



# Higher Medicaid expenditures cause budget crunch

by Tim Anderson

For Indiana Rep. Patrick Bauer, the news from state Medicaid officials in December certainly wasn't good, but it was information he has heard before and has had to deal with in the past. Expenditures for Medicaid are far outpacing revenues, causing a \$75 million shortfall in this year's budget and more than a \$400 million projected deficit in the next biennium's budget.

The 31-year legislative veteran recalls similar problems in the late 1980s and early '90s, when Medicaid spending in Indiana was rising at a rate of 30 percent per year. The numbers are not as staggering this time around, with Indiana officials predicting that state expenditures will increase at an annual rate of about 10 percent. Still, several other factors could make proposed changes to make up the shortfall just as difficult, if not more so, this time around.

"Back then, it was a lot easier to pinpoint programs that needed to be slashed or changed," the Democrat from South Bend says. "Now, though, what's causing the shortfall is CHIP [the Children's Health Insurance Program] and prescription drugs. We can't eliminate CHIP, and while we could technically eliminate the prescription drug program, that really is not possible politically. What we may be able to do is reshape some of the Medicaid benefit programs."

To top off the pending budget challenge in Indiana, the state is not taking in as much money from tax revenues as originally forecast. "Not everyone knows it yet, but we're in an economic downturn," says Bauer, chair of the House State Budget Committee. "About half of the members of the Legislature have not experienced that before, and it will be difficult to adjust to the change. It's going to be a very, very difficult year."

## Indiana is not alone

Other states in the region and around the country are getting set to deal with varying degrees of budget problems associated with a slowing economy and rising Medicaid expenditures. In its December 2000 "Fiscal Survey of the States," the National Governors' Conference and the National Association of State Budget Officers found that about half of the states surveyed expected Medicaid spending to exceed current projections.

Last month, Ohio Republican Gov. Bob Taft signed legislation to cover his state's \$248 million share of a projected \$648 million Medicaid shortfall (costs for each state program are shared with the federal government). He has told state agencies to cut their budgets by between 2 percent and 4 percent. Lawmakers in the Buckeye State already were facing a difficult legislative year due to changes they must make to the school funding formula based on a state Supreme Court mandate, and rises in health care costs could make their work even more challenging.

*"What's causing the shortfall is CHIP [the Children's Health Insurance Program] and prescription drugs. We can't eliminate CHIP, and while we could technically eliminate the prescription drug program, that really is not possible politically. What we may be able to do is reshape some of the Medicaid benefit programs."*

Rep. Patrick Bauer  
Indiana

Larger numbers of people enrolling in Medicaid this year and increased costs for prescription drugs have caused the shortfall in Ohio, which also has seen sales tax revenue figures more than \$100 million below original estimates.

Part of Indiana's Medicaid deficit is due to the accomplishments of its children's health program, Hoosier Healthwise.

Lawmakers first expanded Medicaid coverage to children in families with incomes up to 150 percent of the federal poverty level, and then increased eligibility to 200 percent. This aspect of the program, along with a successful marketing strategy that helped sign up eligible children, has been lauded as a national model. According to the Kaiser Commission on Medicaid and the Uninsured, Indiana has demonstrated a greater enrollment increase than any other state.

The large numbers, though, come at a higher cost for the state and federal governments. "CHIP is a success problem," Bauer says. "We've signed up a lot more people than we expected."

The rising cost of prescription drugs has become a national concern because an alarming percentage of people, particularly seniors using Medicare, do not have insurance coverage that pays for their medicine. Impoverished and disabled individuals who are eligible for Medicaid are given coverage for their medicine. Bauer, though, says the

substantial increases in the use and cost of prescription drugs may force some changes to the program, including possibly some

kind of co-payment system with recipients.

Medicaid spending has increased at varying levels over the last decade. In the early part of the 1990s, expenditures went up at an annual rate of 27 percent. But by

the latter part of the decade, increases averaged only 4 percent.

Still, Medicaid currently comprises nearly 20 percent of expenditures in state budgets (only spending on elementary and secondary education is higher), and annual nationwide costs for the health care program are expected to rise by at least 8 percent annually over the next 10 years.

Costs related to CHIP and prescription drugs are only two of several factors expected to drive the escalation. The December 2000 "Fiscal Survey of the States" cites these reasons as well: states' commitment to expand opportunities for non-institutional long-term care, caseload growth, an increase in the number of disabled people receiving long-term services as a result of court interpretations of the Americans with Disabilities Act, and higher payment rates to keep managed care plans in the Medicaid market.

## A look ahead

Along with detailing rises in Medicaid spending, the "Fiscal Survey of the States" predicts a slowdown in revenue growth that could make the jobs of state legislators and governors particularly difficult in the years to come. In half of the states, revenue growth for the next fiscal year is expected to fall below current-year levels.

Still, news from the report is not all bad. First, economic growth, though not expected to increase by 5 percent as in recent years, still will rise at about 3 percent. Second, strong economic times have allowed many states to build up substantial rainy-day funds to better deal with slowdowns and downturns. For example, Minnesota and Michigan have stabilization funds of more than \$1 billion, while Ohio has \$953 million in rainy-day money.

While these reserves will surely help states, rises in Medicaid spending and slower revenue growth will inevitably force legislators to make some difficult budget decisions.

**Medicaid enrollment**  
This chart indicates the percentage increases (from December 1998 to December 1999) in the number of people enrolled in Medicaid.

State	Percent
Illinois	4.7
Indiana	12.0
Iowa	0.0
Kansas	12.7
Michigan	0.9
Minnesota	4.5
Nebraska	7.4
North Dakota	1.1
Ohio	0.8
South Dakota	7.3
Wisconsin	11.1

Source: Kaiser Family Foundation