Stateline Midwest

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States are currently faced with a "double whammy" to their budgets: a slumping economy and rising Medicaid caseloads. As a result, lawmakers are searching for both short-term and long-term solutions that target the causes of Medicaid cost increases. Legislatures in the Midwest have considered numerous proposals this year designed to limit spending and fill holes in their states' Medicaid budgets.

Medicaid budget woes

Recession means states must insure more people with fewer resources

by Jacqueline M. Kocinski

That many states find themselves in fiscal crisis is no longer news. How they are going about solving their budget woes is now the focus of much attention. With Medicaid costs comprising a relatively large portion of state budgets — in some states it accounts for one-quarter of state spending — the increasing demand for services that has followed a worsening economy, along with surging health care costs, has left state policymakers with no choice but to tackle this budget behemoth.

"You can't dissociate what happens with Medicaid from what happens with the economy because Medicaid is linked to income," explains Vikki Wachino, associate director of the Kaiser Commission on Medicaid and the Uninsured, the health care policy institute of the independent Kaiser Family Foundation. "When more people become impoverished, more people qualify for Medicaid. So that, in a sense, becomes a 'double whammy' for states because at the same time the economy affects their revenues, it increases the number of people who need Medicaid."

Iowa Rep. Dave Heaton knows this story all too well. His state has been working to plug a $62 million hole in its Medicaid budget. "Driving the Medicaid shortfall is the fact that we've picked up a lot of new people," says Heaton, a Republican from Mount Pleasant, who chairs the House Appropriations Subcommittee on Human Services.

In looking to solve their Medicaid problems, Iowa lawmakers chose to block a proposed 13.2 percent rate cut to providers. Heaton worries that such changes to reimbursement rates could have too great an impact on access to care. Instead, legislation recently signed by Democratic Gov. Tom Vilsack will transfer money from the state's Senior Living Trust Fund and use tobacco settlement dollars to cover this fiscal year's costs.

"The problem is we're running out of one-time money," Heaton laments. "Long-term solutions to the problem will require basic policy changes." Estimates of Iowa's fiscal year 2003 Medicaid budget deficit range from $70 million to $110 million.

In Indiana, the Medicaid budget is running a $251 million deficit for this biennium, and Democratic Gov. Frank O'Bannon has called on Medicaid officials to cut about $660 million from the program by mid-2003. Last fall, an initial step was taken when payments to nursing homes, hospitals and pharmacies were cut by 5 percent. The nursing homes sued, and a court ruling has in effect temporarily halted further cuts, though state officials say they will likely resume in April after some procedural changes are made. In the meantime, lawmakers are looking at a variety of measures to try to stop the bleeding.

"There is a need out there to serve people, and if you don't do it, the people we represent end up suffering," says Indiana Rep. Earl Harris, a Democrat from East Chicago, who is vice chair of the House Ways and Means Committee.

Indiana lawmakers are considering a proposal that would leverage funds from nursing homes to draw down federal Medicaid dollars. Under the legislation, facilities would be assessed a licensing fee of $6 per resident, per day. The money collected would be put up as the state's share needed to collect federal matching funds. The measure reflects the conundrum that a cash-strapped state faces when securing federal dollars for its Medicaid program requires putting up a share of the costs first.

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Some say Medicaid solutions in drug spending, federal relief

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Further exacerbating troubles is the current Medicaid matching rate, which is based on states' economies between 1996 and 1999 and does not reflect recent economic trends. As a result, matching rates for fiscal year 2002 are actually down in 29 states, according to the Center on Budget and Policy Priorities.

Barbara Coulter Edwards, who oversees Ohio's Medicaid program, echoes concerns over states' abilities to take advantage of federal assistance. "The fact that the Medicaid program cost growth continues to outpace state revenue growth more than 2-1 is a huge problem, and so much of what is coming out of federal policy these days is really targeted at states spending even more money," she says. "They need to take the cooperation and flexibility they've been offering around program expansion and bring that down to basic program management."

In Ohio, measures taken to cover the state's overall $1.5 billion budget deficit for the biennium did not include cutting money allocated for Medicaid. But, with enrollment in the program greater than what the budget assumed, officials still find themselves in trouble, trying to cover more people within the resources allotted. Edwards says the state's immediate challenge is controlling costs.

The fact is bad economic times are not the sole culprit in state Medicaid budget crunches. Much blame for the shortfalls can be placed on skyrocketing medical costs, which are being driven in large part by spending increases on prescription drugs.

Medicaid's budget impact

Expenditures on Medicaid comprise a signficiant amount of every state's overall expenditures, as figures for fiscal year 2001 indicate.

