State Strategies for Controlling Costs: Are Children at Risk?

Family Impact Seminar

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Outline for today

- Quick background: State budgets, Medicaid spending and enrollment trends
- Changes states have made to Medicaid due to fiscal pressure
- Potential impacts on children and families
- A glimpse into the future.

Medicaid Today: America's Largest Health Program

2011 Enrollment :	• 57 Million Average Monthly Enrollment • 70 million ever enrolled (counting turnover and new enrollees)
2011 Projected Spending:	• $447 billion • Historically, 57% federal, 43% state funds • 1/6 of National Health Expenditures
State Administered:	• States administer program so spending qualifies for federal matching funds • Medicaid is the largest source of federal funds (40%) received by states

Sources: HMA projections for Federal FY 2011, based on: CBO, *Medicaid Baseline*, August 2010; CMS, Office of the Actuary, National Health Statistics Group, 2010; and National Association of State Budget Officers, State Expenditure Report, Dec. 2010

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Medicaid Is the "Workhorse" of the U.S. Health Care System

Health Insurance	• For low-income families, persons with disabilities and the elderly
Assistance to low-income Medicare beneficiaries	• 15% of beneficiaries/40% of Medicaid spending
Long-Term Care	• Institutions and home and community-based services; 35% of Medicaid spending
Support for Safety Net Providers	• E.g., hospitals and community health centers serving the uninsured
Financial Support for other Programs	• E.g., mental health, school and public health programs

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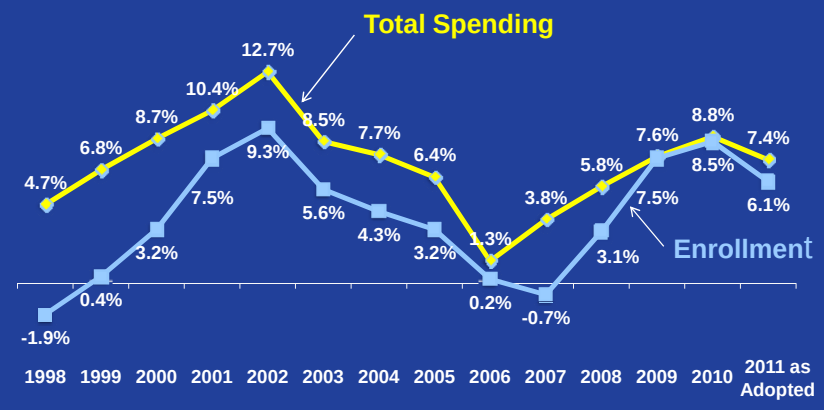
U.S. Medicaid Spending and Enrollment Percent Changes, FY 1998 – FY 2011



SOURCE: Vernon Smith, Kathy Gifford, Eileen Ellis, Robin Rudowitz and Laura Snyder, "Hoping for Economic Recovery, Preparing for Health Reform: Medicaid Spending, Coverage and Policy Trends," The Kaiser Commission on Medicaid and the Uninsured, September 2010. http://www.kff.org/medicaid/8105.cfm

NOTE: Enrollment percentage changes from June to June of each year. Spending growth percentages in state fiscal year.

