

Executive Summary

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The Medicaid Challenge

In this brief, three experts discuss issues related to the containment of rising Medicaid costs, including supporting family caregivers as an alternative to nursing home care and preventing childhood obesity.

Medicaid is a publicly funded health insurance program that provides health coverage to some 52 million low-income children, families, individuals with disabilities, and the elderly. It fills gaps in Medicare coverage for some 7 million low-income seniors, particularly for prescription drugs and long-term care. In Michigan, Medicaid provides coverage for approximately 1.4 million people, including almost 28% of the state's children.¹ In Detroit the number of children covered rises to 56%.² Therefore, Medicaid is an important safety net service for vulnerable individuals, particularly in difficult economic times when family wage earners are laid off from jobs and more families fall into poverty.

As a result of both increased enrollment and increased costs, Medicaid spending continues to grow, putting pressure on already stressed state budgets. In fact, Medicaid is the second largest item in most state budgets after education. Medicaid makes up about 16% of state budgets nationally, and in Michigan almost one quarter of state General Fund/General Purpose revenue goes to Medicaid. States are looking for ways to balance containing cost increases with maintaining a safety net for vulnerable populations.

A National Challenge: How States Are Trying to Control Medicaid Costs (And Why It's So Hard) — Vernon K. Smith

Dr. Smith presents an overview of the Medicaid situation nationally, the key factors that are driving cost increases and the strategies states are using to try to control costs. To understand the key issues, one must first know something about how Medicaid is funded and what current spending patterns are.

Medicaid is funded by state dollars that are matched by federal dollars on an open-ended basis, so that increases in state spending bring increased federal dollars into the state. States must design and administer the program according to federal rules, but within those rules states have some flexibility on eligibility, covered services, payment rates for providers, and other key issues such as use of Managed Care Organizations. They can also apply for "waivers," i.e., deviations from the federal rules.

Although the majority of enrollees are children and families, elderly and disabled persons account for 70% of Medicaid spending. Medicaid is a key player in the health care system, paying for 18% of prescription drugs and almost half of nursing home care costs in the United States. Costs continue to increase; in FY 2004 the average increase was 9.5%. Key factors driving cost increases include: enrollment growth, increased costs of prescription drugs, and the rising costs of medical and long-term care.

Strategies to Control Costs

For the past several years, the economic downturn has simultaneously reduced state revenues and increased enrollment in Medicaid. Most states have adopted a comprehensive set of strategies to control costs that fall into the following general categories:

- Reducing or freezing payments to providers
- Controlling pharmacy costs
- Reducing benefits
- Reducing or restricting eligibility

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In spite of these efforts, several new challenges will affect states' abilities to contain Medicaid spending growth in the near future:

- *Expiration of federal fiscal relief*
- *Increased federal scrutiny of special financing arrangements*
- *Implementation of the Medicare Part D prescription drug benefit*

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New challenges to cost containment

In spite of these efforts, several new challenges will affect states' abilities to contain Medicaid spending growth in the near future:

- **Expiration of federal fiscal relief** – With the expiration of enhanced federal matching rates for Medicaid spending that provided temporary assistance in 2003 and 2004, state spending on Medicaid will grow enormously in 2005 (an average 11.7% increase, compared with 4.8% in FY 2004).
- **Increased federal scrutiny of special financing arrangements** Many states, including Michigan, have used special financing arrangements to deal with Medicaid shortfalls during the recent period of fiscal crisis. As the federal Centers for Medicare and Medicaid Services increases scrutiny of these arrangements, states that have relied heavily on them will feel the impact.
- **Implementation of the Medicare Part D prescription drug benefit** – The new Medicare drug benefit, scheduled to take effect in January 2006, will place increased responsibility on states for those eligible for both Medicare and Medicaid. A “**clawback**” provision will require states to make payments to the federal government to help finance the benefit for those with dual eligibility and may also require states to enroll them in the new benefit.

What is the outlook for the future?

At the federal and state levels, the recent fiscal crisis has increased interest in restructuring the federal Medicaid law. States are taking two different approaches to Medicaid: 1) some states are seeking to cut costs further through Section 1115 waivers that allow them the flexibility to place limits on enrollment and benefits, and 2) a few are beginning to view Medicaid as an effective means to address the issue of the uninsured and to expand coverage. The direction that future state/federal discussions take will have a large impact on the ability of the program to serve as part of the safety net for vulnerable populations.

Family Caregivers: The Backbone of Long-Term Care – Lynn Friss Feinberg

Although nursing home care is the major expenditure for persons requiring long-term care, the overwhelming majority — 78% — of frail elderly and disabled persons who need long-term care are maintained in their own homes with the support of family members and friends. The estimated value of this informal care is \$257 billion annually, 2.8 times the value of nursing home care. Policymakers are beginning to recognize this value by supporting the needs of family caregivers.

