

What States Are Doing to Control Medicaid Costs, and Why It Is So Hard

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Medicaid in 2005: **The Nation's Largest Health Care Program**

- **58 million children, parents, elderly and disabled enrollees**
 - **Compare Medicare: 42 million beneficiaries**
- **Total Medicaid Spending over \$300 billion**
 - **Compare Medicare: also about \$300 billion**

Source: CBO March 2005 Medicaid Baseline; CMS, Office of the Actuary, 2005

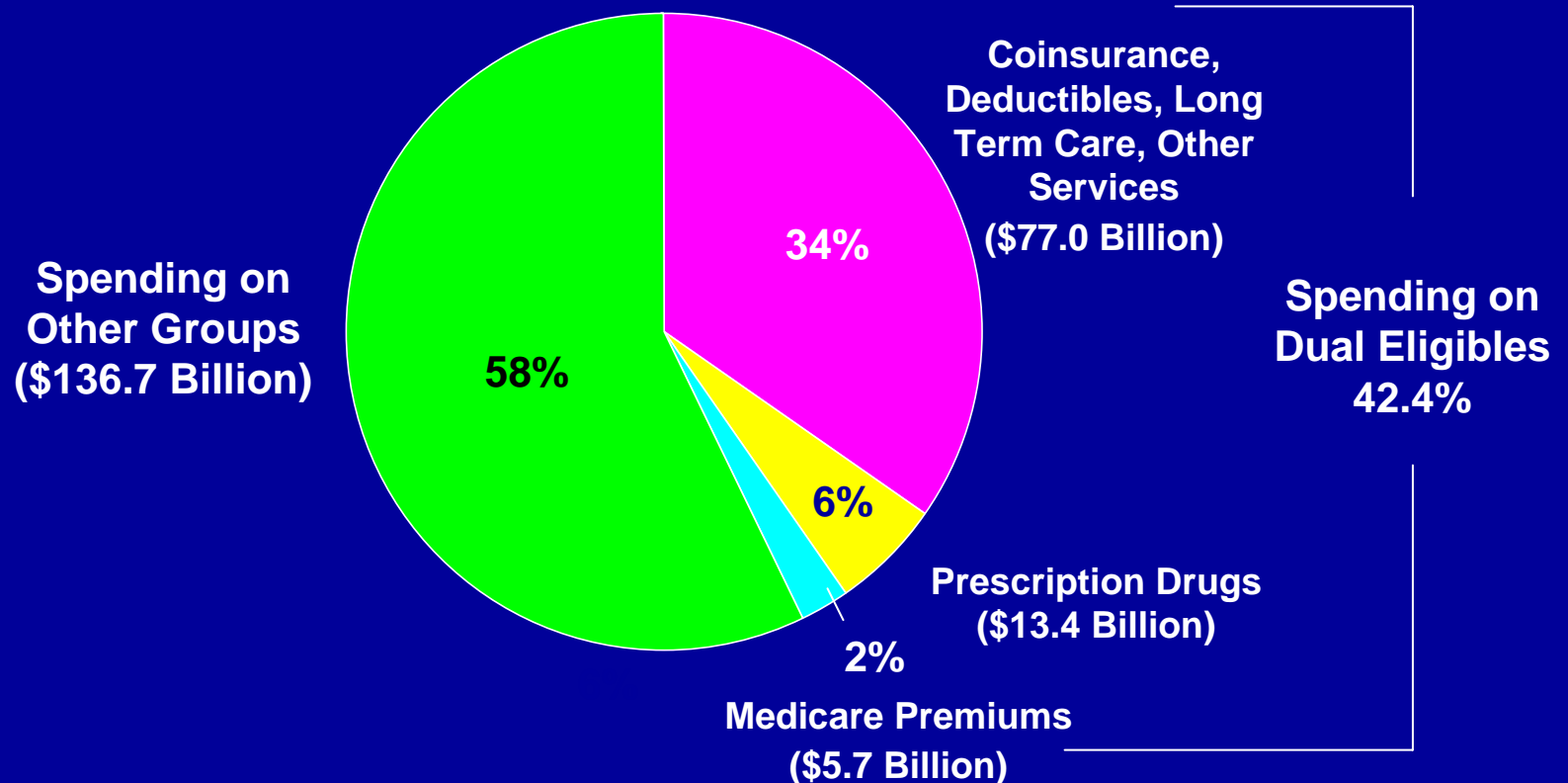
Medicaid Has Become a Preferred Vehicle For State Policy Makers to Provide and Finance State and Local Health Care

Due to...

