



THE KAISER COMMISSION ON  
**Medicaid and the Uninsured**

State Fiscal Conditions and Health Coverage:  
An Update on FY2004 and Beyond

Presentation Slides for:

Victoria Wachino  
Vern Smith  
John Holahan  
& Donald Boyd

September 22, 2003

# Medicaid's Role and State Budgets

Victoria Wachino  
Associate Director  
Kaiser Commission on Medicaid and the  
Uninsured

September 22, 2003

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Figure 2

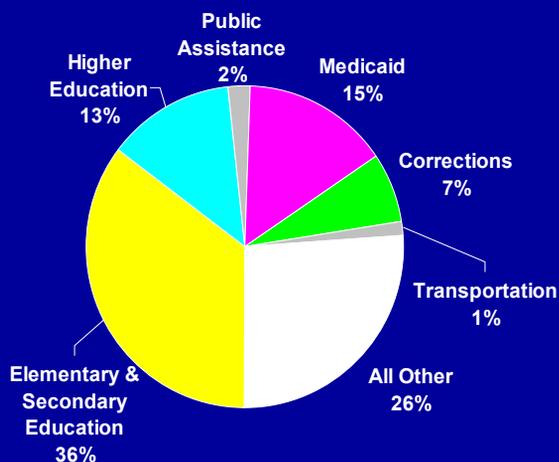
## Medicaid Today

- **Provides long-term care and health care coverage for over 50 million people**
  - Provides comprehensive, low-cost health insurance for 38 million people in low-income families; covers one in four American children
  - Finances care for over 12 million elderly and persons with disabilities, including over 6 million Medicare beneficiaries ("dual enrollees") who rely on Medicaid for long-term care, prescription drugs, and help with Medicare cost-sharing
- **Entitles individuals to coverage and states to open-ended federal financing**
- **Serves as important source of financing in health care system**
- **Provides 43% of federal funds to states through federal matching payments**

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Figure 3

## State Medicaid Spending as a Percent of General Fund Expenditures, 2001



Total State General Fund Spending = \$489 billion

SOURCE: National Association of State Budget Officers, 2001 State Expenditure Report, Summer 2002.

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Figure 4

## Change in State Tax Revenue Collections, 1992-2002



SOURCE: Rockefeller Institute of Government, Fiscal Year 2002 Tax Revenue Summary, May 2003. Changes are shown in nominal terms and are not adjusted for tax-related legislative changes.

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Figure 5

## Total State Budget Shortfalls FY 2003 – FY 2004

\$ Billions



SOURCE: NCSL, State Budget Update: February 2003

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# **States Respond to Fiscal Pressure: State Medicaid Spending Growth and Cost Containment**

**Vern Smith, Ph.D.**  
Principal, Health Management Associates  
September 22, 2003

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Figure 1

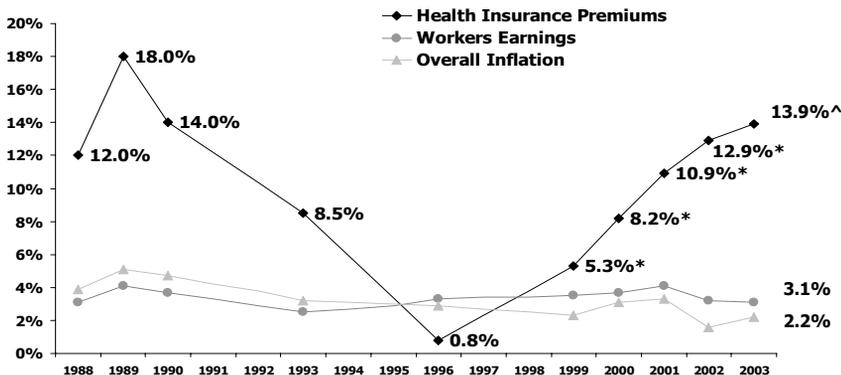
## **2003 Medicaid Budget Survey: Study Approach**

- Purpose: To track current trends in Medicaid spending, enrollment and state Medicaid cost containment action.
- Responses from Medicaid officials in all 50 states and DC
- Responses reflect actual FY 2003 actions and legislative decisions for FY 2004
- 2003 is third annual survey; will be updated mid-way through FY 2004.

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Figure 2

## Increases in Health Insurance Premiums Compared to Other Indicators, 1988-2003



Source: KFF/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002, 2003; KPMG Survey of Employer-Sponsored Health Benefits: 1993, 1996; The Health Insurance Association of America (HIAA): 1988, 1989, 1990; Bureau of Labor Statistics, Consumer Price Index (U.S. City Average of Annual Inflation (April to April), 1988-2003; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1988-2003.

\* Estimate is statistically different from the previous year shown at  $p < 0.05$ : 1996-1999, 1999-2000, 2000-2001, 2001-2002.

