THE HENRY J. KAISER FAMILY FOUNDATION

THE KAISER COMMISSION ON
Medicaid and the Uninsured

February 2008

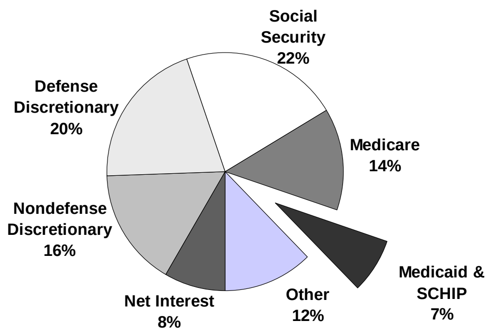
PRESIDENT'S FY 2009 BUDGET and MEDICAID

The President's FY 2009 budget proposal would reduce federal Medicaid spending by over $17 billion over the next five years by reducing the federal match rate for certain services and by making changes to managed care, long-term care, reimbursement for prescription drugs and other Medicaid administration functions.

Medicaid is the program that partners with states to provide health coverage and long-term care assistance to over 44 million people in low-income families and 14 million elderly and disabled people, to fill in gaps in Medicare coverage, and to support safety-net providers. Federal Medicaid spending is expected to be about $216 billion in FY 2009, or 7 percent of federal spending, rising to $287 billion in 2013 or 8.4 percent of the federal budget. Federal Medicaid spending is expected to increase by an average annual rate of 6 percent over the next five years. (Figure 1)

Figure 1

Composition of Federal Spending in FY 2009



FY 2009 Total Outlays = $3.0 trillion

SOURCE: OMB, Fiscal Year 2009 Budget, February 2008. Baseline Category Totals.

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THE PRESIDENT'S FY 2009 BUDGET AND MEDICAID

The President's FY 2009 budget forecasts a deficit of $407 billion (2.7% of GDP) in FY 2009 and then a surplus of $29 billion (.2% of GDP) in 2013. The FY 2009 budget proposes a net reduction in federal spending for mandatory programs of $208 billion over the next five years, most of which are achieved through Medicare spending reductions ($173 billion over the next five years).

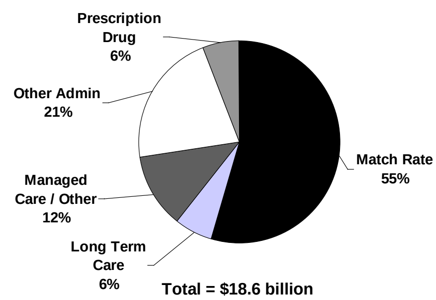
The President's FY 2009 budget proposes to reduce Medicaid spending by $17.4 billion over the next five years and by $46.7 billion over the next ten years. In addition to the legislative proposals, the FY 2009 proposed budget includes three new regulatory proposals with savings of $0.8 billion over five years. Over the last year, the Administration has proposed a series of regulatory changes that would reduce federal Medicaid spending by at least $12 billion. Many of these proposals were included in the FY 2008 budget. While the reductions in spending are a small fraction of the $1.2 trillion in projected Medicaid spending over the next five years, the changes 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.

PROPOSED LEGISLATIVE CHANGES

The President's FY 2009 budget includes Medicaid legislative proposals that would result in $17.425 billion in net federal Medicaid spending reductions ($18.6 billion in federal reductions offset by $1.2 in spending). Several of the proposals were included in last year's budget but they were not implemented or adopted by Congress. (Figure 2)

Figure 2

President's FY 2009 Budget: Medicaid Legislative Savings Proposals Over 5 Years



Total = $18.6 billion

SOURCE: OMB, Fiscal Year 2009 Budget, February 2008.

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Changes in Federal Match Rates ($10.1 billion reduction over 5 years). The largest share of federal Medicaid spending cuts would come from changes to federal match rates certain Medicaid expenditures. The FY 2009 budget proposes to reimburse:

- All Medicaid 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, operation of information systems, and some activities to stop fraud and abuse. ($5.5 billion);
- Family planning at a state's match rate for Medicaid services. Under current law, these services are reimbursed at a 90 percent match rate ($3.3 billion);

- Case management at the administrative match rate of 50 percent. Under current law, some case management services are reimbursed at a state's match rate for medical services ($1.1 billion), and
- Expenditures for the Medicare Qualified Individual (QI) Program at a state's match rate for other services. Under current law, there is no state share requirement up to a capped amount of funds to pay for the Medicare Part B premium costs for those who are eligible ($.2 billion).

