kaiser commission on medicaid and the uninsured

MEDICAID FACTS

THE HENRY J. KAISER FAMILY FOUNDATION

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MEDICAID ENROLLMENT AND SPENDING TRENDS

In 1998, Medicaid financed health care for over 40 million low-income children, adults, and elderly and disabled individuals at a cost of $176.3 billion. After rising rapidly in the early 1990s, Medicaid spending and enrollment growth moderated in the second half of the decade. Between 1995 and 1997, Medicaid spending grew by only 3.2% and Medicaid enrollment declined by 1.3% following a decade of growth.

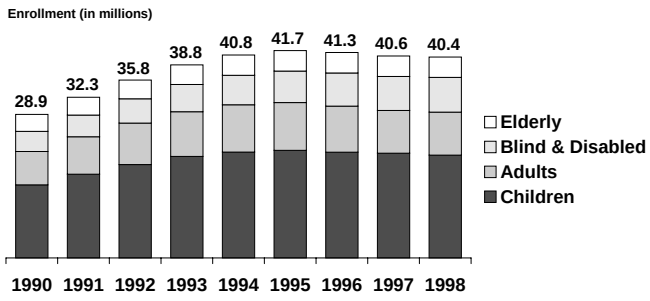
From 1997 to 1998 – the most recent year for which administrative data are available – Medicaid spending growth accelerated, rising by $8.7 billion (5.2%), while enrollment declines moderated (-0.5%). Preliminary data suggest that both enrollment and spending are likely headed upward in the years ahead. These higher growth rates reflect changes in the program, cost pressures in the broader health care market place, and Medicaid enrollment growth.

ENROLLMENT TRENDS: 1990-1998

Medicaid enrollment grew steadily from 28.9 million people in 1990 to 41.7 million in 1995 (Figure 1), but dropped to 40.4 million by 1998.

Figure 1

Medicaid Enrollment Growth, by Eligibility Group, 1990-1998



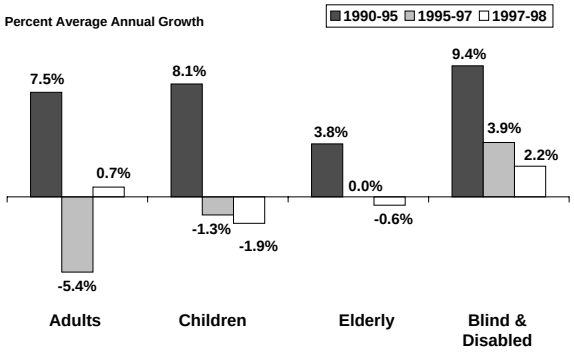
SOURCE: Urban Institute estimates based on HCFA-2082 and HCFA-64 Reports, 2001.

Enrollment growth in the early 1990s occurred across all eligibility categories. It resulted from federal and state expansions in coverage of low-income children and pregnant women, increases in coverage of children and adults through Supplemental Security Income (SSI), and eligibility expansions for low-income Medicare beneficiaries.

Between 1995 and 1997 enrollment fell off for low-income families, dropping by 5.4% for adults and 1.3% for children (Figure 2). From 1997 to 1998, adult enrollment increased slightly (0.7%), with declines for the elderly and for children continuing. Declines in enrollment of adults and children were likely due to welfare reforms and a strong economy.

Figure 2

Rate of Growth in Medicaid Enrollment by Eligibility Group, 1990-1998



SOURCE: Urban Institute estimates based on HCFA-2082 and HCFA-64 Reports, 2001.

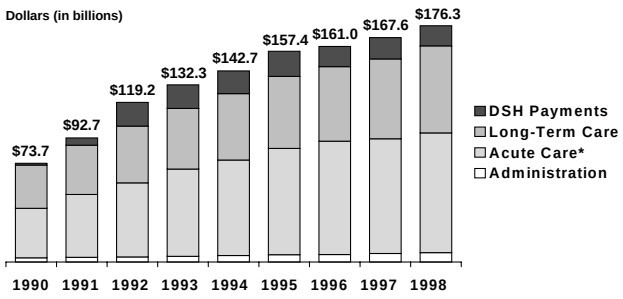
The number of Medicaid beneficiaries eligible through welfare fell by 13.8% for adults and 12.1% for children from 1995 to 1998. These drops were only partially offset by increases in Medicaid coverage of adults and children using other enrollment categories. Continued enrollment growth for the disabled has shifted the overall percentage of disabled Medicaid enrollees from 14% of total enrollment in 1990 to over 17% in 1998. From 1997 to 1998, enrollment of the disabled grew by 2.2%.

SPENDING TRENDS: 1990-1998

Medicaid spending grew from $73.7 billion in 1990 to $176.3 billion in 1998 (Figure 3). The most rapid growth occurred in the early 1990s, when spending rose at double-digit rates largely due to state use of financing mechanisms such as provider taxes and donations and disproportionate share hospital (DSH) payments. More recently, with low rates of inflation, federal limits on DSH payments, and lower enrollment, spending growth has moderated.