Strategies to support caregivers

Feinberg reviews four strategies that states are using to support family caregivers:

- **Bolster direct services** – States are using a combination of state and federal funds to enhance services that support family caregivers in their caretaking role. Federal funding comes from the National Family Caregiver Support Program (NFCSP) and through Medicaid home and community-based waiver programs. Primary services include:
 - **Respite care** (temporary alternative care)
 - **Supplemental services** (assistive devices, consumable supplies, home modifications)
 - **Information, counseling and support groups**

- **Promote consumer direction and direct financial compensation to caregivers** – These approaches offer increased control and choice to people who use services. The primary approaches to increasing consumer control include:
 - **Vouchers** that family and caregivers can use to purchase supplemental services
 - A variety of **respite care options**
 - **Direct payments to family caregivers**
- **Expand tax incentives** – States can offer **tax deductions** or **tax credits** for expenses incurred by family caregivers.
- **Expand workplace family and medical leave policies** – Some states have expanded the federal Family and Medical Leave Act of 1993 to include:
 - **Workplaces of less than 50 employees**
 - **Coverage for a greater range of needs**
 - **Expanded definitions of “family”**
 - **Longer leave periods**
 - **Offering *paid* leave**

Strategies to support caregivers

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- *Expand tax incentives*
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Key findings on family caregiver support programs

A recent 50-state survey of family caregiver support programs found that states are playing a major role in supporting family caregivers. Key findings include:

- Publicly funded services are increasing but access is uneven within states and across states
- The NFCSP is key to enhancing the scope of services but is inadequately funded
- Uniform assessment of caregiver needs is recognized as important but approaches vary
- States' views differ on the importance of caregiver services and the need to integrate them into the home and community-based service system

What can states do to promote caregiver support?

The Family Caregiver Alliance made the following recommendations:

- Use federal Systems Change Grants to promote a “family systems approach” to home and community based services
- Adopt uniform assessment of caregiver needs in all programs that provide caregiver support
- Advocate for uniform data collection and reporting standards in NFCSP and other caregiver support programs
- Conduct a statewide public awareness campaign on family caregiving
- Invest in staff training and technical assistance

Preventing Childhood Obesity: Controlling Medicaid Costs – Nigel Paneth, M.D.

Health care costs related to obesity in the United States are nearly \$120 billion annually or about 7% of total health care costs. As one half of all obesity-related health care costs are underwritten by Medicaid and Medicare, the current increase in obesity will have a significant impact on future growth of Medicaid spending. In addition, the experience of chronic diseases related to obesity will have a significant impact on the quality of life of the affected individuals.

Recent increases in the incidence of overweight and obesity among U.S. adults and children represent (except for post-famine periods) probably the largest across-the-board weight gain in human history. Over the past two decades the prevalence of overweight children has doubled in most age categories and has increased fourfold among children 6 to 11 years of age. Obesity is associated with substantial increases in risks for chronic diseases such as diabetes, osteoarthritis, and cardiovascular disease.

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Obesity is caused by an excess of “calories in” over “calories out.” So, what do we know about preventing obesity?

Interventions can be at the individual level or the community level (ecological interventions).

At the **individual level**, we can:

- Promote awareness of the benefits of adopting good diet and exercise habits
- Three promising programs for children and youth currently under study are:
 - HIP HOP to Health, which targets minority children in Head Start
 - Go Girls!, which targets overweight teen girls to promote better eating and exercise patterns
 - GEMS, which seeks to prevent excessive weight gains among girls during puberty
- Good quality evidence on the effectiveness of intervention programs is lacking; therefore no conclusions from existing studies can be generalized to larger groups. A national strategy awaits further evidence.

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Suggestions for community-level obesity prevention strategies include:

- **Modifying marketing targeted toward children** that encourages consumption of high-fat, high-calorie foods.
- **Municipal planning around the built environment**, including
 - Designated bike lanes on new or repaired roads
 - Requiring sidewalks in new residential areas
 - Converting abandoned rail beds to walking/biking trails
 - Providing safe approaches for pedestrians and cyclists at shopping malls
 - Reducing urban sprawl by promoting neighborhoods with facilities within walking distance
- **Worksite modifications** such as
 - Providing safe areas to walk or exercise
 - Providing bike racks
 - Providing showers (for those who exercise before work or during lunch)

What can policymakers do now?

- First, recognize that we do not yet know exactly what to do to prevent obesity
- Encourage a variety of community approaches to address calories in and calories out
- Advocate for controls at the national level on TV advertising directed at children’s food consumption
- Evaluate all interventions to assess their effectiveness

Other Information

Encourage a variety of community approaches to address calories in and calories out

Supplementary chapters put a **Michigan focus** on the issues, describing activities in the state: (1) to **support family caregivers**, and (2) to **prevent childhood obesity** by promoting healthy eating and physical activity.

Snapshots of Promising Programs presents brief summaries of innovative programs from across the country to support family caregivers or to prevent/treat obesity among children and youth. These programs have some evaluation data to support their effectiveness.

Glossary defines technical terms used in the report.

Additional resources offers sources for obtaining more detailed information or in-depth analysis of material presented at the seminar.