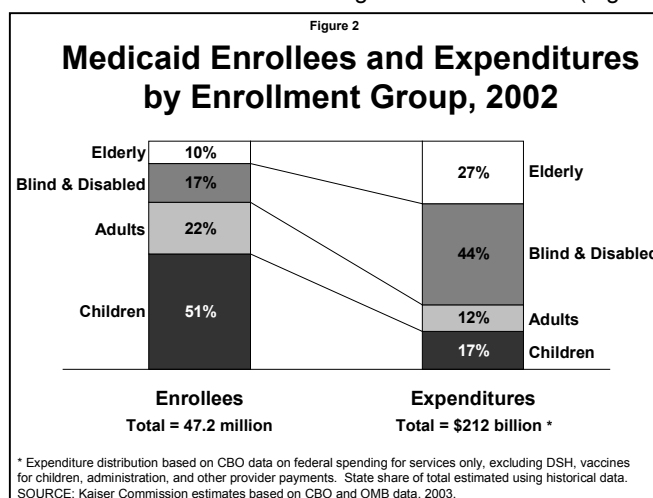
### Who Is Covered by Medicaid?

To qualify for Medicaid, an individual must meet financial criteria and must also be a member of a group that is "categorically eligible" for the program, such as low-income children, pregnant women, the elderly, people with disabilities, and parents. Federal law mandates coverage of some groups below specified minimum income levels, but also gives states broad optional authority to extend Medicaid eligibility beyond these minimum standards. The flexibility that states have to establish their own eligibility rules has produced wide state-to-state variation in who and how many are covered by Medicaid.

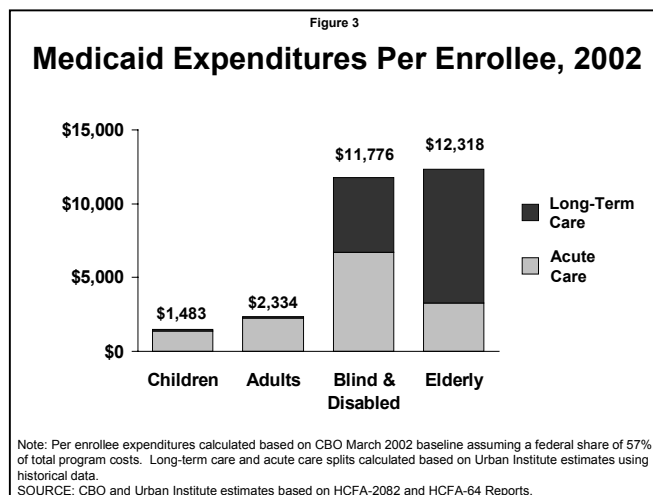
Overall, in 2002, Medicaid provided coverage to:

- 24 million children – more than one in four in the U.S.
- 10 million adults, primarily low-income working parents
- 5 million seniors
- 8 million persons with disabilities

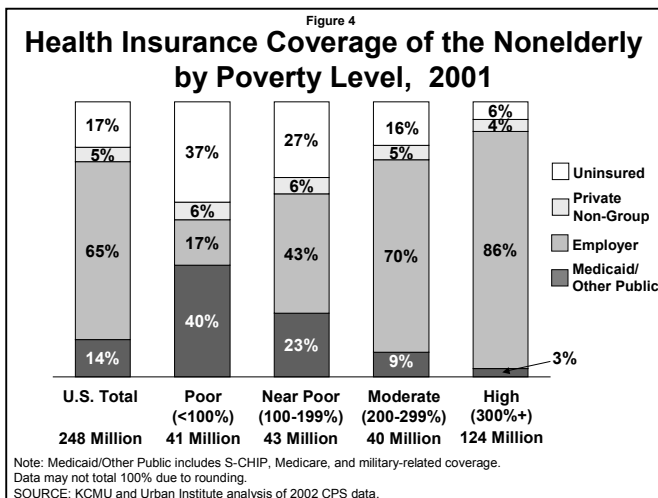
Although low-income children and their parents make up three-fourths of Medicaid beneficiaries, they account for only 29% of total Medicaid spending. At the same time, the elderly and people with disabilities comprise one-quarter of the beneficiaries but account for 71% of Medicaid spending for services, reflecting their intensive use of acute and long-term care services (Figure 2).



In 2002, estimated Medicaid spending per child and adult enrollee was \$1,483 and \$2,334 respectively, compared to \$12,318 per elderly enrollee and \$11,776 per disabled enrollee (Figure 3). Prescription drug costs account for roughly 10% of Medicaid per person spending among the elderly and persons with disabilities, and 80% of all Medicaid drug spending is attributable to these populations; these groups also account for virtually all Medicaid spending on long-term care. Over one-third of Medicaid spending (35%) is attributable to "dual enrollees," who have both Medicare and Medicaid. These Medicaid payments go toward Medicare premiums and services not covered by Medicare, including prescription drugs and long-term care.