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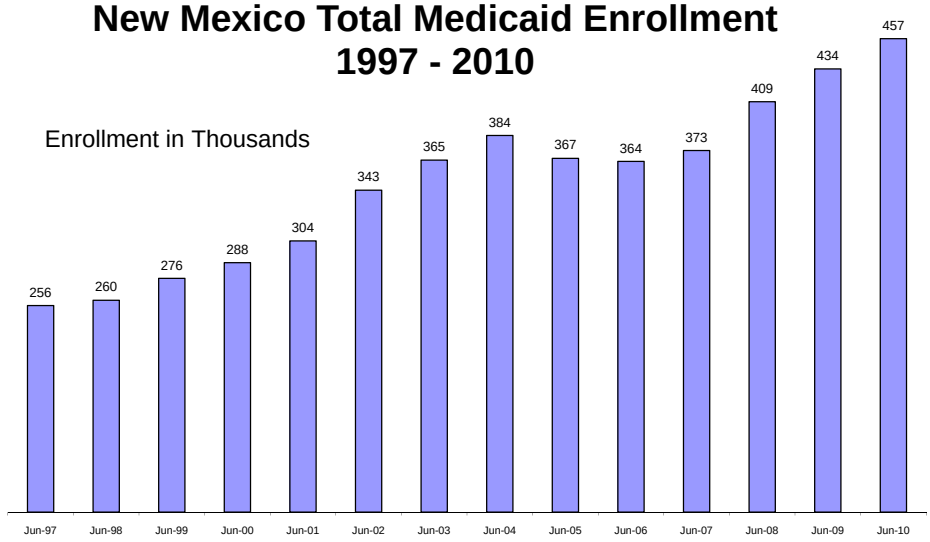
New Mexico Total Medicaid Enrollment 1997 - 2010



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New Mexico and U.S. Medicaid Enrollment: Percentage Changes FY 1998- FY 2011

SOURCES: Calculated by Vernon Smith from data in: Eileen R. Ellis, Dennis Roberts, David M. Rousseau, *Medicaid Enrollment in 50 States, June 2009 Update*, Kaiser Commission on Medicaid and the Uninsured, February 2010. Data for 2010 and 2011 provided by state officials to Health Management Associates for Kaiser Commission on Medicaid and the Uninsured, 2010. Data for are June-June /state fiscal years.

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The Recession Has Officially Ended, But States Continue to Deal With Ongoing Fiscal Crises

FY 2010:	• 48 states addressed budget shortfalls totaling $191B (29% of their budgets) – largest gap on record
FY 2011:	• 46 states addressed budget gaps totaling $130B (20% of their budgets); 11 states reporting new mid-year budget shortfalls
FY 2012:	• 40 states have projected budget gaps totaling $113B

E. McNichol, P. Oliff and N. Johnson, "States Continue to Feel Recession's Impact," Center on Budget and Policy Priorities, December 16, 2010.

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Slowing Medicaid Cost Growth is a Challenge, Because Costs Are Already Low

Medicaid enrollees are sicker, compared to low-income adults with private health insurance

- Over twice as likely to be in fair or poor physical or mental health; more chronic health conditions

Medicaid per capita costs are lower (adjusted for health status)

- 1/4 less for adults; 1/3 less for children

Medicaid per capita cost growth has been lower

- 23% less than for persons with private health insurance

Sources: Health status, per capita costs and above quotes: Ku and Broaddus, "Public and Private Health Insurance: Stacking Up the Costs," *Health Affairs*, online 24 June 2008; and, Hadley and Holahan, *Inquiry*, 2004; Per capita cost growth: Holahan and Cohen, *Understanding the Recent Changes in Medicaid Spending and Enrollment Growth Between 2000-2004*, Kaiser Commission on Medicaid and the Uninsured, May 2006.

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And it is hard now to find new places to cut because . . .

- Provider payments are already low
- Benefit restrictions often net little savings
- All the easy cuts were made earlier
- Some options are limited by federal law
- Cuts to the program have real impacts on beneficiaries, providers and the economy