- High cost of health care and increasing erosion of health insurance for workers, families and pregnant women
- Few other options to pay for care for persons with disabilities and chronic conditions
- High cost of long term care
- Opportunity to help finance the health care safety net, including mental health, public health and school-based health programs
- Gaps in Medicare

Medicaid Fills the Gaps in Medicare

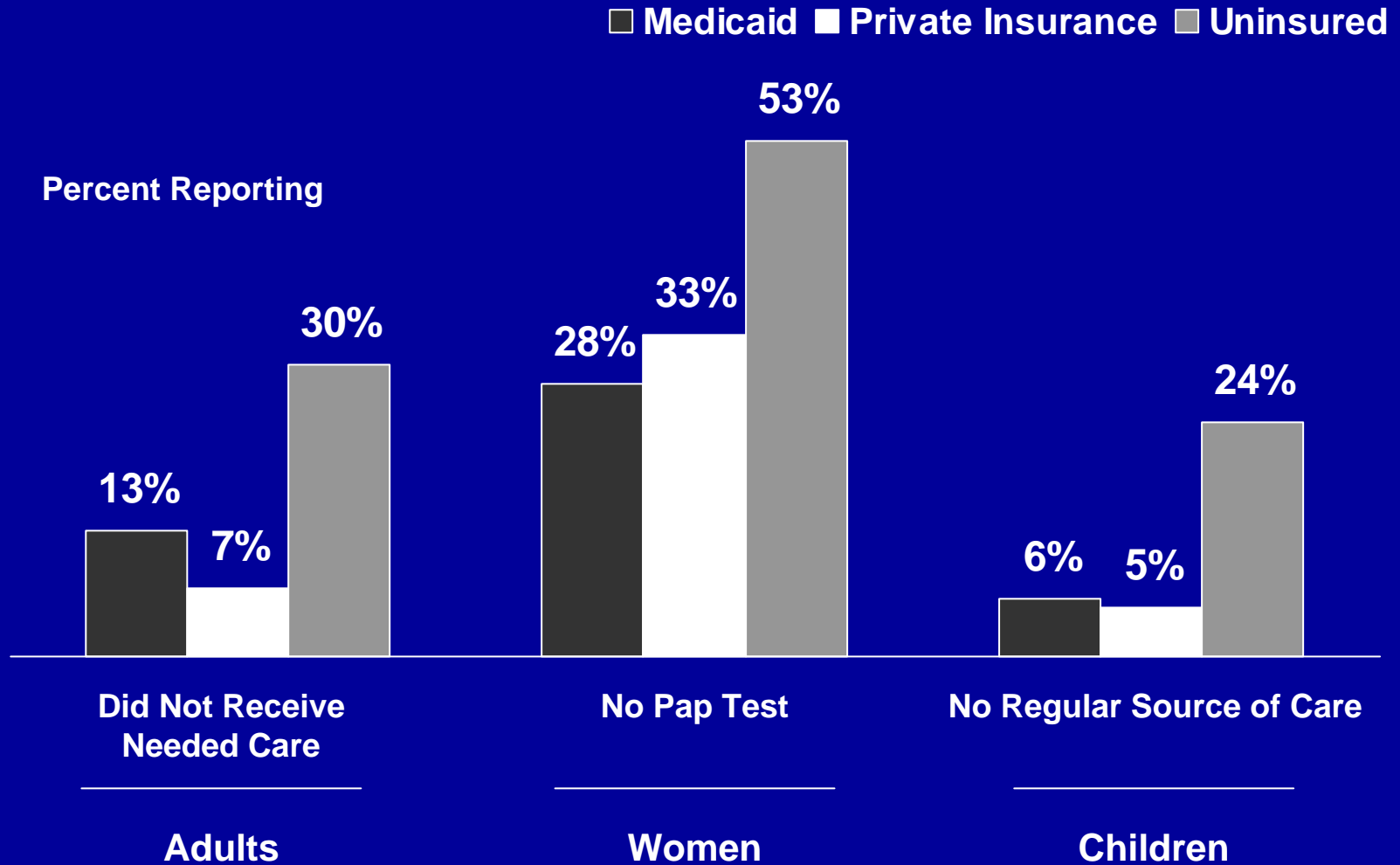
Medicaid Spending on Dual Eligibles Was 42% of Total Medicaid Spending on Benefits in FY2002:



Total Spending on Benefits = \$232.8 Billion

SOURCE: Brian Bruen and John Holahan, *Shifting the Cost of Dual Eligibles: Implications for States and the Federal Government*, prepared for the Kaiser Commission on Medicaid and the Uninsured. November 2003.

