THE HENRY J. KAISER FAMILY FOUNDATION

APRIL 2007

PRESIDENT'S FY 2008 BUDGET AND MEDICAID

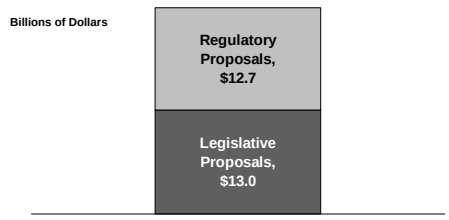
The President's FY 2008 budget proposes $25.7 billion in federal Medicaid cuts over the next five years through a combination of both legislative and regulatory changes. Medicaid is the program that partners with states to provide health coverage and long-term care assistance to over 39 million people in low-income families and 12 million elderly and disabled people, to fill in gaps in Medicare coverage, and to support safety-net providers. Medicaid spending is expected to be about $1.2 trillion over the next five years so the proposed reductions are a small fraction of spending but they could have negative implications for beneficiaries and shift costs to the states. These changes could also place additional pressure on states to finance current programs and could limit their ability to expand coverage or services.

BACKGROUND

The President's FY 2008 budget forecasts a deficit of $244 billion (1.8% of GDP) in FY 2008 and then a surplus of $61 billion (.3% of GDP) in 2012. The FY 2008 proposed budget includes $96 billion in new net mandatory savings over the next five years ($66 billion in savings are from Medicare and $25.7 billion from Medicaid). About half of the Medicaid savings would come from legislative changes and the other half from regulatory proposals. Many of these proposals were included in last year's budget and were not implemented or adopted by Congress. (Figure 1)

Figure 1

The President's Medicaid Proposals, FY 2008 – FY 2012



SOURCE: OMB, Fiscal Year 2008 Budget, February 2007. Total for legislative proposals includes indirect effects of other program changes on Medicaid.

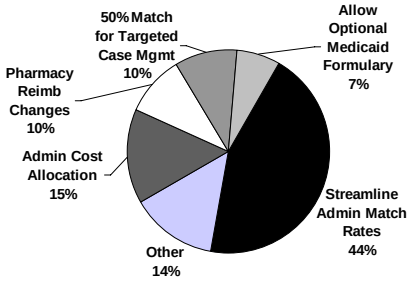
KAISER COMMISSION ON Medicaid and the Uninsured

PROPOSED LEGISLATIVE CHANGES

The President's FY 2008 budget includes Medicaid legislative proposals that would result in $13 billion in net Medicaid savings. This figure includes $12 billion from direct Medicaid legislative proposals plus $1.7 billion in Medicaid savings as a result of offsets from changes to other federal programs and $0.6 billion in spending to extend Transitional Medical Assistance. The Congressional Budget Office estimates a similar figure ($13.4 billion) related to the President's legislative proposals for Medicaid, although there are some differences for specific proposals. (Figure 2)

Figure 2

President's FY 2008 Budget: Medicaid Legislative Savings Proposals Over 5 Years



SOURCE: OMB, Fiscal Year 2008 Budget, February 2007.

KAISER COMMISSION ON Medicaid and the Uninsured

Administrative Savings and Match Rate Proposals ($8.2 billion). The largest share of the proposed savings would come from changes to reimbursement for Medicaid administrative expenses. These changes include:

- Reimbursing all administrative activities at a 50 percent match rate. Under current law, some administrative services are matched at a higher rate including nursing home survey and certification activities, operation of information systems, and some activities to stop fraud and abuse. ($5.3 billion / CBO estimates 8.4 billion for this proposal)

- Changing the ways in which states can allocate administrative costs across programs with shared responsibilities for determining program eligibility such as TANF and food stamps. ($1.8 billion)

- Reimbursing states for targeted case management (TCM) services at the 50 percent match rate. Currently TCM services are reimbursed at a state's Medicaid match rate for services. ($1.2 billion)

Prescription Drug Savings Proposals ($2.3 billion). The Administration proposes to limit Medicaid pharmacy reimbursement for certain drugs to 150 percent of the

Average Manufacturers Price (AMP). The Deficit Reduction Act (DRA) set reimbursement for these drugs at 250 percent of the AMP ($1.2 billion). The budget would allow states to use "optional managed formularies" ($0.9 billion). Under current law, states must provide coverage for FDA-approved, Medicaid covered drugs but can use tools such as prior authorization to manage utilization. The Administration also would require that providers use "tamper-resistant" prescription pads ($0.2 billion).