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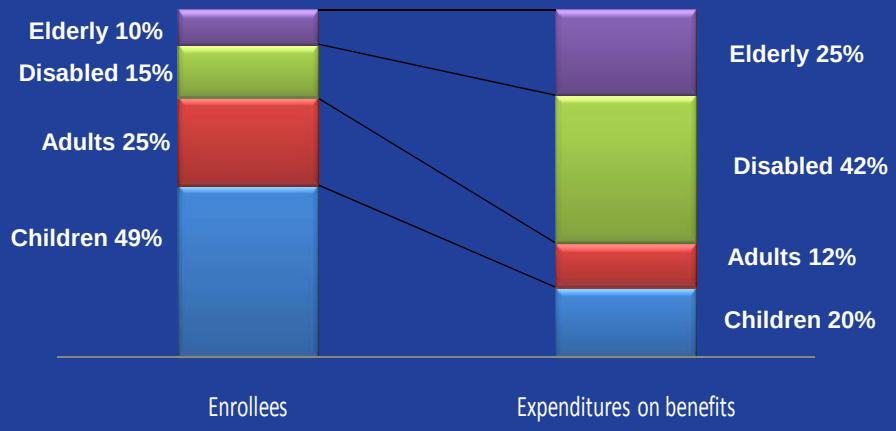
Medicaid Enrollees and Expenditures: 2/3 of Dollars are for Elderly and Disabled



SOURCE: KCMU and Urban Institute estimates based on 2007 MSIS and CMS64 data.

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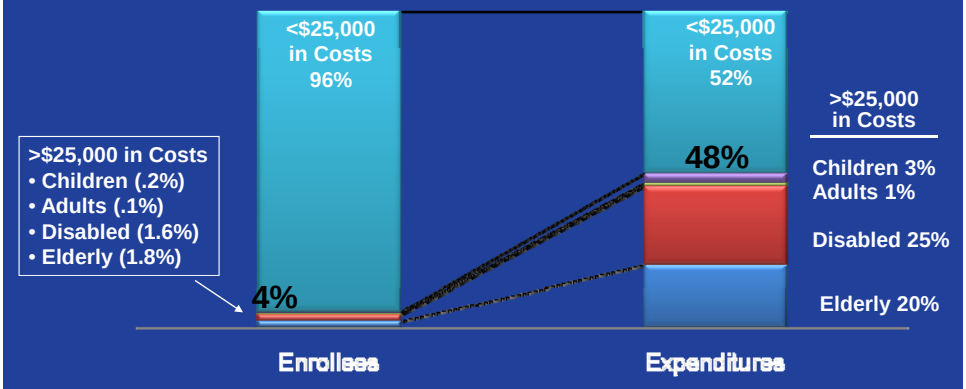
4% of Medicaid Enrollees Account for Almost Half of Expenditures



Note: For the total U.S. population, the top 1% accounts for 23% of health spending; the top 5% accounts for 50%; the top half account for 96.5%. SOURCE: Urban Institute estimates for Kaiser Commission on Medicaid and the Uninsured based on MSIS data, 2005.

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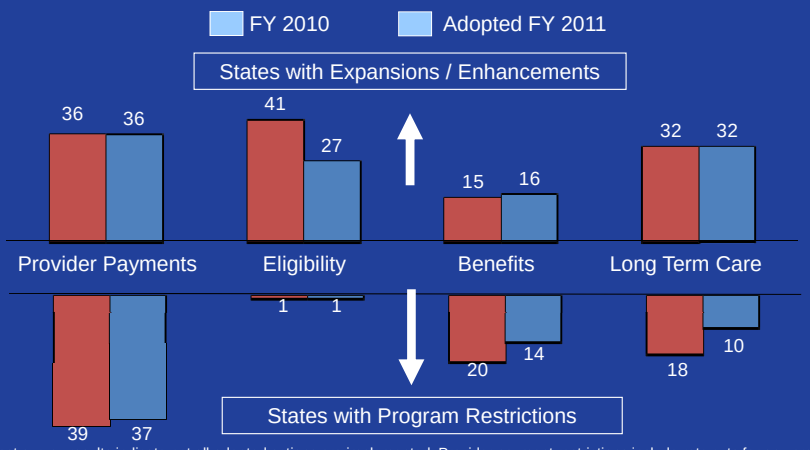
To Control Costs, States Took the Following Medicaid Policy Actions for FY 2010 and FY 2011