<sup>^</sup> Estimate is statistically different from the previous year shown at  $p < 0.1$ : 2002-2003.

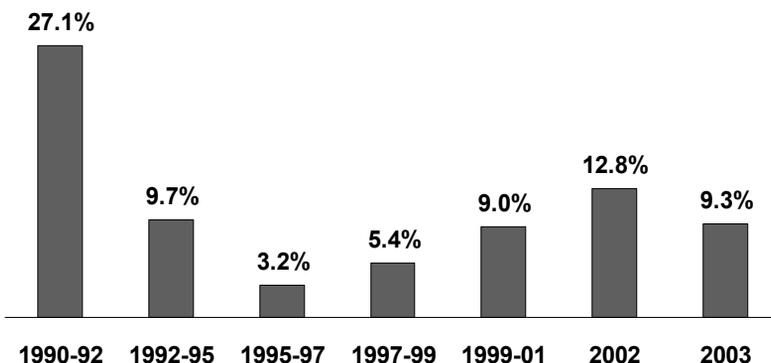
Note: Data on premium increases reflect the cost of health insurance premiums for a family of four.

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Figure 3

## Average Annual Growth Rates of Total Medicaid Spending

Annual growth rate:

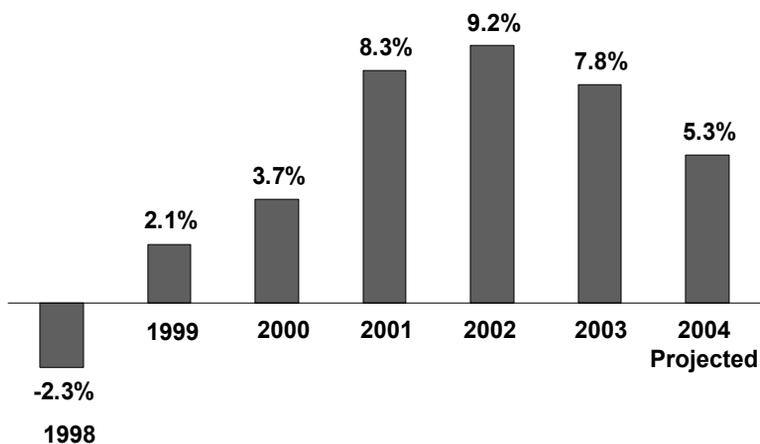


SOURCE: For 1990-1999: Urban Institute estimates prepared for the Kaiser Commission on Medicaid and the Uninsured, 2000. For 2001-2003: Health Management Associates, for the Kaiser Commission on Medicaid and the Uninsured.

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Figure 4

## Percent Change in U.S. Medicaid Enrollment, FY 1998 – FY 2003

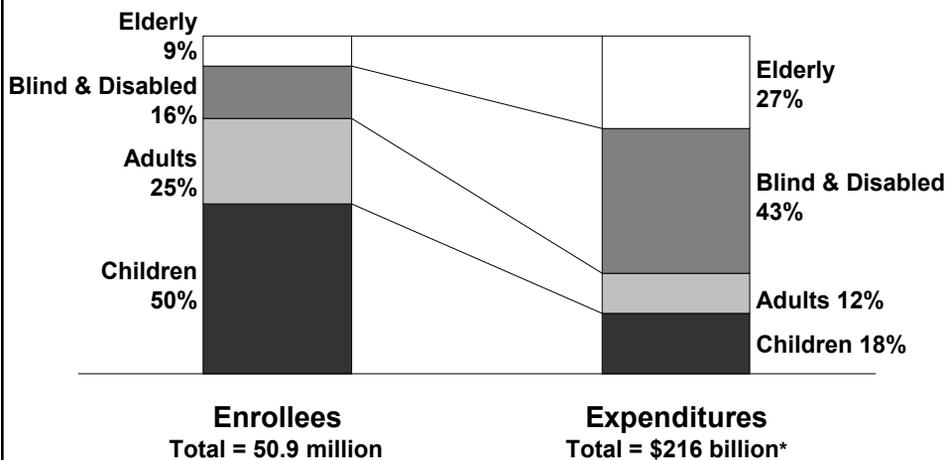


Note: FY refers to the period ending in June of indicated year, the state fiscal year in 46 states.  
 SOURCES: FY 1998-2001: Eileen Ellis, Vernon Smith, Jason Jorkasky and David Rousseau, *Medicaid Enrollment in 50 States: June 2002 Data Update*, Kaiser Commission on Medicaid and the Uninsured, July 2003.  
 FY2003 and FY2004: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, June 2003.

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Figure 5

## Medicaid Enrollees and Expenditures by Enrollment Group, 2002



Expenditure distribution based on CBO data that includes only spending on services and excludes DSH, supplemental provider payments, vaccines for children, and administration.