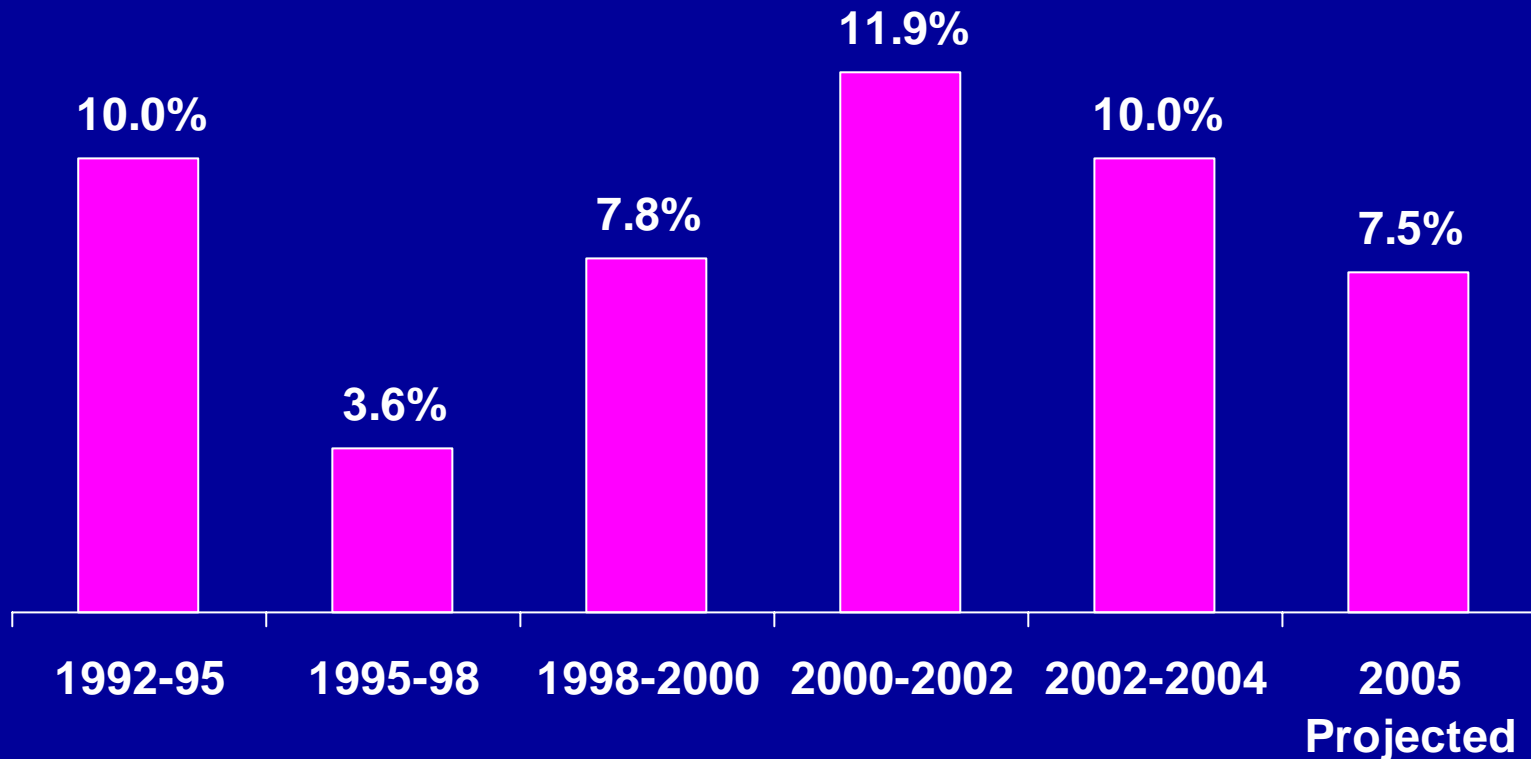
Medicaid Coverage Provides Access Similar to Private Insurance



SOURCES: Kaiser/Commonwealth National Survey of Health Insurance;
Dubay and Kenney, *Health Affairs*, 2001.

