kaiser commission on MEDICAID FACTS
medicaid and the uninsured
THE HENRY J. KAISER FAMILY FOUNDATION
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STATE FISCAL CONDITIONS AND MEDICAID

As states adopted their budgets for fiscal year 2010, the effects of the economic recession, including rising unemployment, sharp declines in state revenues and higher demands for public programs, including Medicaid, left them facing severe budget shortfalls. Enhanced federal Medicaid funds from the American Recovery and Reinvestment Act (ARRA) were critical in helping states to address these funding gaps and preserve Medicaid eligibility. Jointly financed and administered by the federal government and states, Medicaid provides affordable and comprehensive health and long-term care coverage to 60 million low-income Americans. Looking ahead, the dominant issues for state Medicaid programs are the lingering effects from the economic recession as well as the prospects for a greater role for Medicaid as part of health reform.

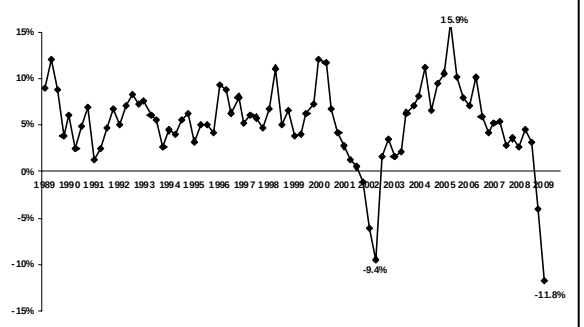
State Economic Conditions

The national unemployment rate climbed to 9.7% in August 2009, up from 4.9% in December 2007 at the start of the recession. In August 2009, 15 states (including the District of Columbia) had unemployment rates at or above 10%. Since the start of the recession, over 7.4 million individuals have lost their jobs and there are an estimated 14.9 million unemployed. Among those working, 9 million want to work full-time but have had to settle for part-time employment.[i]

States were experiencing major fiscal challenges heading into fiscal year 2010 which began for most states on July 1, 2009. Forty-eight states are projecting budget shortfalls that could total $163 billion in 2010 and at least $350 billion through 2011.[ii] Data for the first quarter of 2009 (January through March), show state tax revenue down by 11.8% from the same period in 2008, the sharpest decline on record (Figure 1). Unlike the federal government, states are legally required to balance their budgets. States can use reserves or rainy day funds, increase taxes, or cut spending to achieve a balanced budget during periods of economic stress.

Figure 1

State Tax Revenue, 1999-2009



SOURCE: Percent change in quarterly state tax revenue, US Census Bureau

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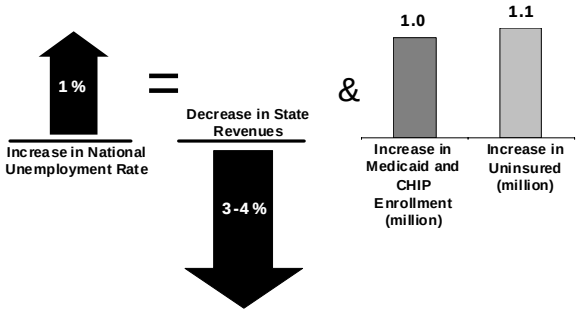
Medicaid and the Economy

During an economic downturn, unemployment rises and puts upward pressure on Medicaid. As individuals lose employer sponsored insurance and incomes decline, Medicaid enrollment and therefore spending increase. At the same time, increases in unemployment have a negative impact on revenues making it even more difficult for states to pay their share of Medicaid spending increases. Specifically, a 1 percentage point increase in the national unemployment rate is expected to result in 1 million more Medicaid and CHIP enrollees and an additional 1.1 million uninsured, while state revenues are projected to fall by 3 to 4%. Increases in the national unemployment rate since the start of the recession are expected to result in about 4.8 million more Medicaid and CHIP enrollees and over 5 million more uninsured (Figure 2).

Figure 2

Effect of a 1% Point Increase in Unemployment



Source: *Medicaid, SCHIP and Economic Downturn: Policy Challenges and Policy Responses*, Kaiser Commission on Medicaid and the Uninsured, April 2008

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Recent indicators show that the recession may be coming to an end, but improvements in unemployment rates and Medicaid enrollment will lag behind improvements in other economic indicators. So, pressures on state budgets are expected to persist in state fiscal year 2010 and into 2011.

American Recovery and Reinvestment Act of 2009

In an effort to boost an ailing economy, Congress enacted and President Obama signed the American Recovery and Reinvestment Act (ARRA) on February 17, 2009. The overall package, expected to cost $787 billion, included significant funding for health care and state fiscal relief. Specifically, the Act included an estimated $87 billion for a temporary increase in the federal share of Medicaid costs from October 2008 through December 2010. These funds were able to reach states quickly and were used to address both overall state budget and Medicaid budget shortfalls, avoid cuts to providers, benefits and eligibility, and help support increased Medicaid enrollment (Figure 3). Most states reported multiple uses for the ARRA funds meaning that in these states a range of restrictions would have likely

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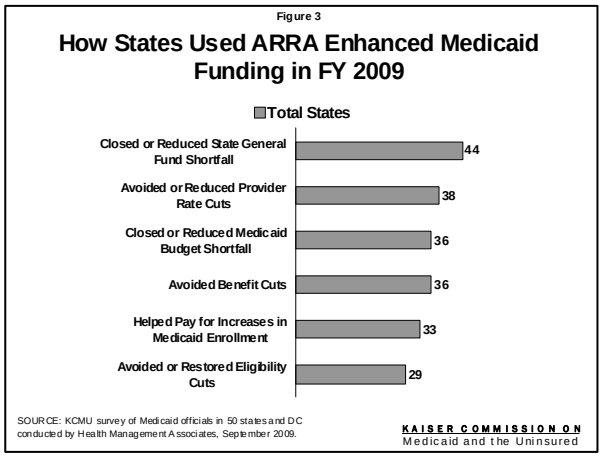
occurred without the federal funds. As states develop their 2011 budgets, they are concerned about the end of the enhanced FMAP in an economy that is not fully recovered.