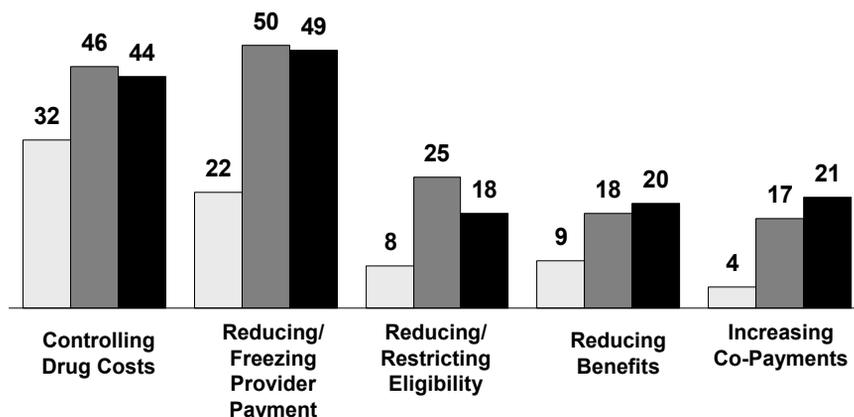
SOURCE: Kaiser Commission estimates based on CBO and OMB data, 2003.

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Figure 6

## States Undertaking Medicaid Cost Containment Strategies FY 2002 - FY 2004

□ Implemented in FY 2002   ■ Implemented in FY 2003   ■ Planned as of July 1 for FY 2004



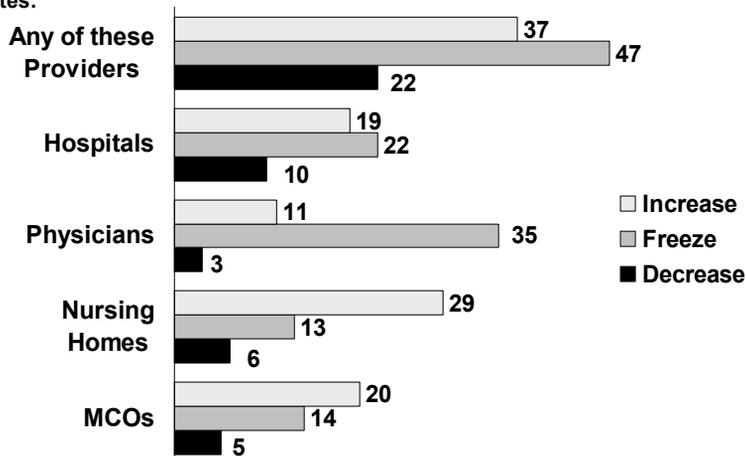
SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, June and December 2002 and September 2003.

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Figure 7

## Most Medicaid Programs Will Cut or Freeze Some Provider Rates in FY2004

Number of States  
Changing Rates:

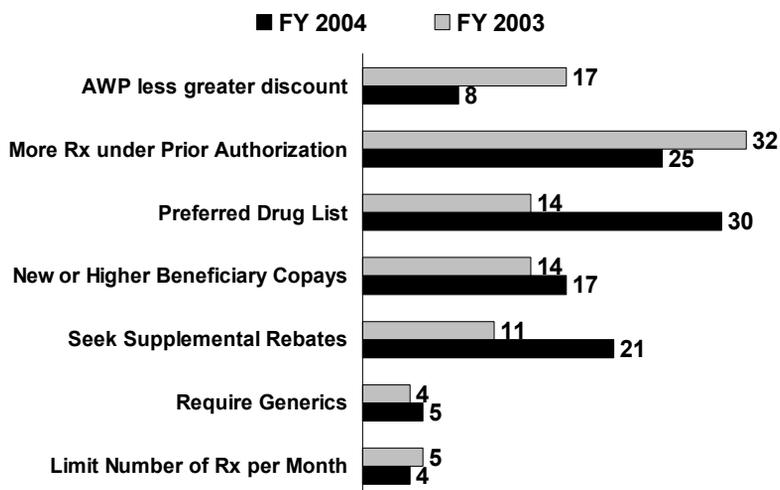


SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, September 2003.

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Figure 8

## Medicaid Prescription Drug Policy Changes FY2003 and FY2004

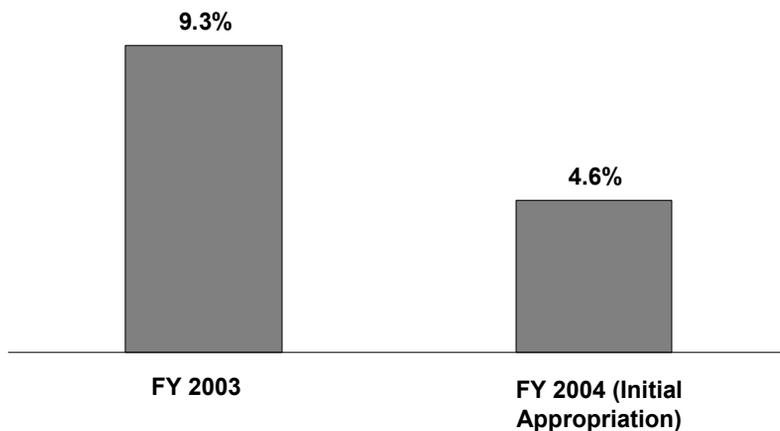


SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, September 2003.

