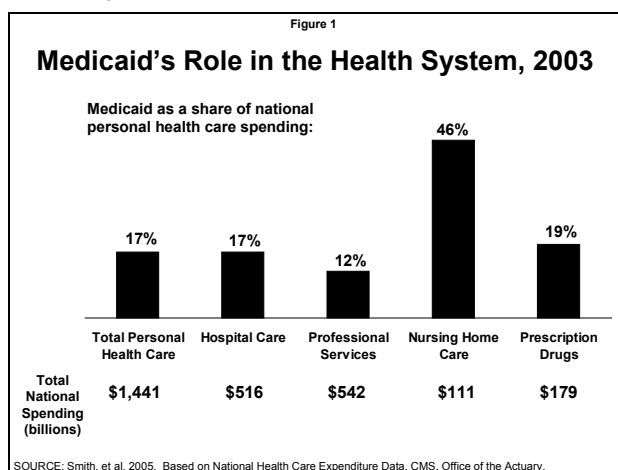


January 2005

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 over 52 million people, including children and many of the sickest and poorest in our nation. In general, private health insurance is not an option for the Medicaid population; low-income workers often do not have access to coverage through their employers, or cannot afford it even if it is offered, and private insurers often exclude individuals with disabilities and chronic illnesses. In the absence of the Medicaid program, the vast majority of its beneficiaries would join the ranks of the 45 million uninsured Americans.

Since its enactment in 1965, Medicaid has improved access to health care for low-income individuals, financed innovations in health care delivery, and functioned as the nation's primary source of long-term care financing. Medicaid plays a major role in the U.S. health care system, accounting for 1 of every 6 dollars spent on personal health care and nearly half of all spending on nursing home care (Figure 1).



The federal and state governments jointly finance Medicaid, and the states administer it within broad federal guidelines. The federal contribution to Medicaid spending ranges from 50% to 77%, depending on state per capita income. In 2003, the federal government financed 57% of the \$266 billion in total Medicaid spending.

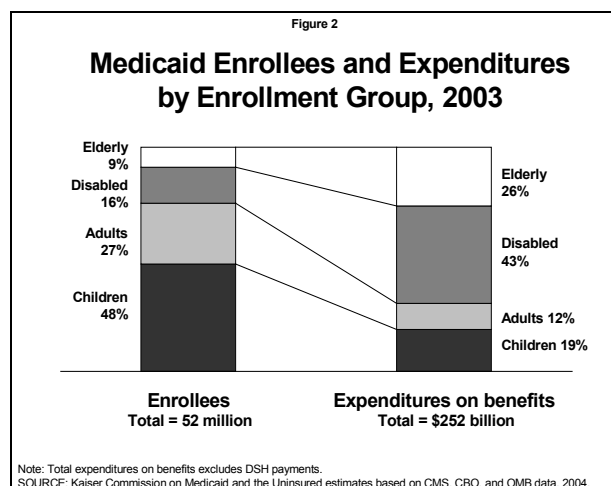
Who Is Covered by Medicaid?

To qualify for Medicaid, an individual must meet financial criteria and also belong to one of the groups that are "categorically eligible" for the program, including children, parents of dependent children, pregnant women, people with disabilities, and the elderly. Federal law guarantees Medicaid eligibility for individuals within these groups who fall below specified income levels. At the same time, states have broad optional authority to extend Medicaid eligibility beyond these minimum standards. States have expanded Medicaid coverage extensively, but variably; as a result, Medicaid eligibility and coverage differ widely from state to state.

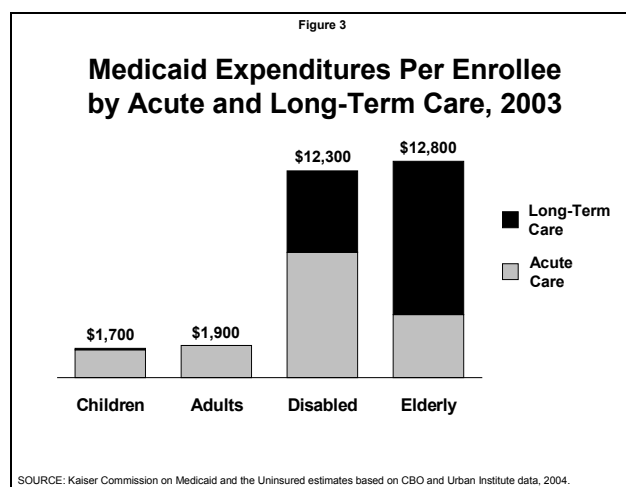
In 2003, Medicaid provided coverage to:

- 25 million children
- 14 million adults (primarily low-income working parents)
- 5 million seniors
- 8 million persons with disabilities

Although low-income children and parents make up three quarters of the Medicaid population, they account for only 31% of Medicaid spending. The majority of Medicaid spending- 69%- is attributable to the elderly and people with disabilities, who make up only one-quarter of the Medicaid population (Figure 2).



