kaiser commission on MEDICAID FACTS

medicaid and the uninsured

THE HENRY J. KAISER FAMILY FOUNDATION

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MEDICAID SPENDING GROWTH AND THE GREAT RECESSION, 2007 - 2009

Millions of Americans lost jobs and income during the recent recession, leading many to turn to the Medicaid program for health coverage. From December 2007 through December 2009, Medicaid monthly enrollment rose by nearly 6 million (14 percent) largely due to the deepening recession and supported by the American Recovery and Reinvestment Act's (ARRA) enhanced federal funding and protections against eligibility restrictions. Without Medicaid, the number of uninsured Americans would have undoubtedly been higher than the 50 million uninsured in 2009.

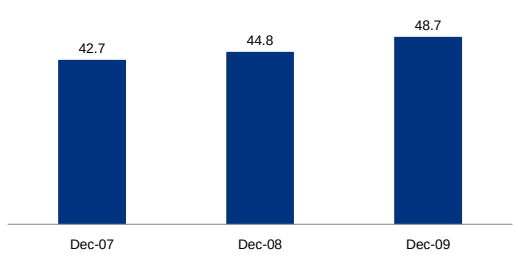
Enrollment is the primary driver of Medicaid spending growth, so during economic downturns Medicaid enrollment and spending growth rise. National Medicaid spending reached $387 billion in 2009, a 14.7 percent increase from 2007. On a per enrollee basis, however, growth in Medicaid spending is slower than both growth in national health expenditures per capita and growth in private health insurance premiums.

Enrollment Increased by Nearly 6 Million Since the Start of the Recession (December 2007 to December 2009)

From December 2007 through December 2009, monthly Medicaid enrollment rose by nearly 6 million (Figure 1). These increases were largely driven by the recession. The ARRA protected Medicaid coverage by prohibiting states from restricting eligibility or making it more difficult to apply as a condition for receiving enhanced Medicaid matching funds. Over this period, a few states expanded Medicaid eligibility.

Figure 1

Total Medicaid Enrollment in the 50 States and DC, December 2007 – December 2009



SOURCE: Analysis for KCMU by Health Management Associates, using compiled state Medicaid enrollment reports

Families are generally more affected by changes in the economy relative to the elderly and disabled. However, Medicaid enrollment growth for the elderly and disabled has been faster than the overall growth in this population. The elderly and disabled have significantly contributed to higher Medicaid costs due to the high cost of medical care for this population.

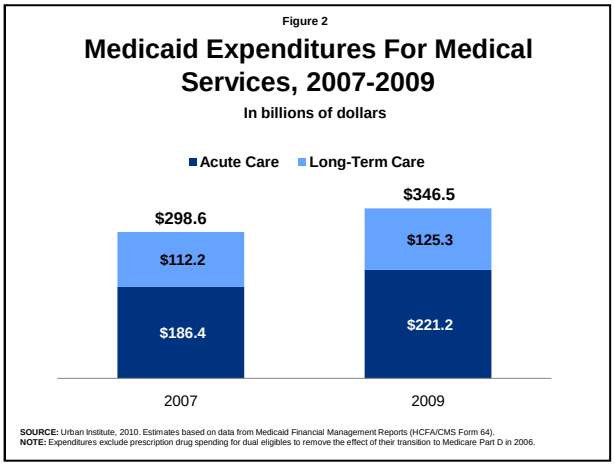
Medicaid Spending Growth Mirrors Enrollment Growth

Total Medicaid spending reached $387 billion in 2009. Spending on medical services increased from $298.6 billion in 2007 to $346.5 billion in 2009 (Figure 2). Spending on acute care grew faster than long-term care over the period.

Figure 2

Medicaid Expenditures For Medical Services, 2007-2009

In billions of dollars



SOURCE: Urban Institute, 2010. Estimates based on data from Medicaid Financial Management Reports (HCFA/CMS Form 64).
NOTE: Expenditures exclude prescription drug spending for dual eligibles to remove the effect of their transition to Medicare Part D in 2006.

