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Medicaid Matters: Understanding Medicaid's Role in Our Health Care System

Medicaid, the nation's public health insurance program for low-income people, now covers nearly 60 million Americans, including many working families, as well as many of the poorest and most fragile individuals in our society. Medicaid is the largest source of financing for nursing home and community-based long-term care, and it provides essential funding for the safety-net delivery system on which many Americans rely. Most Medicaid enrollees would be uninsured without the program. Medicaid is a counter-cyclical program; during the economic recession, it expanded as intended, assisting millions of people affected by loss of employment and health coverage and declining income, but also straining state budgets. To help states with their increased Medicaid costs, Congress provided them with temporary extra federal assistance.

Under current budget pressures, some federal and state policymakers have proposed cuts in Medicaid as a way to ease them. This brief provides key information about the Medicaid program and its role in our health care system and state economies – background needed to ensure careful weighing of actions that would affect Medicaid and those it serves.

Who does Medicaid cover?

Medicaid covers 1 in 3 children. Medicaid is the largest source of health coverage for children. Most of the 30 million children covered by Medicaid are in families at or below the poverty level (\$22,050 for a family of four). Medicaid benefits for children are comprehensive, with an emphasis on promoting children's healthy development and maximizing their health and function.

Medicaid covers more than 1 in 3 births. Medicaid covers maternity and prenatal care for low-income women and more than 40% of all births. Medicaid coverage of pregnant women helps to ensure healthy mothers and healthy newborns.

Medicaid covers 8 million people with disabilities. Medicaid covers people with a wide diversity of physical and mental health conditions and limitations, and extensive and complex needs. Most of them lack access to private coverage or coverage of services they critically need. Medicaid covers key health and long-term services and supports, including personal care assistance, transportation, and assistive devices that many need to maintain function and, in some cases, independence. The services Medicaid covers enable many individuals with disabilities to work.

Medicaid covers 1 in 4 poor nonelderly adults. Currently, Medicaid eligibility for adults is very limited in most states. In the median state, parents are not eligible unless they are below 64% of the poverty level (\$14,112 for a family of four), and in most states, adults without dependent children are not eligible regardless of their income level, reflecting their exclusion from Medicaid prior to the passage of health reform. Due to these restrictions, almost half of poor working-age adults are uninsured. Under the Patient Protection and Affordable Care Act (ACA), Medicaid will expand in 2014 to nearly everyone up to 133% of the poverty level, reaching 16 million more people by 2019 – mostly, uninsured adults.

Medicaid covers nearly 9 million low-income Medicare beneficiaries. "Dual eligibles," the low-income seniors and younger people with disabilities who qualify for Medicaid as well as Medicare, are among the sickest and poorest individuals covered by either program. More than half have income below \$10,000 and most have substantial health needs. Medicaid covers Medicare premiums and cost-sharing charges for dual eligibles, as well as critical services – in particular, nursing home and community-based long-term care services – that are excluded or sharply limited in Medicare. These very poor, high-need beneficiaries account for almost 40% of all Medicaid spending.

What does Medicaid cover?

Medicaid covers comprehensive services for children. Medicaid's benefit package for children, known as EPSDT, includes screening, preventive and early intervention services, as well as diagnostic services and treatment necessary to correct or improve children's acute and chronic physical and mental health conditions. Dental and vision care important to all children, as well as services like physical therapy, personal care services, and durable medical equipment, which are particularly important for children with disabilities, are covered as needed under EPSDT. To ensure that low-income children do not face financial barriers to needed care, they are largely exempt from cost-sharing in Medicaid.

Medicaid covers a broad array of health and long-term care services to meet the needs of its diverse enrollees. State Medicaid programs are required to cover certain benefits for adults (e.g., physician and hospital services, nursing facility care), while many other benefits are optional (e.g., prescription drugs, dental care, hospice). Optional services, dominated by long-term care, account for a large share of Medicaid spending. States have broad flexibility in designing Medicaid benefits for adults as long as each covered service is sufficient in amount, duration, and scope to achieve its purpose. States can offer alternative “benchmark” packages to certain groups of Medicaid enrollees and different benefits in different geographic areas, and can charge some groups premiums, deductibles, and copayments, capped at 5% of family income.

Most Medicaid beneficiaries obtain their care through managed care plans. Almost three-quarters (72%) of Medicaid beneficiaries are enrolled in some type of managed care, most often fully capitated plans. These plans use networks of private providers to deliver services. Medicaid managed care enrollees are primarily children and families, but many states are considering enrolling elderly and disabled beneficiaries in managed care plans as well.

What is Medicaid’s role in our system?

Medicaid has assisted millions affected by the recession, stemming greater increases in the number of uninsured. In recent years, Medicaid has filled widening gaps in coverage, especially for children, left by steadily eroding job-based coverage and worsened by the impact of the recession on employment and income. While the uninsured rate among adults has continued to rise, Medicaid and CHIP have provided a safety-net of coverage for children; indeed, nearly 600,000 fewer children were uninsured in 2009 than in 2007, as 4.6 million children gained Medicaid or CHIP coverage. Reflecting the toll of the economic downturn on Americans and their families, since 2007, Medicaid enrollment has grown by over 7 million.

Medicaid is the largest source of funding for safety-net providers and the dominant payer for long-term care. Medicaid is the largest source of funding for health centers and public hospitals that serve the poor and uninsured, often in underserved areas. Children’s hospitals also rely heavily on Medicaid payment. Seven in 10 people living in nursing homes are covered by Medicaid. The program also provides over a quarter of all funding for mental health care.

Medicaid is a major item in federal and state budgets. Medicaid spending per person has been growing more slowly than other health care costs. Medicaid is the third-largest domestic program in the federal budget after Social Security and Medicare, and accounts for 8% of federal spending. It is the second largest program in most states’ budgets after elementary and secondary education, with states spending about 16% of their own funds on the program on average. Over the past decade, Medicaid costs per enrollee grew more slowly (4.6% per year on average) than premiums for job-coverage and national health expenditures (7.7% and 5.9% per year on average, respectively).

Medicaid is the largest source of federal funds to states and it fuels economic activity. The federal government matches state spending in Medicaid at least dollar for dollar. These federal Medicaid matching funds are the largest source (45%) of federal funds to states. Medicaid’s joint financing structure allows states to bring in federal funds to support health services, and the federal government pays for 56% of Medicaid spending overall. By bringing revenues to hospitals, nursing homes, clinics, pharmacies, and other providers, Medicaid helps support jobs and economic activity in states and communities. Other industries benefit indirectly from the federal dollars distributed to vendors.

What drives Medicaid costs?

Enrollment is the main driver of Medicaid spending. Medicaid costs are driven primarily by increases in enrollment. During this recession, millions more Americans became eligible for Medicaid as unemployment rose and income fell.

Medicaid spending is concentrated in a small group of high-need beneficiaries. Five percent of Medicaid enrollees account for over half (54%) of Medicaid spending. Many of these enrollees are elderly and disabled individuals who have much more intensive utilization of acute care and are much more likely to use long-term care services. Elderly and disabled Medicare beneficiaries who are also eligible for Medicaid, known as “dual eligibles,” make up 15% of Medicaid enrollees but 40% of Medicaid spending. While these high-cost enrollees have the most extensive and complex health needs, they also offer the greatest potential for improvements in care and cost savings through new models of service delivery and payment.

Health care cost inflation system-wide also affects Medicaid. While states have many tools to manage their Medicaid programs efficiently and strong incentives to do so, rising health care costs are a system-wide problem, affecting Medicaid as well as private insurance, Medicare, and out-of-pocket burdens faced by households.

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