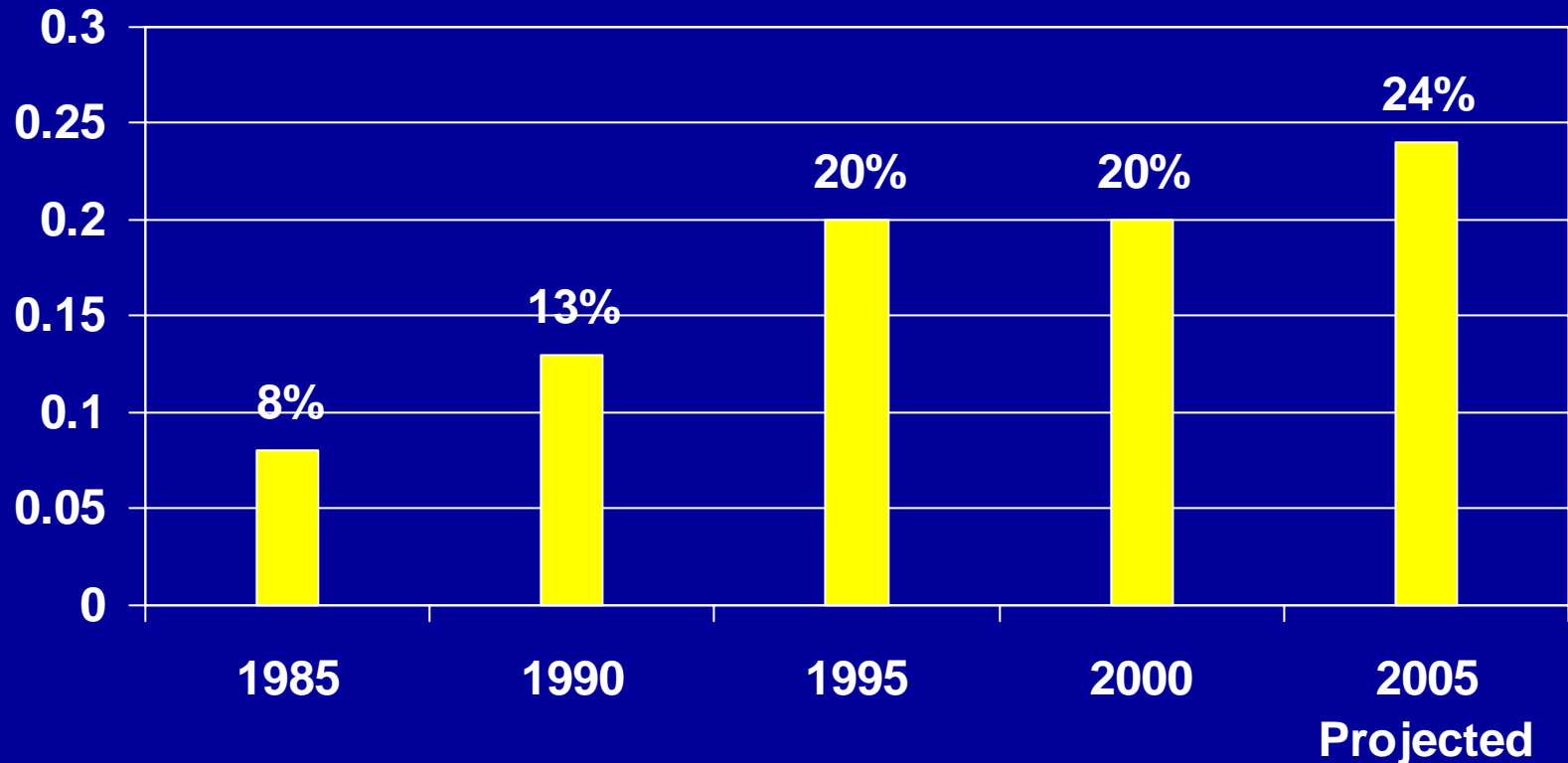
Total Medicaid Spending: Average Annual Growth Rates

Annual growth rate:



SOURCE: SOURCE: For 1992-2002: Urban Institute estimates based on data from Medicaid Financial Management Reports (HCFA/CMS Form 64); For 2003, 2004: Health Management Associates estimates based on information provided by state officials. For 2005: CMS, Office of the Actuary.

