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## Medicaid Coverage During a Time of Rising Unemployment

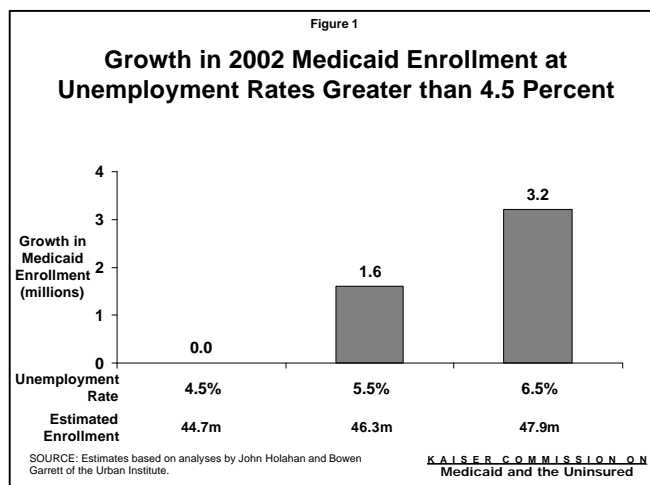
Medicaid, the nation's health insurance program for low-income and vulnerable populations, will provide coverage to approximately 44 million Americans this year. Improving health coverage of children, parents, and the disabled has been a national priority, with state and federal policymakers often turning to the Medicaid program to extend coverage to the uninsured. Medicaid eligibility expansions and enrollment simplification efforts have led to increased health coverage of the low-income population helping to stem the rise in the number of uninsured. According to the Congressional Budget Office (CBO), the number of individuals covered by Medicaid has risen from 42 million in 1999 to nearly 44 million in 2001. However, the recent downturn of the economy will bring renewed pressure on Medicaid. Additional growth in Medicaid enrollment is likely as individuals lose their jobs and family incomes fall below Medicaid eligibility levels. This enrollment growth and the accompanying additional costs during a recession come at a time when states are facing mounting budgetary pressures from the recession, as tax revenues decline and demand on public programs increases.

In December of 2000, only 4.0% of Americans in the workforce were unemployed. Since that time, the unemployment rate has risen significantly. As of October 2001, the unemployment rate stood at 5.4%, an increase of more than 2 million individuals over the last ten months. As workers lose jobs and income, many families also lose job-based health coverage and the financial means to continue coverage through COBRA or other private coverage. Job loss will lead to an increase in the number of families with lower-incomes who would qualify for Medicaid. Medicaid enables low-income families who qualify to receive health coverage and provides financial security from health expenses during periods of economic instability.

### ***Estimates Indicate that Medicaid Enrollment Will Increase with Rising Unemployment***

Using historical, state-level unemployment and Medicaid enrollment data, the Urban Institute has developed estimates of the impact rising unemployment rates might have on Medicaid enrollment in the absence of changes in state policy.

CBO has estimated that with a 4.5% unemployment rate Medicaid enrollment would reach 44.7 million in 2002. However, with the unemployment rate rising from 4.5% to 5.5%, the Urban Institute estimates that Medicaid enrollment will grow by another nearly 1.6 million, an increase in enrollment of 3.6% (Figure 1). If the unemployment rate increased from 4.5% to 6.5% (a level still below the 7.8% unemployment rate experience in June 1992) 3.2 million people would be added to Medicaid.



As higher levels of unemployment push Medicaid enrollment up, the increased enrollment will require increased Medicaid spending. For example, if the unemployment rate rises to 6.5% and an additional 3.2 million individuals gain Medicaid coverage, total state Medicaid spending would rise by \$2.3 billion, an increase of 2.6% above spending already projected for 2002 (Figure 2).

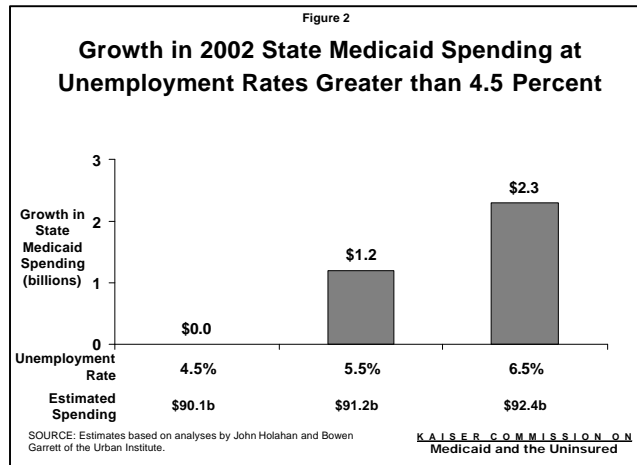
### **Medicaid's Role in the States and Fiscal Concerns**

Medicaid is an important source of federal dollars to the states. Each \$1 that a state spends on Medicaid brings an additional \$1 to \$3.31 in federal funds to the state, depending on the state's specific Medicaid matching rate. However, the expected rise in Medicaid enrollment and spending due to the recession coincides with the economic slowdown diminishing state finances.

State fiscal conditions have deteriorated sharply during 2001 with 44 states reporting that revenues were below forecasted levels in the opening months of

FY2002. Spending is expected to exceed budgeted amounts in most states. Since Medicaid accounts for a large share of most state budgets (15% on average) it seems likely that just as the economy puts upward pressure on Medicaid spending, policymakers may be looking for ways to curb spending. A Kaiser Commission survey of 20 states in October 2001 found that more than half of state officials had been directed by their governors to prepare proposals to reduce current year spending and develop strategies to cope with future Medicaid spending growth.

If states respond to the worsening fiscal situation by cutting Medicaid in the months ahead, it could make it more difficult for newly unemployed workers and their families to secure public coverage and could also reduce coverage for those currently enrolled in Medicaid. Reducing Medicaid spending could also be counterproductive to stimulating the economy. Health care represents nearly 14 percent of our nation's economy, and any erosion of coverage resulting from state budget cuts will reduce spending in the health sector, contributing to the ongoing economic contraction and partially offsetting federal economic stimulus proposals. Maintaining coverage as we face this economic downturn is important not only for workers and their families, but also for reviving our ailing economy. Policymakers need to consider the impact of the recession on states and their ability to support Medicaid whose costs are likely to increase in an economic downturn.



*Prepared by the Kaiser Commission on Medicaid and the Uninsured. For more information on Medicaid and state budget issues, call the Commission offices (202-347-5270)*