kaiser commission on MEDICAID FACTS
medicaid and the uninsured
THE HENRY J. KAISER FAMILY FOUNDATION

November 2004

STATE FISCAL CONDITIONS AND MEDICAID

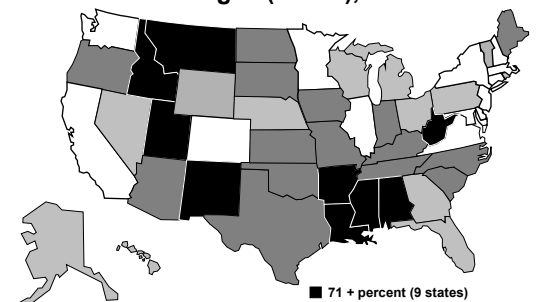
The Medicaid program is the nation's health care safety net providing health and long-term care services to many low-income Americans. The current financing structure, with federal funds to match state funds, allows Medicaid to play this critical role and increases states' capacity to respond to population needs. During the recent economic downturn, Medicaid enrollment increased as many people lost jobs and income and slid into poverty. At the same time, limited state tax revenue and continuing state budget pressures led all states to implement Medicaid cost containment strategies to slow the growth in Medicaid spending. The slow economic recovery and state funding constraints continue to create a challenge to adequate program financing.

STATES AND THE FEDERAL GOVERNMENT FINANCE MEDICAID

The states and the federal government share responsibility for financing Medicaid. The federal government matches state spending for the services Medicaid covers, with the federal matching rate varying by state from 50 to 77 percent of benefit costs (Figure 1). States design and administer their programs within federal rules that define the terms and conditions under which a state can earn federal matching funds. Medicaid's size and matching payments make Medicaid the primary source of federal grant support to states, representing 44 percent of all federal grants to states. On average, states spend about 17 percent of their own funds on Medicaid, while education comprises the largest share (47%) of state budgets.

Figure 1

Federal Medical Assistance Percentages (FMAP), FY 2005



SOURCE: Federal Register: December 3, 2003

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ECONOMIC RECOVERY HAS BEEN SLOW

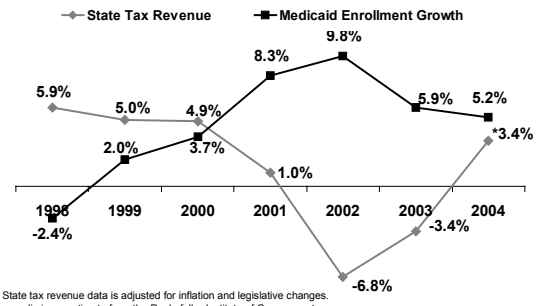
After more than three years of intense fiscal stress, FY 2004 marked a turning point for state revenues and for budget shortfalls. After two years of sharp declines, state tax revenue growth was positive in FY 2004 and budget shortfalls started to shrink. States were also helped by the $20 billion in temporary federal fiscal relief, that included $10 billion directly for Medicaid. During FY 2005, revenues are expected to continue to grow, although temporary federal fiscal relief has expired. Many states continue to face substantial budget shortfalls, that while smaller than in previous years, continue to place great stress on state budgets.

MEDICAID EXPANDED TO MEET POPULATION NEEDS DURING THE RECENT ECONOMIC DOWNTURN

Since 2000, the number of people living in low-income families has increased by 8 million people and 5 million people have become uninsured. At the same time, Medicaid has served as a critical safety net, especially for children, who fell into poverty during the economic downturn. Without Medicaid, many of these individuals would have otherwise been uninsured. Slowing from a peak in 2002, Medicaid enrollment grew by 5.2 percent in FY 2004 and is expected to grow by 4.7 percent in FY 2005 (Figure 2). Enrollment also grew among seniors and people with disabilities whose health care needs are greater and substantially more costly than low-income families. Medicaid spending continued to grow faster than state revenues but slower than the growth in private health insurance premiums, which grew at nearly twice the rate of Medicaid per capita spending (12.5% versus 6.7%) over the period from 2002-2004.

Figure 2

Underlying Growth in State Tax Revenue Compared with Change in Medicaid Enrollment Growth, 1998-2004



NOTE: State tax revenue data is adjusted for inflation and legislative changes. 2004 is a preliminary estimate from the Rockefeller Institute of Government.

SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, October 2004.