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Figure 9

## Average Annual Growth Rates for Total Medicaid Spending

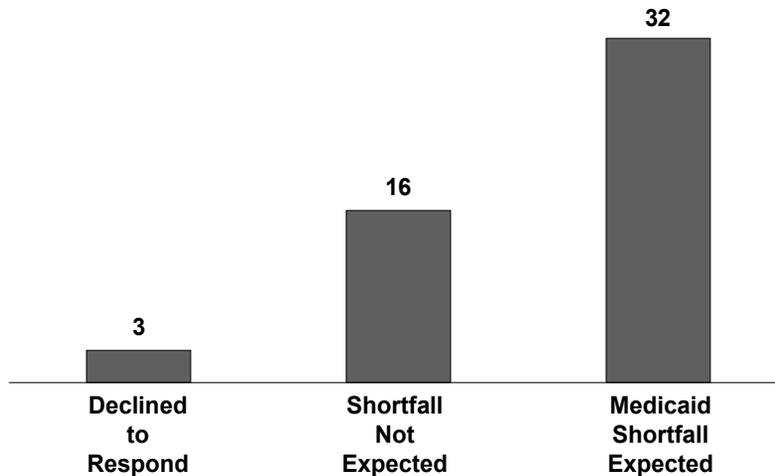


SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, September 2003.

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Figure 10

## Number of States Expecting a Medicaid Budget Shortfall in FY2004



SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, September 2003.

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Figure 11

## Temporary Federal Fiscal Relief Helped (Jobs and Growth Tax Relief Reconciliation Act of 2003)

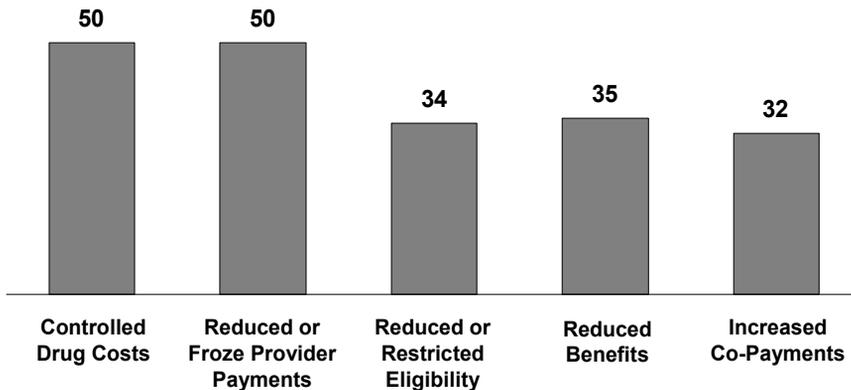
- **Enhanced federal Medicaid matching rate (“FMAP”) will help States to June 2004.**
  - softened or prevented cuts that would have been made for FY 2004
  - May prevent mid-year cuts
- **Concern strongly expressed for FY 2005: fiscal relief will expire, but revenues will remain low while Medicaid costs continue to increase.**

SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, September 2003.

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Figure 12

## Summary: Total Number of States Implementing Medicaid Cost Containment Strategies Over the Past Three Years (FY 2002 – FY 2004)



SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, June and December 2002 and September 2003.

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Figure 13

## Looking Ahead to FY 2004

- **The outlook is for continuing budget pressure on Medicaid**
  - **State officials expect Medicaid enrollment and costs to continue to grow faster than state revenues**
  - **Task of controlling Medicaid cost growth will be more difficult**

SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, September 2003.

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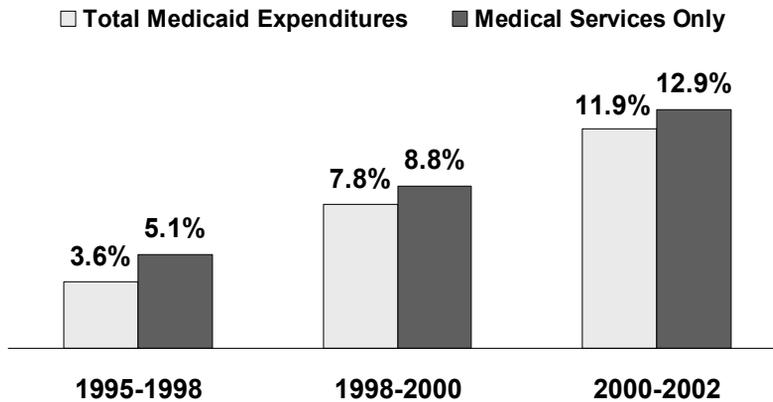
# Medicaid Spending: What Factors Contributed to the Growth Between 2000 and 2002?