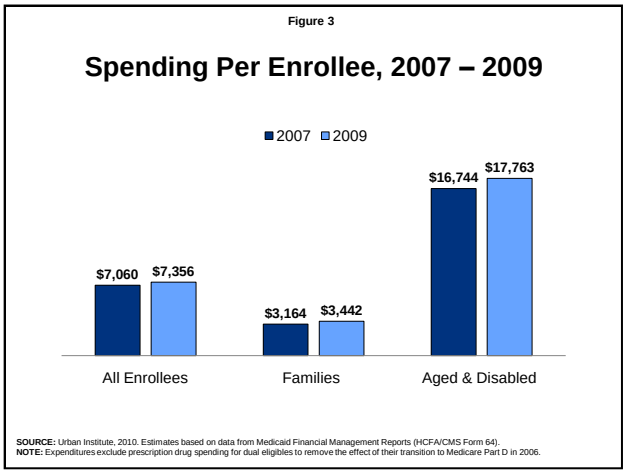
Acute care spending (including prescription drug spending) reached $221 billion in 2009, an increase of 7.1 percent in 2008 and 10.8 percent in 2009. Spending for hospitals and physicians increased from $83.2 billion in 2007 to $91.5 billion in 2009. Medicaid payments to managed care organizations increased by about 15 percent per year from $60.7 billion in 2007 to $80.5 billion in 2009. Some of this increase is clearly due to overall Medicaid enrollment growth, but also reflects the expanded use of Medicaid managed care for disabled populations who have greater health needs. Spending on prescription drugs reached $25.5 billion 2009. States have implemented an array of strategies to slow spending for prescription drugs including dispensing limits, preferred drug lists, prior authorization, generic substitution and co-payments.

Medicaid's spending on long-term care, which includes institutional and community based services, increased from $112.2 billion in 2007 to $125.3 billion in 2009. Spending on home health and personal care grew at much faster rates than spending on institutional services over the 2007 to 2009 period as states have made efforts to reorient long-term care delivery systems in their Medicaid programs towards non-institutional care.

Medicaid Spending Per Enrollee is More than 5 Times Greater for the Aged and Disabled Compared to Families

In 2009 average spending per enrollee reached $7,356 with average spending per enrollee more than five times greater ($17, 763) for aged and disabled enrollees compared to families ($3,442) (Figure 3). For 2008 to 2009, spending for acute care services per enrollee grew by 4.5 percent compared to long-term care spending (2.9 percent). More specifically, managed care and community based long-term care services experienced the highest growth per enrollee (7.2 percent and 6.4 percent) while institutional long-term care growth was flat (.1 percent growth).

Figure 3

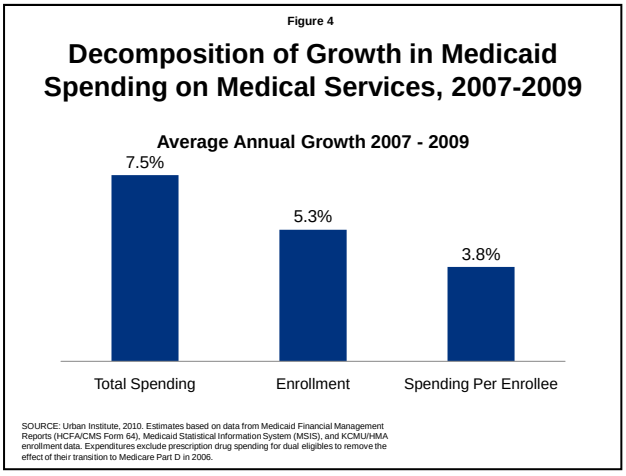


SOURCE: Urban Institute, 2010. Estimates based on data from Medicaid Financial Management Reports (HCFA/CMS Form 64).
NOTE: Expenditures exclude prescription drug spending for dual eligibles to remove the effect of their transition to Medicare Part D in 2006.