Managed Care and Other Changes ($2.2 billion reduction over 5 years). The President's FY 2009 budget would repeal current law exemptions and allow states to enroll certain beneficiary groups (including children with children with special needs and Medicare beneficiaries) in mandatory managed care plans ($2.1 billion). The FY 2009 budget would also extend the renewal period for 1915(b) "freedom of choice waivers" from two to three years (no federal savings estimated for this proposal); provide states with new flexibility for determining cost effectiveness and new options to share information with employers to promote premium assistance programs ($140 million), and would make changes to ensure that Medicaid and SCHIP beneficiaries qualify for HIPAA-related coverage (no savings).

Long-term Care Changes ($1.1 billion reduction over 5 years). The FY 2009 budget would extend the DRA flexible benefit package option to allow states to offer a limited, private sector-type coverage to certain beneficiary groups who qualify for long-term care services ($650 million). The FY 2009 would also 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 ($480 million).

Medicaid Prescription Drugs Changes ($1.1 billion reduction over 5 years). The Administration proposes to limit Medicaid pharmacy reimbursement for certain drugs by reducing the Federal Upper Limit to 150 percent down from 250 percent that was set in the Deficit Reduction Act ($1.1 billion). The FY 2009 budget would also replace "best price" component of the Medicaid drug rebate formula with a flat rebate to deter manufacturers from offering lower prices to other drug purchasers (no saving).[i]

Other Medicaid Administrative Services Changes ($4 billion reduction over 5 years). The FY 2009 budget proposes to change 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).

The FY 2009 budget would make permanent an electronic asset verification demonstration program used by the Social Security Administration to use electronic asset verification to check eligibility for the Supplemental Security Income (SSI) program that was extended to Medicaid for Transitional Medical Assistance (TMA), Abstinence Education and the Medicare Qualified Individual (QI) programs ($1.2 billion).

The proposed budget would also enhance third party liability for medical child support and for prenatal care; require states to report on certain performance measures starting and then link state performance to Medicaid grant awards by 2012; require state participation in the Public Assistance Reporting Information System (PARIS) a program that helps verify eligibility for services through state and federal data matching; mandate a national correct coding initiative similar to an initiative in Medicare to prevent inappropriate Medicaid billing, and require publication of an annual actuarial report similar to the annual reporting requirements for Medicare.

Program Extensions ($1.2 billion new spending for FY 2009). The proposed budget would extend the TMA ($695 million) and the QI ($470 million) programs for one year.

PROPOSED REGULATORY CHANGES

The President's FY 2009 budget includes three new regulatory proposals. The first proposal specifies which services states can provide using savings derived from using managed care. This change is expected to reduce federal Medicaid spending by $800 million over 2009 to 2013 period. The remaining two proposals are not expected to reduce federal Medicaid spending. One regulation would prohibit certain long-term care insurance policies from qualifying for LTC Partnership programs. The other change clarifies the "free care" policy and specifies that providers cannot bill Medicaid for services provided to other payers at no cost.

Over the last year, the Administration has proposed several regulations (many were included in the President's FY 2008 proposed budget) that could reduce federal Medicaid spending by more than $12 billion over the 2008 to 2012 period. Congress acted to put moratoria on four of the six regulations from the FY 2008 budget.

OUTLOOK AND IMPLICATIONS

Over the next five years, Medicaid spending is estimated to be $1.2 trillion. The Administration's s FY 2009 budget would reduce federal Medicaid spending by over $17 billion over the next five years. If enacted, these proposals would limit federal spending but could have negative consequences for state budgets as a number of proposals would reduce federal match rates. This would shift costs to states which could lead to states making other program reductions or foregoing planned expansions in order to maintain current programs which could adversely affects heath coverage for low-income beneficiaries. Cost shifts to states could negatively affect Medicaid coverage, especially as states face fiscal consequences related to a series of regulatory proposals planned for implementation this year and as states enter another economic downturn.

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[i] Under current law, the rebate for single source and innovator multiple source drugs is the greater of 15.1 percent of the Average Manufacturer Price (AMP) or the difference between AMP and "best price" which is the lowest price offered by a manufacturer.