John Holahan and  
Brian Bruen  
The Urban Institute  
September 22, 2003

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Figure 1

## Average Annual Growth in Medicaid Expenditures, 1995-2002

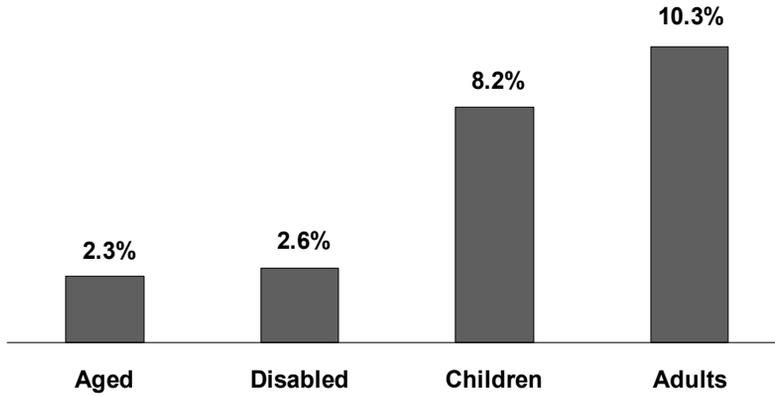


SOURCE: Urban Institute, 2003; estimates based on data from  
HCFA Financial Management Reports, 2003 (HCFA-64/CMS-64).

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Figure 2

## Change in Medicaid Enrollment\* 2000-2002



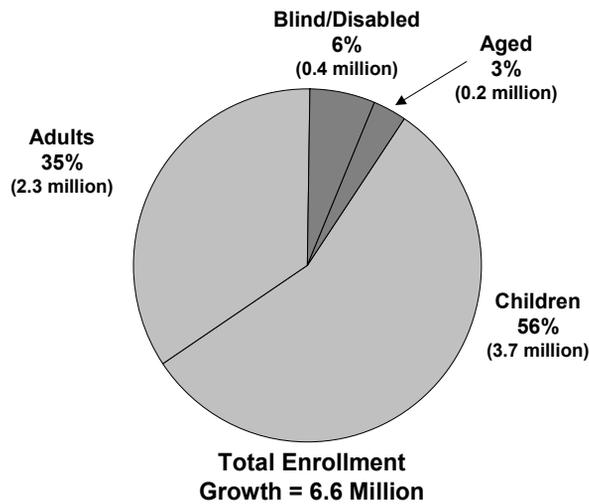
\* Ever Enrolled

SOURCE: Urban Institute, 2003; estimates of the 2000 MSIS Annual Person Level Summary Files; 2002 data from the CBO March 2003 baseline.

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Figure 3

## Contributors to Change in Medicaid Enrollment\*, 2000-2002



\* Ever Enrolled

SOURCE: Urban Institute, 2003; estimates of the 2000 MSIS Annual Person Level Summary Files; 2002 data from the CBO March 2003 baseline.

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Figure 4

## Sources of Enrollment Growth

### Families and Children

- The Recession and Rising Health Care Costs
- State Expansions in the Late 1990's

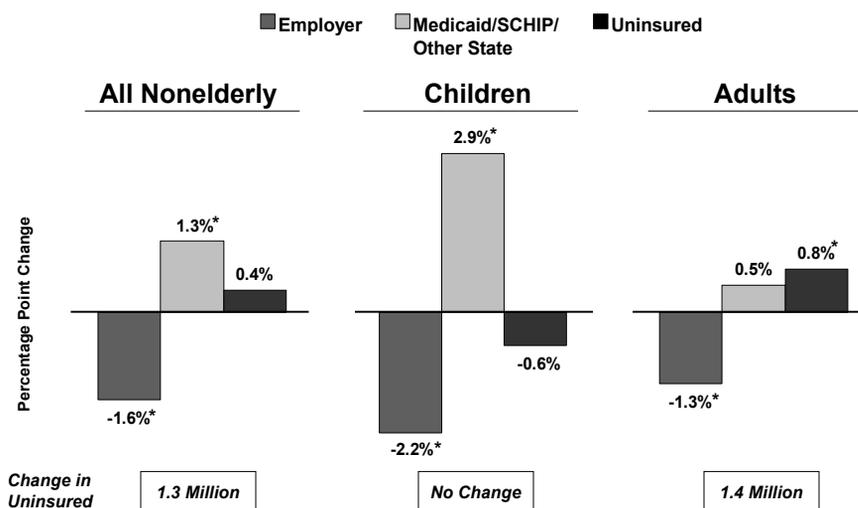
### Aged and Disabled

- Increased Participation in Medicaid, Likely Due to Rising Health Care Costs, e.g. Prescription Drugs
- Aging of the Baby Boomers Affecting Disability Rates
- Medical Technology
- Increased Participation in Home- and Community-based Waiver Programs