Medicaid Has Increased as a Share of Total State Budgets



Note: Medicaid general fund spending was 17 percent of all state general fund spending in 2003.

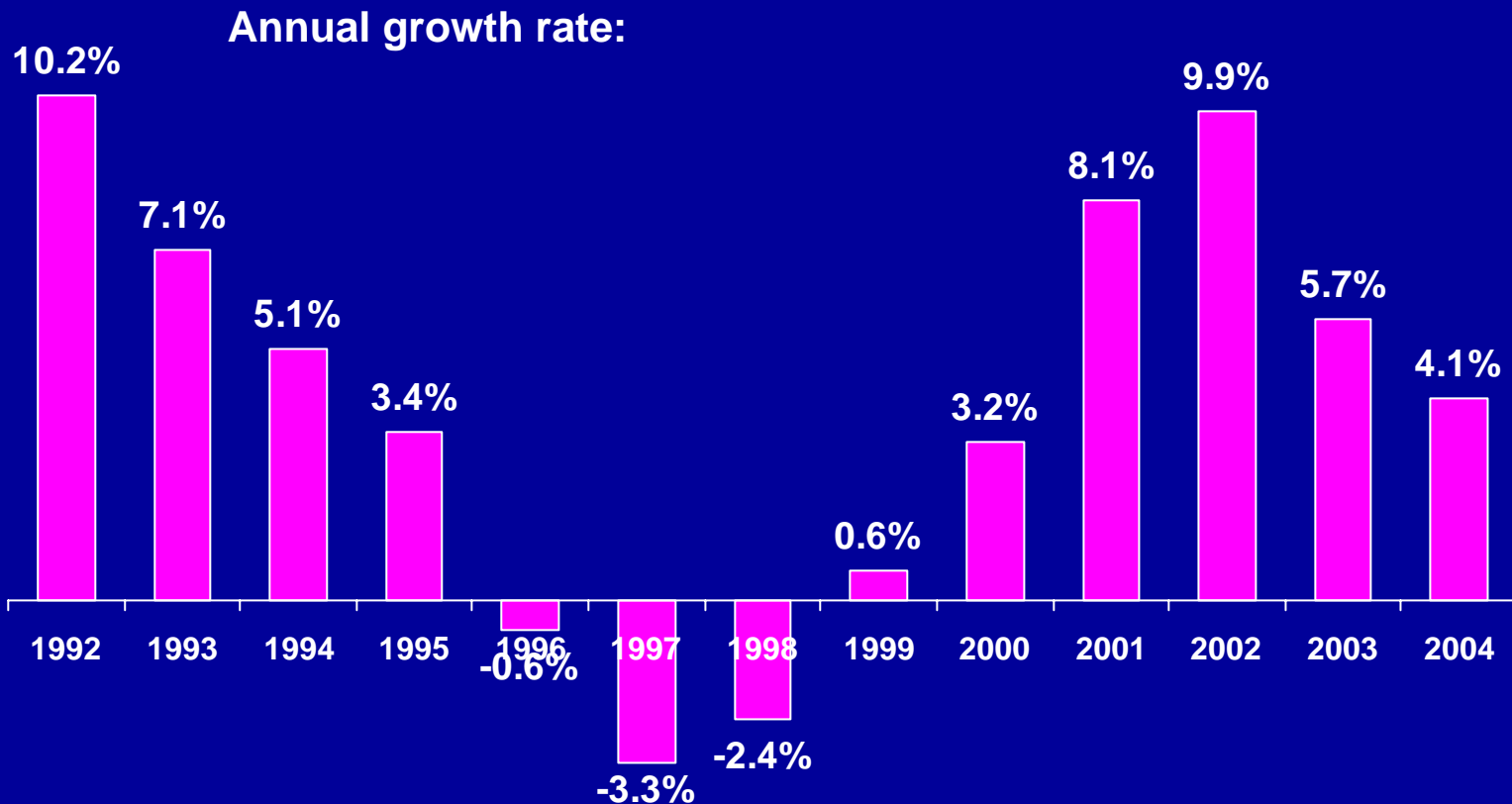
Source: National Association of State Budget Officers, various reports. 2005 percentage projected by Health Management Associates

For States, Current Medicaid Spending Growth Is Driven Primarily By Factors Beyond Their Control

- Enrollment Growth
 - Economic and employment changes
 - Employer-sponsored health insurance trends
 - Demographic trends
- Per Capita Health Costs
 - Medical inflation
 - Utilization changes
 - New technologies

Source: Vernon Smith and Greg Moody, *Medicaid in 2005: Principles and Proposals for Reform*, National Governors Association, 2005.