Because low-income working families often do not have access to health insurance through their jobs, Medicaid is a key source of coverage for this population (Figure 4). The program covers nearly a quarter of the non-elderly with income between 100 and 200% of poverty, and two-thirds of all Medicaid enrollees are in working families. Medicaid is particularly important in rural areas, where one in three children relies on it.



The recent economic downturn has caused more families to qualify for Medicaid as income has fallen. With rates of employer-sponsored coverage dropping, Medicaid and the State Children's Health Insurance Program have stemmed the increase in the number of uninsured. Yet, eligibility restrictions, especially for adults, and enrollment obstacles for those who are eligible, continue to limit Medicaid's reach. Recent federal policy changes have also led to declines in Medicaid coverage for recent immigrants, two-thirds of whom were uninsured in 2001.

### What Does Medicaid Pay For?

Medicaid covers a broad range of services to meet the complex needs of the populations it serves, particularly the elderly and people with disabilities. Because Medicaid beneficiaries have limited financial resources, cost-sharing is limited and not permitted for children and pregnant women.

State Medicaid programs must cover:

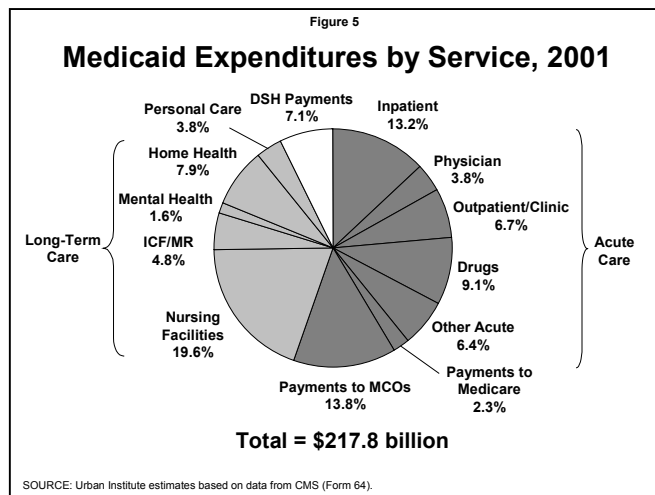
- inpatient and outpatient hospital services
- physician, midwife, & certified nurse practitioner services
- laboratory and X-ray
- nursing home and home health care
- early and periodic screening, diagnosis, and treatment (EPSDT) for children under age 21
- family planning
- rural health clinics/federally qualified health centers

States have the authority to cover additional, optional services and receive federal matching funds. Commonly offered optional services include prescription drugs, clinic services, prosthetic devices, hearing aids, dental care and intermediate care facilities for the mentally retarded (ICF/MR). The majority of state spending on optional services (83%) goes toward the elderly and those with disabilities. Over two-thirds of optional spending is for long-term care and prescription drugs. States also receive supplemental Medicaid payments (about \$9 billion in 2001) to aid their hospitals serving a disproportionate share of indigent patients (DSH).

Of the \$218 billion in total Medicaid spending in 2001 (Figure 5):

- Acute-care services comprised about half (55%)

- Long-term care services made up 38%
- Payments for Medicare premiums accounted for about 2%
- DSH payments were about 7% of spending



As of June 2001, 57% of Medicaid beneficiaries were enrolled in managed care. Although most managed care enrollees are children and their parents, about one in four Medicaid beneficiaries with disabilities was enrolled in managed care in 1998. Enrollment of dual enrollees is more limited, with fewer than one in ten enrolled in Medicaid managed care in 1999.

Long-term care is a major component of Medicaid coverage and spending. Medicaid finances care for 60% of nursing home residents. While over two-thirds of Medicaid spending for long-term care is on institutional services, home and community-based services (HCBS) waivers are often used by states to deliver community-based care. Although all states have HCBS waivers, substantial unmet need for these services remains.

### How are State Fiscal Challenges Affecting Medicaid?

State revenue declines have created state budget shortfalls estimated at \$69 billion nationally for FY2004. The state fiscal crisis is affecting states' ability to finance their share of Medicaid. Medicaid is growing rapidly (13% in FY 2002) due primarily to the rising price of medical and long-term care services, particularly prescription drugs. Turning first to rainy day and tobacco settlement funds, states have tried to preserve Medicaid and keep the federal dollars in the program and their state economies. But, as these sources have been depleted, 49 states reported planning or taking action to reduce the growth in Medicaid spending for FY2003. Nearly all states have tried to limit prescription drug spending, 37 states have cut or frozen provider payments and half the states were turning to reducing benefits or limited eligibility.

Since its enactment in 1965, Medicaid has improved access to health care for the poor, pioneered innovations in health care delivery and community-based long-term care, and stood as the nation's primary source of financial assistance for long-term care. As Medicaid struggles under fiscal pressure, the program continues to meet multiple responsibilities, playing a critical role in providing acute and long-term care services for nearly 50 million Americans. Proposals to restructure the program merit careful consideration as reductions in benefits or eligibility could lead to greater numbers of uninsured, reduce community-based care options for the disabled, limit help for those who have great medical needs and expenses, and undermine economic recovery.