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STATES CONTINUE COST CONTAINMENT EFFORTS

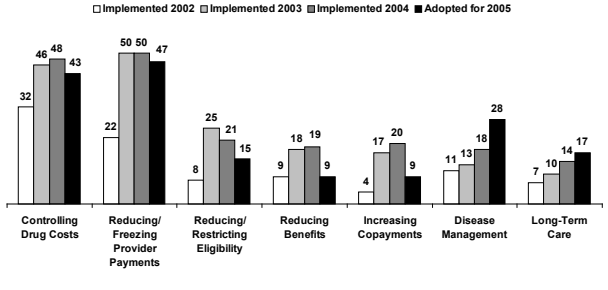
Responding to fiscal pressure, all 50 states and the District of Columbia implemented actions designed to control Medicaid spending growth in FY 2004. In addition, all states plan to implement at least one new cost containment measure in FY 2005. In FY 2004:

- 48 states implemented new pharmacy cost controls; and
- 50 states froze or reduced rate increases for at least one group of providers, i.e. hospitals, physicians, or nursing homes (Figure 3).
- Although several states also adopted modest benefit and eligibility expansions in FY 2004, 20 states imposed new or higher beneficiary co-payments;
- 21 states imposed eligibility restrictions; and
- 19 states restricted or reduced benefits.

While fewer states plan to restrict provider payments, benefits, or eligibility in FY 2005 compared to FY 2004, more states are pursuing disease management and long-term care initiatives targeted towards higher cost populations.

Figure 3

States Undertaking New Medicaid Cost Containment Strategies, FY 2002 – FY 2005



SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, September and December 2003 and October 2004. KAISER COMMISSION ON Medicaid and the Uninsured

FY 2005 marks the fourth consecutive year of Medicaid cost containment action for most states, and the fifth year for some. Between FY 2002 and 2005, all states reduced provider rates and implemented prescription drug cost controls, 38 states reduced eligibility and 34 states reduced benefits. While these measures have helped to constrain spending, they have also placed additional burden on Medicaid beneficiaries and the providers who serve them.

ROLE OF THE FEDERAL FISCAL RELIEF

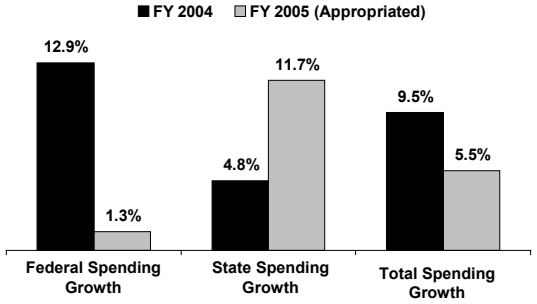
The temporary federal fiscal relief, passed by Congress in May 2003 as part of the Jobs and Growth Tax Relief Reconciliation Act of 2003, helped states ease their budget problems and avoid making additional and deeper changes to their Medicaid programs in FY 2004 as well as fill other shortfalls in their general fund budgets. The legislation provided $10 billion in additional Medicaid funding through a 2.95 percentage point increase in state's federal matching rate and an additional $10 billion in temporary grants for states to use for Medicaid or other state programs. Thirty-six states said this helped to meet the funding increases in their Medicaid programs, and 31 states reported using the fiscal relief to minimize or postpone Medicaid cuts or freezes. A condition for receiving the fiscal relief required that states maintain eligibility levels in effect as of September 2003.

With the expiration of the enhanced FMAP on June 30, 2004, state Medicaid spending has grown substantially for FY 2005 (Figure 4). To replace the loss of the enhanced federal support, spending growth for FY 2005 is 11.7 percent, an amount 2.4 times greater than the 4.8 percent increase in state funds in FY 2004, causing added fiscal stress on state's FY 2005 Medicaid budgets.

Figure 4

Average Annual Medicaid Growth Rates

Federal Fiscal Relief Helped States in FY 2004 and Ended in FY 2005



SOURCE: Estimates based on KCMU analysis of CMS-64 data and KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, June and December 2003 and October 2004. KAISER COMMISSION ON Medicaid and the Uninsured

FUTURE OUTLOOK

The overall state budget picture is beginning to improve in many, but not all states. State revenue collections improved in FY 2004 and fewer states are reporting Medicaid budget shortfalls for FY 2005. However, the expiration of the federal fiscal relief combined with continuing spending increases in Medicaid will still put great pressure on state budgets in FY 2005. Rising health care costs also continue to place pressure on Medicaid spending. The "clawback" payments that states will be required to make to the federal government, when the new Medicare Part D drug benefit takes effect on January 1, 2006, provide another strain on state budgets. Medicaid's role in addressing the long-term care needs of the elderly and disabled populations and the health coverage needs of the low-income population, underscores the need to assure adequate and stable financing for our nation's health safety net.

Additional copies of this publication (#7220) are available at www.kff.org.

For additional information on Medicaid and state budgets please see the Kaiser Commission on Medicaid and the Uninsured report (#7190) entitled, *The Continuing Medicaid Budget Challenge: State Medicaid Spending Growth and Cost Containment in Fiscal Years 2004 and 2005: Results from a 50-State Survey,* October 2004, available at www.kff.org.