Other Proposals. Other proposals could reduce Medicaid spending by another $1.4 billion over the next five years. The budget proposes to: remove the state option to increase the home equity asset transfer limit to $750,000 from the $500,000 level as included in the DRA ($0.4 billion); expand the Social Security Administration's (SSA) asset verification pilot program to Medicaid ($0.6 billion); establish new requirements for states to report on performance measures and link state performance to Medicaid grant awards ($0.3 billion), and expand third party liability collections through increased efforts to collect for medical child support ($85 million). The proposed budget would extend the Transitional Medical Assistance (TMA) and the Qualified Individual Program (QI) programs for one year.

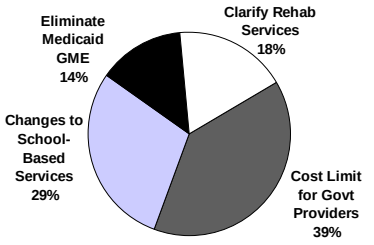
Proposed changes to other programs would have indirect implications for Medicaid. A one year extension for refugees and asylees to complete citizenship applications would slightly increase Medicaid costs and proposed funding increases for the State Children's Health Insurance Program would result in some Medicaid savings.

PROPOSED REGULATORY CHANGES

The Administration proposed $12.7 billion in savings over the next five years that would be achieved through four regulatory proposals. Regulatory changes do not require Congressional action. (Figure 3)

Figure 3

President's FY 2008 Budget: Medicaid Regulatory Savings Proposals Over 5 Years



Total = $12.7 billion

SOURCE: OMB, Fiscal Year 2008 Budget, February 2007.

KAISER COMMISSION ON Medicaid and the Uninsured

Payments for Government Providers ($5 billion over 5 years). The details of this proposal to limit government providers were included in a Notice of Proposed Rule Making (NPRM) released on January 18, 2007. The proposed rule would limit government provider reimbursement to cost and would also more narrowly define what constitutes a unit of government which could affect some states' ability to use special financing arrangements such as Upper Payment Limits or intergovernmental transfers.

School Based Services ($3.6 billion). The Administration proposes to issue regulations that would prohibit federal reimbursement for school-based administration or transportation costs. Under current rules, Medicaid pays for medical services for children who are eligible for Medicaid in accordance with education plans that are part of the Individuals with Disabilities Act (IDEA). Medicaid payments for school based services have been studied and investigated by GAO and OIG in recent years.

Rehabilitation Services ($2.3 billion). Under current law, 46 states and the District of Columbia use the rehabilitation option in Medicaid. Many states use the option to cover community based services for individuals with mental illness, services for individuals with physical disabilities and special services for children in foster care or juvenile justice programs. The Administration proposes to clarify what services can qualify for reimbursement under the option.

Medicaid Graduate Medical Education ($1.8 billion). States currently have a great deal of flexibility over the methodologies used to pay providers. Many states do use Medicaid to support GME (Medicare requires reimbursement for GME). The Congressional Research Service estimates that GME payments account for 8 to 9 percent of total Medicaid inpatient expenditures. The President's budget would eliminate Medicaid reimbursement for GME.

OUTLOOK AND IMPLICATIONS

The Administration's budget includes regulatory and legislative proposals resulting in over $25 billion in Medicaid reductions over the next five years. Some of these policies could have negative implications for beneficiaries, such as restricting the definition of rehabilitation services. A number of the proposed policies could shift costs to the states, including proposed changes in administrative match rates and changes related to provider payments. Cost shifts to states would increase the fiscal burden on states to finance current programs and could limit their ability to expand coverage or services.

Legislative proposals would require action by the Congress. To date, Congress has not been eager to adopt many of these same provisions proposed in previous years. Regulatory proposals do not require Congress to act. Without legislative hurdles, regulatory actions could be more likely to move forward. The Administration has already released a proposed rule to limit reimbursement for government providers.

Additional copies of this publication (#7634) are available on the Kaiser Family Foundation's website at www.kff.org.