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Figure 5

## Changes in Health Insurance Coverage Among Low Income Nonelderly Americans, 2000-2001

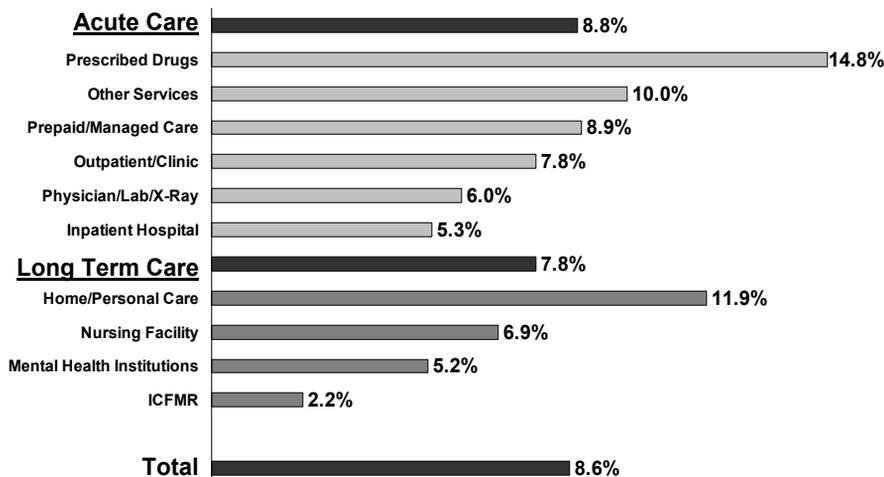


\*Indicates change is significant at the 95% confidence level  
Low Income is less than 200% FPL  
SOURCE: Urban Institute, 2002, based on data from the March Current Population Surveys, 2001 and 2002.

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Figure 6

## Average Annual Percentage Change in Spending Per Enrollee by Service, 2000-2002

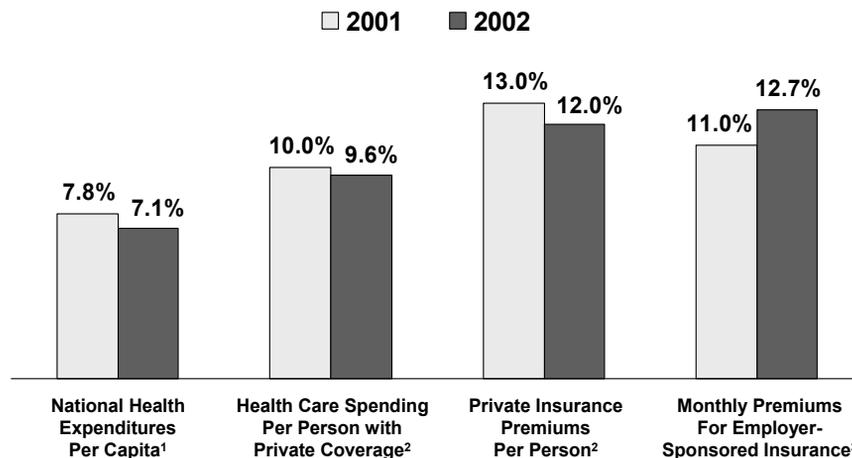


SOURCE: Urban Institute estimates based on data from HCFA Financial Management Reports (HCFA-64/CMS-64).

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Figure 7

## Annual Change in Measures of Private Health Spending



<sup>1</sup> CMS Office of the Actuary, 2003.

<sup>2</sup> Strunk and Ginsburg, 2003.

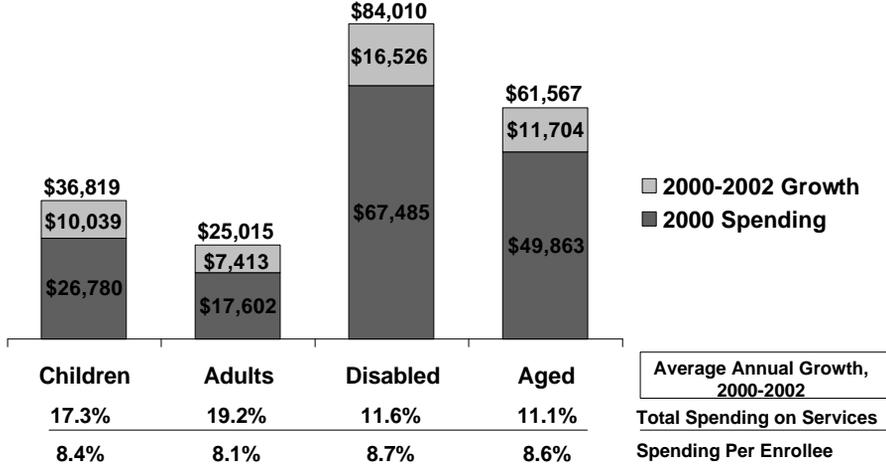
<sup>3</sup> Kaiser/HRET Survey, 2002.