Recession Driven Enrollment Growth is the Primary Driver of Medicaid Spending Growth

Total spending is a function of the number of people in the program and spending per enrollee. Over the period of the recession (2007-2009), Medicaid spending increased on average by 7.5 percent (Figure 4). This growth was primarily attributable to recession driven enrollment growth (5.3 percent) relative to spending per enrollee (3.8 percent).

Figure 4

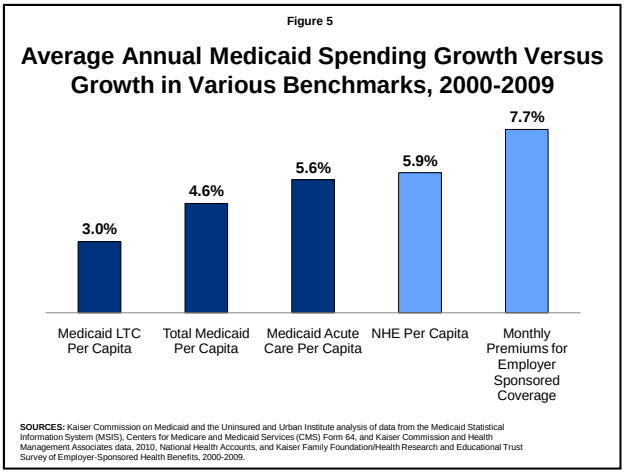


SOURCE: Urban Institute, 2010. Estimates based on data from Medicaid Financial Management Reports (HCFA/CMS Form 64), Medicaid Statistical Information System (MSIS), and KCMU/HMA enrollment data. Expenditures exclude prescription drug spending for dual eligibles to remove the effect of their transition to Medicare Part D in 2006.

Medicaid Spending Per Enrollee Is Lower Than Other Measures of Health Care Spending

Medicaid spending per enrollee at 4.6 percent per year is lower than per capita spending in national health expenditures and monthly premiums for employer based coverage over the 2000 to 2009 period (Figure 5). Growth in Medicaid spending per enrollee is lower than the increases in other health spending due to an aggressive set of cost containment policies implemented by states such as lower fee-for-service payment rates, consistent expansion of Medicaid managed care programs, an array of policies to control prescription drugs, and extension of home health and community-based services intended to reduce the level of institutionalization.

Figure 5



SOURCES: Kaiser Commission on Medicaid and the Uninsured and Urban Institute analysis of data from the Medicaid Statistical Information System (MSIS), Centers for Medicare and Medicaid Services (CMS) Form 64, and Kaiser Commission and Health Management Associates data, 2010, National Health Accounts, and Kaiser Family Foundation/Health Research and Educational Trust Survey of Employer-Sponsored Health Benefits, 2000-2009.

Conclusion

From 2007 to 2009, Medicaid enrollment accelerated as a result of the recession. During economic downturns, people lose jobs and incomes decline making more individuals eligible for Medicaid at existing eligibility levels. Access to Medicaid coverage remained stable over this period due to protections put in place under ARRA. Increases in enrollment stemming from the recession were the primary drivers of increased spending on Medicaid over this period.

Looking over the last decade, Medicaid spending per enrollee has increased more slowly than growth in national health expenditures per capita and growth in private health insurance premiums. Despite the program's success in holding down per capita cost growth, states are grappling with immediate budget issues related to the economic downturn and related state budget constraints coupled with the expiration of the enhanced federal Medicaid matching funds from the ARRA on June 30, 2011. Given the level of cost-containment that has already taken place, additional reductions in Medicaid spending growth over time will depend on efforts to better manage and deliver care to high-need and high-cost populations as well as broader efforts to reduce health spending across all payers.

This publication (#8157) is available on the Kaiser Family Foundation's website at www.kff.org. For more information on Medicaid spending growth from 2000-2009 please see publication #8152 http://www.kff.org/medicaid/8152.cfm.