NOTE: Past survey results indicate not all adopted actions are implemented. Provider payment restrictions include rate cuts for any provider or freezes for nursing facilities or hospitals.
SOURCE: Vernon Smith, Kathy Gifford, Eileen Ellis, Robin Rudowitz and Laura Snyder, "Hoping for Economic Recovery, Preparing for Health Reform: Medicaid Spending, Coverage and Policy Trends," The Kaiser Commission on Medicaid and the Uninsured, September 2010. http://www.kff.org/medicaid/8105.cfm

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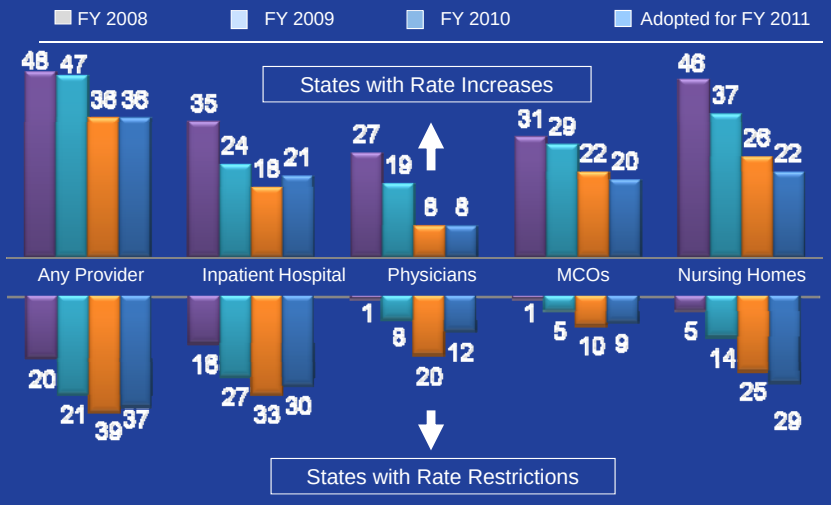
States with Provider Rate Changes FY 2008 – FY 2011



NOTE: Past survey results indicate adopted actions are not always implemented. Any provider also includes dentists and outpatient hospital providers. Rate restrictions include rate cuts for any provider and also frozen rates for inpatient hospitals and nursing homes.
SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, September 2008, September 2009, and September 2010.

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To Control Costs and Improve Quality, Medicaid Increasingly Uses Managed Care

States continue to broaden use of managed care

- Including aged and disabled, going to rural areas

States using initiatives to improve quality using performance measures, pay-for-performance, medical homes, chronic care management and other strategies

States continue to expand the use of Health Information Technology

- Encouraging adoption and meaningful use of electronic health records (EHRs) and health information exchanges (HIEs)

SOURCE: Vernon Smith, Kathy Gifford, Eileen Ellis, Robin Rudowitz and Laura Snyder, "Hoping for Economic Recovery, Preparing for Health Reform: Medicaid Spending, Coverage and Policy Trends," The Kaiser Commission on Medicaid and the Uninsured, September 2010. http://www.kff.org/medicaid/8105.cfm

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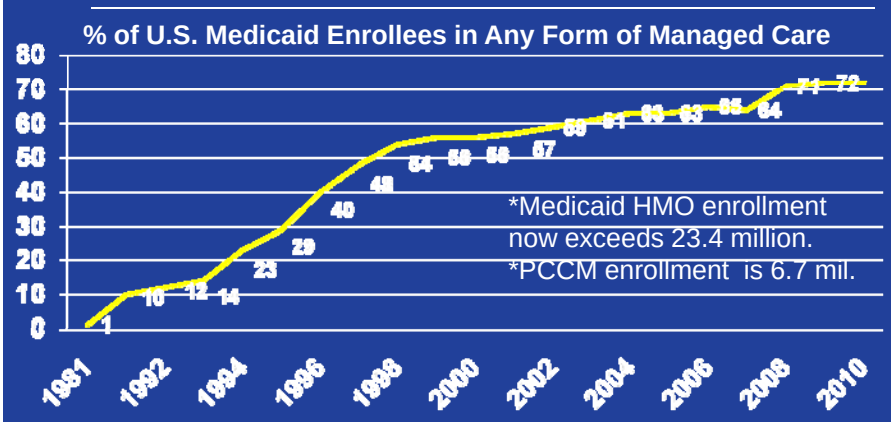
U.S. Medicaid Managed Care Enrollment Continues to Grow