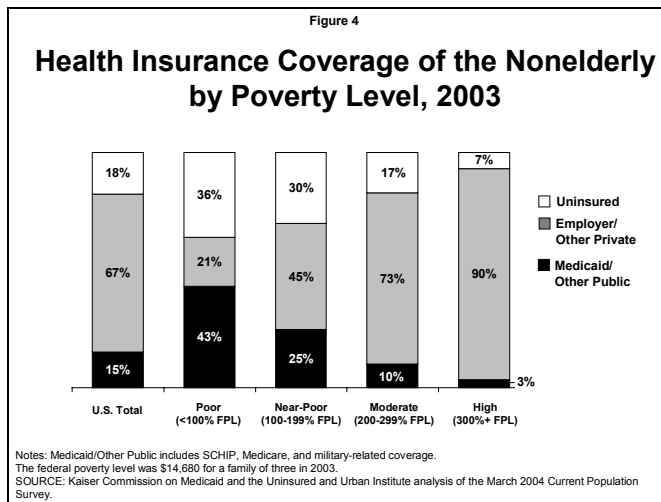
In 2003, estimated Medicaid spending per child was \$1,700, compared to \$12,300 per disabled enrollee and \$12,800 per elderly enrollee. Higher per capita expenditures for disabled and elderly beneficiaries reflect their intensive use of costly acute and long-term care services (Figure 3).



Over the last several years, average annual increases in per capita Medicaid costs have been substantially lower than increases in private health insurance premiums.

A large share of Medicaid spending (42%) is attributable to “dual eligibles,” low-income Medicare beneficiaries who are also enrolled in Medicaid. Dual eligibles rely on Medicaid to pay for Medicare premiums and cost-sharing and to cover important services that Medicare does not cover, such as long-term care and prescription drugs. Beginning in January 2006, dual eligibles will lose Medicaid prescription drug coverage and will instead be offered drug coverage under new Medicare Part D prescription drug plans.

Medicaid is also a key source of coverage for low-income working families, who often do not have access to health insurance through their jobs (Figure 4). Nearly one in four children in America relies on Medicaid for coverage, and two-thirds of all Medicaid enrollees are in low-wage working families.



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 (SCHIP) have stemmed the increase in the number of uninsured. However, eligibility restrictions, particularly for adults and recent immigrants, together with enrollment obstacles for those who are eligible, continue to limit Medicaid’s reach.

What Services Does Medicaid Cover?

Medicaid uses public dollars to buy services, often in the private health care system. The program covers a variety of benefits to meet the complex needs of the diverse populations it serves. State Medicaid programs are required to cover:

- inpatient and outpatient hospital services
- physician, midwife, and certified nurse practitioner services
- laboratory and x-ray services
- nursing home and home health care for individuals aged 21 years and older
- early and periodic screening, diagnosis, and treatment (EPSDT) for children under age 21
- family planning services and supplies
- rural health clinic/ federally qualified health center services

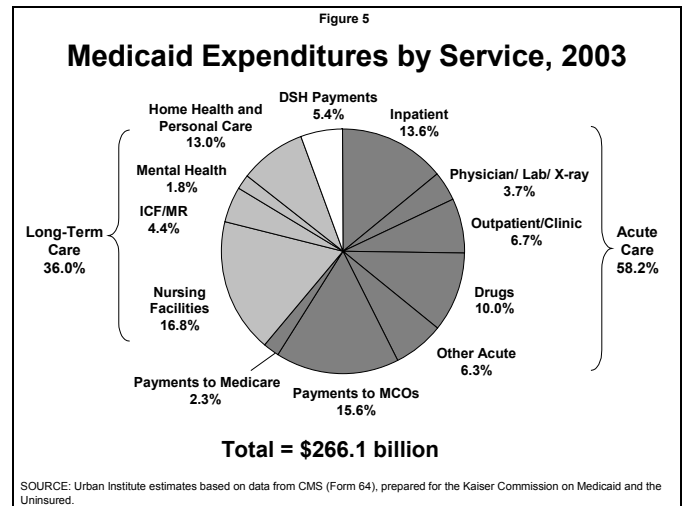
States have the option of covering additional services with federal matching funds. Commonly covered optional services include prescription drugs, clinic services, prosthetic devices, hearing aids, dental care, and intermediate care facilities for the mentally retarded (ICF/MR). The majority of state

spending on optional services goes toward elderly and disabled beneficiaries. Over two-thirds of optional spending is for long-term care and prescription drugs.

In addition to matching state Medicaid spending for services, the federal government also matches the supplemental payments that states make to hospitals serving a disproportionate share of indigent patients (DSH).

Of the \$266 billion in total Medicaid spending in 2003 (Figure 5):

- Acute-care services comprised over half (58%)
- Long-term care services made up 36%
- Payments for Medicare premiums accounted for about 2%
- DSH payments represented about 5%



Medicaid accounts for 43% of total long-term care spending and finances care for nearly 60% of nursing home residents. While more than half of Medicaid long-term care spending goes toward institutional services, home and community-based services (HCBS) account for a growing proportion of Medicaid spending on long-term care.

Future Challenges Affecting Medicaid

Recent growth in Medicaid spending has been driven primarily by enrollment growth due to the economic downturn. As the economy begins to recover, the rate of growth of Medicaid spending is slowing; however, increasing health care costs and demographic trends, coupled with the expiration of temporary federal fiscal relief in June 2004, will mean sustained pressure on state budgets. Between FY 2002 and 2005, all states reduced provider rates and implemented prescription drug cost controls, 38 states reduced eligibility, and 34 states reduced benefits. While these measures have helped to constrain spending, they have also placed additional burden on Medicaid beneficiaries and the providers who serve them.

Despite fiscal pressures, the Medicaid program helps to secure access to acute and long-term care services for more than 52 million Americans. Proposals to restructure Medicaid merit careful consideration, as reductions in benefits or eligibility could compromise assistance to those who have great medical needs and expenses, lead to a greater number of uninsured Americans, and undermine economic recovery.

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