State	Percent of total spending
Illinois	21.5%
Indiana	18.9%
Iowa	14.4%
Kansas	7.2%
Michigan	19.3%
Minnesota	18.4%
Nebraska	17.2%
North Dakota	18.2%
South Dakota	18.8%
Ohio	18.9%
Wisconsin	14.6%
All states	*19.6%*

Source: National Association of State Budget Officers

A new study by the Kaiser Family Foundation reports that Medicaid costs for pharmaceuticals grew 18.1 percent a year, while the growth in spending for the program as a whole grew just 7.7 percent.

The National Association of State Budget Officers projects that Medicaid drug costs will total $25 billion this year, not including drugs covered by Medicaid managed care plans. Medicaid pays for approximately 14 percent of all prescriptions written in the United States.

Facts about Medicaid

- It provides health coverage for more than 44 million Americans.
- It pays for almost 40 percent of all U.S. births.
- It covers one in five children.
- It pays for nearly two-thirds of all nursing home care.
- It covers 6 million low-income elderly and disabled persons on Medicare.
- It is the largest source of federal grants to states.

Source: Kaiser Commission on Medicaid and the Uninsured

As lawmakers look to control growth in state pharmaceutical expenditures, some hope to take a cue from Florida and Michigan, where limited drug formularies for beneficiaries have been implemented.

Michigan's preferred drug plan went into effect Feb. 1, despite a pending lawsuit brought by a coalition of drug companies and mental health advocates. Under the plan, physicians may only prescribe certain discounted drugs to their patients receiving state assistance such as Medicaid, unless they receive prior authorization from a state technician. The list of preferred drugs was compiled by a panel of physicians and pharmacists and is expected this year to save the state $42 million. Michigan spends about $1 billion annually on medications for its low-income populations.

Nebraska is another state that, while not facing a deficit in its Medicaid budget, is looking at ways to make cuts to the program to address an overall budget shortfall of $186 million. Omaha Sen. Jim Jensen chairs the Health and Human Services Committee in the Nebraska Unicameral Legislature. His committee is being asked to consider reducing the current 12-month continuous eligibility for children served by Medicaid and the Kids Connection programs to six months. The move would save an estimated $3.7 million. Jensen does not favor, however, a proposal that would "invade" the Nebraska Health Care Cash Fund to supplant general funds for Medicaid.

"I believe that the Legislature must use a combination of approaches to rising Medicaid costs," Jensen says. He points to ideas such as expanding cost-sharing arrangements, addressing prescription drug costs, and encouraging less costly long-term care and behavioral health care alternatives, such as assisted living and community-based alternatives.

In Ohio, Edwards' office is developing is a targeted care management strategy for high-cost Medicaid beneficiaries. "This 30 percent of our population drives 77 percent of the cost." The idea is that better managing care for certain people — defined, for example, by disease category or their need for acute care — can improve their health outcomes and bring down costs.

What does the future hold for states? Wachino notes that an economic upturn will obviously impact state revenues and give states some more "leeway" in their total budgets and in their Medicaid coffers. "The issue that comes down the road," she says, "is that the most expensive people to treat in Medicaid are the aged and the disabled, and that's where most of the Medicaid money goes. As the baby boomers retire and more and more people start aging, the costs of Medicaid are going to continue to increase, so it is in some sense a long-term problem."

For now, state policymakers are looking to Washington, D.C., for some much-needed help. Most recently, the nation's governors lobbied the Bush administration during their annual gathering in the U.S. capital. The chief executives suggested, for example, that the federal government cover a larger share of Medicaid costs, expand Medicare coverage of home health care — saving state Medicaid dollars now spent for such services — and allow states to charge beneficiaries higher co-payments.

Many state lawmakers had hoped that federal assistance would have already come in the form of an economic stimulus package, but the U.S. Congress has yet to pass any such legislation. "It's where they went off the track," Heaton says. "Reaching an agreement is vitally important to the states who are suffering. I just don't think the feds understand."

Increases in Medicaid expenditures (FY 2000 to 2001)

State	State funds	Federal funds	All funds
Illinois	8.8%	9.9%	9.3%
Indiana	3.9%	6.8%	5.7%
Iowa	1.0%	14.3%	9.0%
Kansas	9.9%	6.9%	8.1%
Michigan	7.6%	5.6%	6.5%
Minnesota	18.3%	13.1%	15.7%
Nebraska	14.1%	-6.4%	0.3%
North Dakota	6.2%	5.4%	5.6%
Ohio	16.1%	-0.9%	13.7%
South Dakota	2.5%	6.9%	5.6%
Wisconsin	6.0%	5.8%	5.9%
All states	8.8%	7.0%	7.8%

Source: National Association of State Budget Officers