Note: "Managed Care" includes HMOs, PIHPs, HIOs and state-administered Primary Care Case Management Plans (PCCMs).
Source: CMS, Medicaid Managed Care Reports, 1994-2009.

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Across the States, Medicaid Is Driving Innovation and Quality Improvement

- Better information on best practices and performance
  - Consumer guides and performance report cards for MCOs
  - Identifying, highlighting and encouraging best practices that improve care
- Quality Initiatives
  - Care management programs for high risk / high cost patients
  - Performance improvement projects; E.g., reducing avoidable emergency visits
  - Focused work groups to improve service delivery
  - Strong contract requirements and enforcement
- Reimbursement Strategies
  - Bonus payments for high performance on selected HEDIS® or CAHPS® quality performance measures that change annually
  - Penalties for poor performance
  - Prohibit payment for "Never events"
  - Higher fees for providers meeting medical home or chronic care management standards

SOURCE: Vernon Smith, Kathy Gifford, Eileen Ellis, Robin Rudowitz and Laura Snyder, "Hoping for Economic Recovery, Preparing for Health Reform: Medicaid Spending, Coverage and Policy Trends," The Kaiser Commission on Medicaid and the Uninsured, September 2010. http://www.kff.org/medicaid/8105.cfm

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Current Policy Directions: Comprehensive, Integrated Coordinated Care to Contain Costs, Improve Care and Provide Better Value

Patient-centered medical homes

- ACA Health Home Option: enhanced funding for care coordination for individuals with chronic care needs

Coordinated care for nearly 9 million dual eligibles

- Duals account for 40% of all Medicaid expenditures; 25% of all Medicare spending
- New CMS Center for Medicare and Medicaid Innovation: $10 billion for demonstrations and pilots to address quality, access, costs, efficiencies, beneficiary and provider satisfaction
- Accountable Care Organizations (ACOs) begin in 2012 as integrated, coordinated systems, with shared savings models for Medicare, with opportunities for Medicaid

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Source: "State Roles in Delivery System Reform," National Governor's Association, 2010

Impacts on Children and Families

- Medicaid covers only "medically necessary" services, so any benefit cuts specifically affect persons who need them.
  - Children are protected under Medicaid law, even if services are cut for adults
- Cuts to provider payments can affect access and availability of services for families and children.
  - Managed care plans must assure access for all enrollees to needed services, regardless of rates.

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The Two Primary Issues for Medicaid Now: Budget Pressures and Implementing Reform

- Fiscal pressures due to the economy continue to dominate state decisions about Medicaid.
  - *"Medicaid growth is simply unsustainable and threatens to consume the core functions of state government."*
    - Governor Jan Brewer, (R – Arizona), January 24, 2011, when signing request to HHS for a waiver of "Maintenance of Effort" law, and to allow Arizona to cut 300,000 from Medicaid eligibility.
- Even in "these insanely difficult times," states continue to work to improve quality and access through Medicaid – but the challenge is daunting.

SOURCE: Vernon Smith, Kathy Gifford, Eileen Ellis, Robin Rudowitz and Laura Snyder, "Hoping for Economic Recovery, Preparing for Health Reform: Medicaid Spending, Coverage and Policy Trends," The Kaiser Commission on Medicaid and the Uninsured, September 2010. http://www.kff.org/medicaid/8105.cfm

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