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Figure 8

## Growth in Medicaid Spending on Services by Eligibility Group, 2000-2002

(millions of dollars)

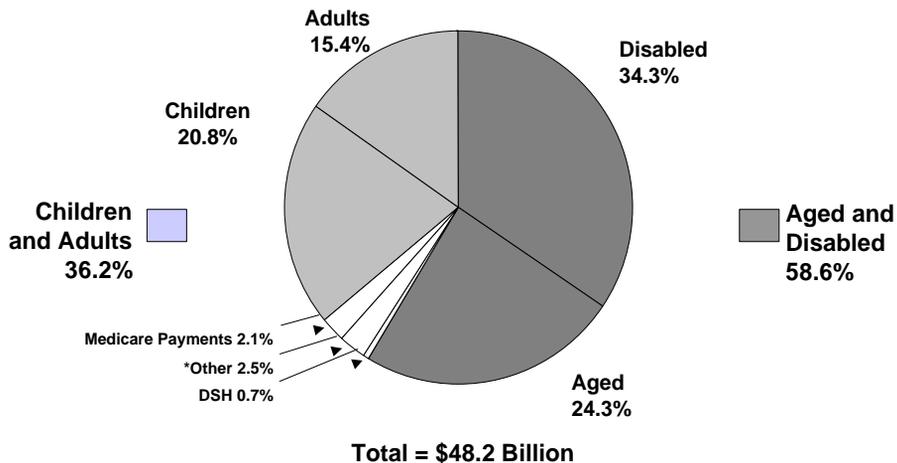


SOURCE: Urban Institute, 2003; estimates based on data from CMS, CMSO, Medicaid Statistical Information System (MSIS) and HCFA/CMS-64 Reports.

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Figure 9

## Contributors to Medicaid Expenditure Growth by Enrollment Group, 2000-2002

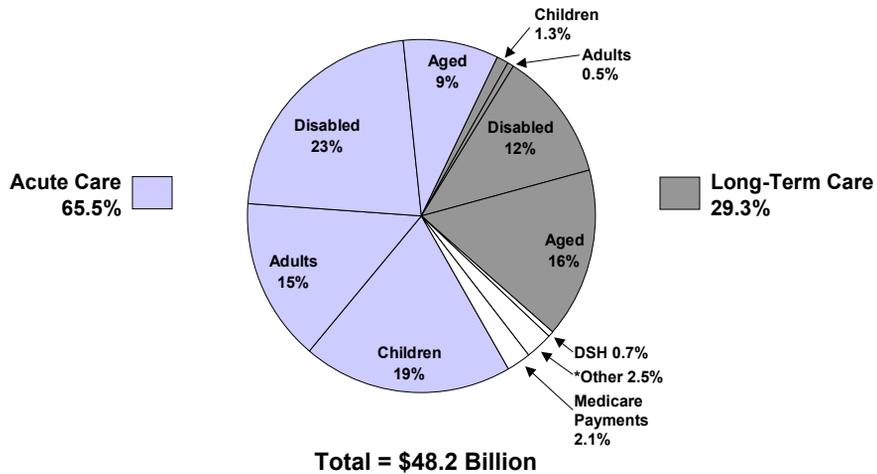


\* Other = Administrative costs and adjustments.  
SOURCE: Urban Institute, 2003; estimates based on data from CMS, CMSO, Medicaid Statistical Information System (MSIS) and HCFA/CMS-64 Reports.

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Figure 10

## Contributors to Medicaid Expenditure Growth by Service, 2000-2002



\* Other = Administrative costs and adjustments.

SOURCE: Urban Institute, 2003; estimates based on data from CMS, CMSO, Medicaid Statistical Information System (MSIS) and HCFA/CMS-64 Reports.