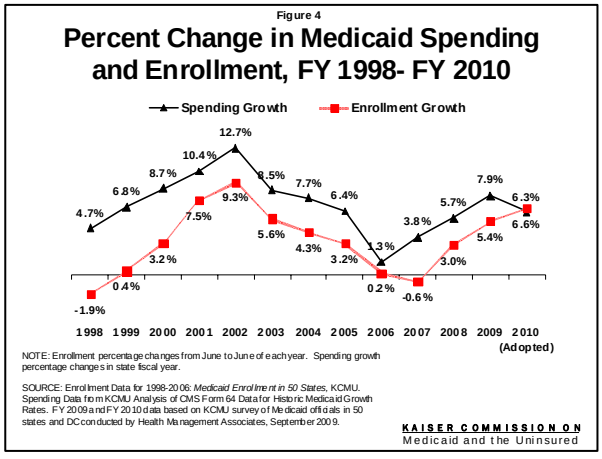
Figure 3



Medicaid Spending and Enrollment Growth

As a result of the recession, and an increased caseload, Medicaid spending and enrollment growth accelerated in FY 2009 and FY 2010. Total Medicaid spending growth averaged 7.9% in FY 2009, a higher rate than the original projections and the highest rate of growth in six years. Enrollment growth also increased more than in prior years, averaging 5.4% in FY 2009 and an additional 6.6% of growth is predicted for FY 2010. On average, states adopted budgets that accounted for Medicaid spending growth of 6.3% in FY 2010, lower than the 6.6% enrollment growth, however, Medicaid officials in three-fourths of the states believed that there was a 50-50 chance that initial FY 2010 legislative appropriations would be insufficient, and thus the FY 2010 growth rate is an underestimation (Figure 4).

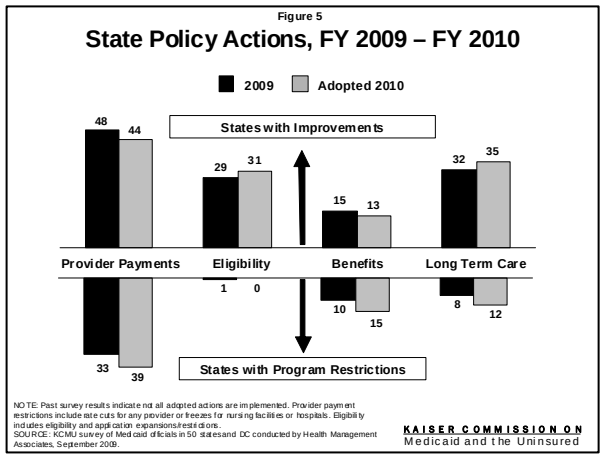
Figure 4



Policy Actions

Nearly every state implemented at least one new Medicaid policy to control spending in FY 2009 and FY 2010, with more states implementing provider cuts and benefit restrictions than in prior years (Figure 5).

Figure 5



With the enhanced FMAP through ARRA, states reported avoiding or mitigating the severity of Medicaid benefit cuts. However, many more states cut or froze provider rates in FY 2009 than planned and additional provider rate cuts that have not yet been implemented are still under consideration in many states. These rate cuts can jeopardize provider participation and therefore access to needed care.

Medicaid eligibility was protected in FY 2009 and 2010 largely because to qualify for enhanced matching funds through ARRA, states could not restrict their eligibility levels or enrollment processes. The ARRA requirements resulted in 14 states reversing and 5 states abandoning planned restrictions to eligibility. Separate from the ARRA related changes and despite the worsening fiscal conditions, 29 states in FY 2009 and 31 states in FY 2010 reported positive eligibility and application simplification changes. While many of the changes will only affect a small number of enrollees, a few states are implementing broader reforms.

Additionally, states are continuing to expand community based long-term care, but fewer states are adopting these policies compared to FY 2008. Lastly, despite the budget issues, states are continuing to adopt policies to manage and coordinate care, improve the quality of care and to expand the use of health information technology.

Outlook and Health Reform

The recession highlights wide gaps in our health care system. While ARRA has helped states support coverage through their Medicaid programs, there is concern that the economy will not be fully recovered when these funds expire in 2011. Leading health reform proposals include expansions of Medicaid to more fully reach the low-income population, especially adults not previously eligible for public coverage. If enacted by Congress, the promise of these efforts will depend on the fiscal impact on states, provider and administrative capacity, and how Medicaid would be integrated with the larger health care reform effort.

[i] Bureau of Labor Statistics Employment Summary, September 4, 2009.
[ii] McNichol and Lav, "New Fiscal Year Brings No Relief From Unprecedented State Budget Problems", CBPP, July 24, 2009.

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