Figure 3

Medicaid Spending Growth by Service, 1990-1998



*Includes Medicare and HMO payments.
SOURCE: Urban Institute estimates based on HCFA-2082 and HCFA-64 Reports, 2001.

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1990 to 1995: From 1990 to 1992, Medicaid spending grew by an average of 27.1% annually, largely due to unprecedented growth in DSH payments. With congressional curbs on DSH, Medicaid spending growth rates fell after 1992, increasing by 9.7% per year between 1992 and 1995 (Figure 4). Decelerating enrollment growth, slower growth of spending per enrollee, and a leveling of DSH payments all contributed to lower overall spending growth.

Figure 4

State and Federal Medicaid Expenditures by Service, 1990-1998

Type of Spending	Spending (billions)		Average Annual Growth			
	1990	1998	1990-92	1992-95	1995-97	1997-98
Total	**$73.7**	**$176.3**	**27.1%**	**9.7%**	**3.2%**	**5.2%**
Acute Care	$37.0	$89.4	22.3%	12.8%	3.9%	4.3%
Long-Term Care	$32.3	$65.0	14.6%	8.2%	5.4%	8.9%
DSH	$1.3	$15.0	263.4%	2.0%	-7.9%	-6.1%
Administration	$3.2	$7.0	9.8%	12.8%	8.0%	9.4%

SOURCE: Urban Institute estimates based on HCFA-2082 and HCFA-64 Reports, 2001.

1995 to 1997: Medicaid spending rose 3.2% during this period as DSH payments declined from $18.8 billion in 1995 to $15.9 billion in 1997, primarily due to congressional restrictions on DSH enacted in 1991 and 1993 and enrollment reductions in the aftermath of welfare reform.

1997 to 1998: Medicaid expenditures grew by $8.7 billion, or 5.2%, during this period – below historical rates for the third consecutive year. Despite relatively slow growth in total spending, Medicaid expenditures per enrollee increased by nearly seven percent from 1997 to 1998 (Figure 5). Factors that placed pressure on spending growth in 1998 included:

- **Prescription drug utilization and costs** – Medicaid outpatient fee-for-service drug costs increased by 14.8%.
- **Changing composition of enrollees to higher cost disabled enrollees** – disabled enrollee growth continued despite overall enrollment declines.
- **Increases in home and community-based care** – expenditures rose by 10.1% from 1997 to 1998.
- **Increased use of upper payment limit (UPL) arrangements generating an additional $2.8 billion in spending in 1998** – by paying certain public facilities at rates far in excess of normal Medicaid rates, yet still below legally allowable Medicare upper payment limits, several states have been able to generate additional federal Medicaid funds without matching these payments.

Factors restraining spending growth during the 1997 to 1998 period include declining enrollment and reductions in DSH spending that resulted in large part from additional restrictions imposed by the Balanced Budget Act of 1997 (BBA).

Figure 5

Average Spending Per Enrollee by Enrollment Group, 1990-1998

Type of Enrollee	Spending per Enrollee		Average Annual Growth			
	1990	1998	1990-92	1992-95	1995-97	1997-98
All	**$2,400**	**$3,822**	**6.7%**	**5.3%**	**5.9%**	**6.8%**
Elderly	$6,902	$11,235	10.9%	5.0%	4.0%	5.5%
Blind & Disabled	$6,422	$9,558	7.1%	3.8%	3.9%	7.4%
Adults	$1,312	$1,892	9.1%	4.4%	2.7%	0.8%
Children	$745	$1,225	9.4%	6.6%	3.9%	5.1%

SOURCE: Urban Institute estimates based on HCFA-2082 and HCFA-64 Reports, 2001.

These national trends mask considerable variation by state, however. While Medicaid enrollment declined in 35 states and the District of Columbia between 1995 and 1998, it actually rose in 15 others. On the spending side, average annual spending growth ranged from a high of 11.4% in New Mexico to a low of -7.7% in Louisiana.

LOOKING AHEAD

Although Medicaid administrative data are not yet available for 1999, expenditure growth appears to continue to accelerate. A survey of states conducted by the National Association of State Budget Officers reported average spending increases of 6.2% in 1999 and 7.7% in 2000. The Congressional Budget Office projects federal Medicaid spending to grow by an average annual rate of 8.6% from 2001 to 2011.

Medicaid spending could grow by up to 10 percent in the near future because of rising health care costs, particularly prescription drugs, the limited impact of Medicaid managed care, wage pressures in the health care industry, the use of supplemental financing programs, and enrollment increases.

Medicaid is the primary provider of care to America's most vulnerable and sickest populations. In an environment where health care spending is increasing overall, spending for our sickest populations needs to keep pace. Policymakers should assess the factors underlying Medicaid spending growth and balance their responses so that the recent progress states have made in expanding coverage is not jeopardized.

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Source: *Medicaid Spending Growth Remained Modest in 1998, But Likely Headed Upward,* by Brian Bruen and John Holahan, February 2001. Prepared for the Kaiser Commission on Medicaid and the Uninsured, Publication #2230.