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Figure 11

## Spending Growth Slows in 2003

- **Slowdown in recession-induced enrollment growth**
- **State actions in response to fiscal situation:**
  - Eligibility cuts; enrollment barriers
  - Benefit reductions
  - Reimbursement rate reductions
- **Decline in upper payment limit (UPL) programs**

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Figure 1

# The Current State Fiscal Crisis And Its Aftermath

Washington, DC  
September 22, 2003

Donald J. Boyd, Director of Fiscal Studies

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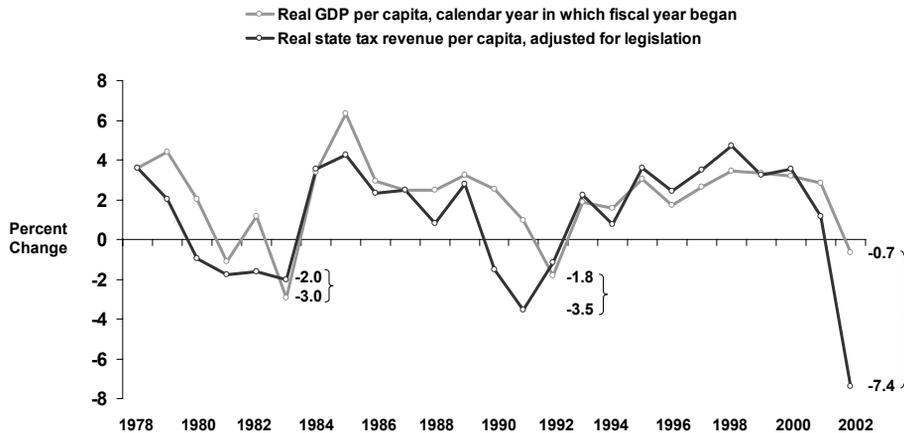
[www.StateAndLocalGateway.rockinst.org](http://www.StateAndLocalGateway.rockinst.org)



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Figure 2

## State Tax Revenue Has Fallen Far More Sharply Relative to the Economy than in Previous Recessions (1980-82 and 1990-91)



SOURCE: U.S. Bureau of Economic Analysis; U.S. Bureau of the Census; *Significant Features of Fiscal Federalism - 1984* (ACIR); *Fiscal Survey of the States* (NGA); Rockefeller Institute of Government.

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Figure 3

## Why Is This Fiscal Crisis So Bad?

- Bursting of fiscal bubble
  - Capital gains fell nearly 50% in 2001 after quadrupling in late 1990s
  - Manufacturing weakness followed by a recession and war uncertainty
  - Consumption growth (important to sales taxes) slowed
  - Other positive trends of 1990s ended (stock options gone, welfare windfall used up, Medicaid spending picked up)
- Economy may be recovering, but
  - Employment decline has been steep and prolonged relative to the last recession

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Figure 4

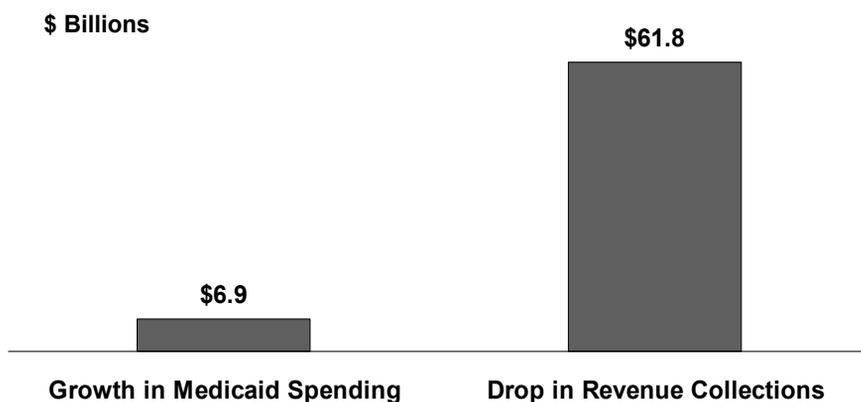
## Revenue and Spending in the 1990s

- After last fiscal crisis, states cut taxes...
  - Still, tax revenue grew 6% as share of personal income - testament to extraordinary 1990s
- Increased spending...
  - 26% increase in spending from own funds
  - Smaller increase than in 1980s and 1960s, but larger than 1950s and 1970s
- And boosted reserves
  - 20-year high of 10.4% in FY 2000
  - Reserves now essentially depleted

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Figure 5

## Contributing Factors to State Budget Gaps in FY 2002 -- Illustrative Analysis --



NOTE: Growth in Medicaid spending and drop in revenue collections calculated compared to average growth rates for FY1994-FY2000.  
SOURCE: Rockefeller Institute of Government for the Kaiser Commission on Medicaid and the Uninsured.

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Figure 6

## Near and Middle-Term Outlook: Strained Finances

- Employment remains weak
- Will take states several years to work out of current crisis (one shots and other nonrecurring actions spread the problem out)
- Capital gains likely to be weak
  - Stock markets unlikely to generate gains of late 1990s
  - Carryover of capital losses could depress taxable gains for several years
- Downward pressure on sales taxes
  - Shift to services
  - Difficulty collecting taxes on Internet-related sales
- Continued spending pressures

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