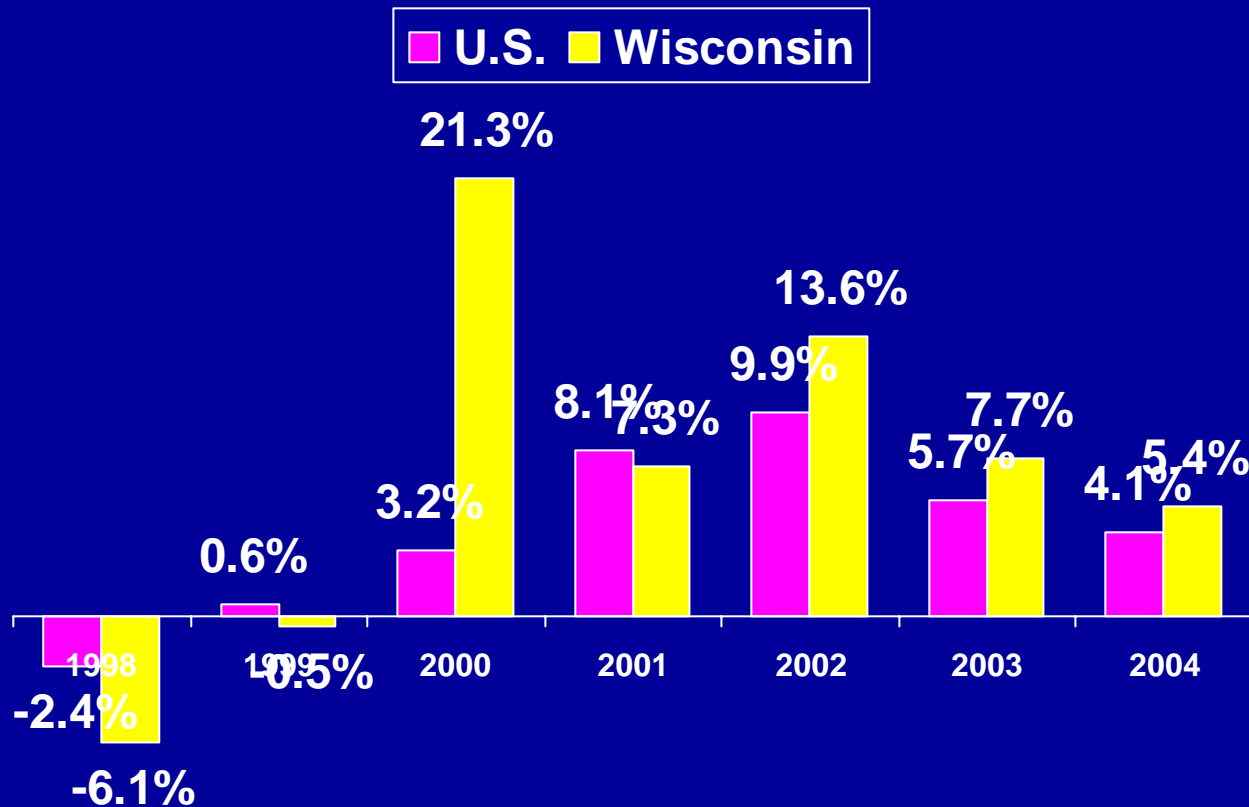
Percent Change in U.S. Medicaid Enrollment, FY 1992- FY 2004



Note: 1992-1997 data are for federal fiscal years. 1998-2004 data are June to June fiscal years.

SOURCES: 1992-1997: CMS. 1998-2004: Eileen R. Ellis, Vernon K. Smith and David M. Rousseau, *Medicaid Enrollment in 50 States, June 2004 Update*, Kaiser Commission on Medicaid and the Uninsured. September 2005. <http://www.kff.org/medicaid/7349.cfm>

Percent Change in Medicaid Enrollment, U.S. and Wisconsin FY 1998- FY 2004



Note: 1998-2004 data are June to June fiscal years.

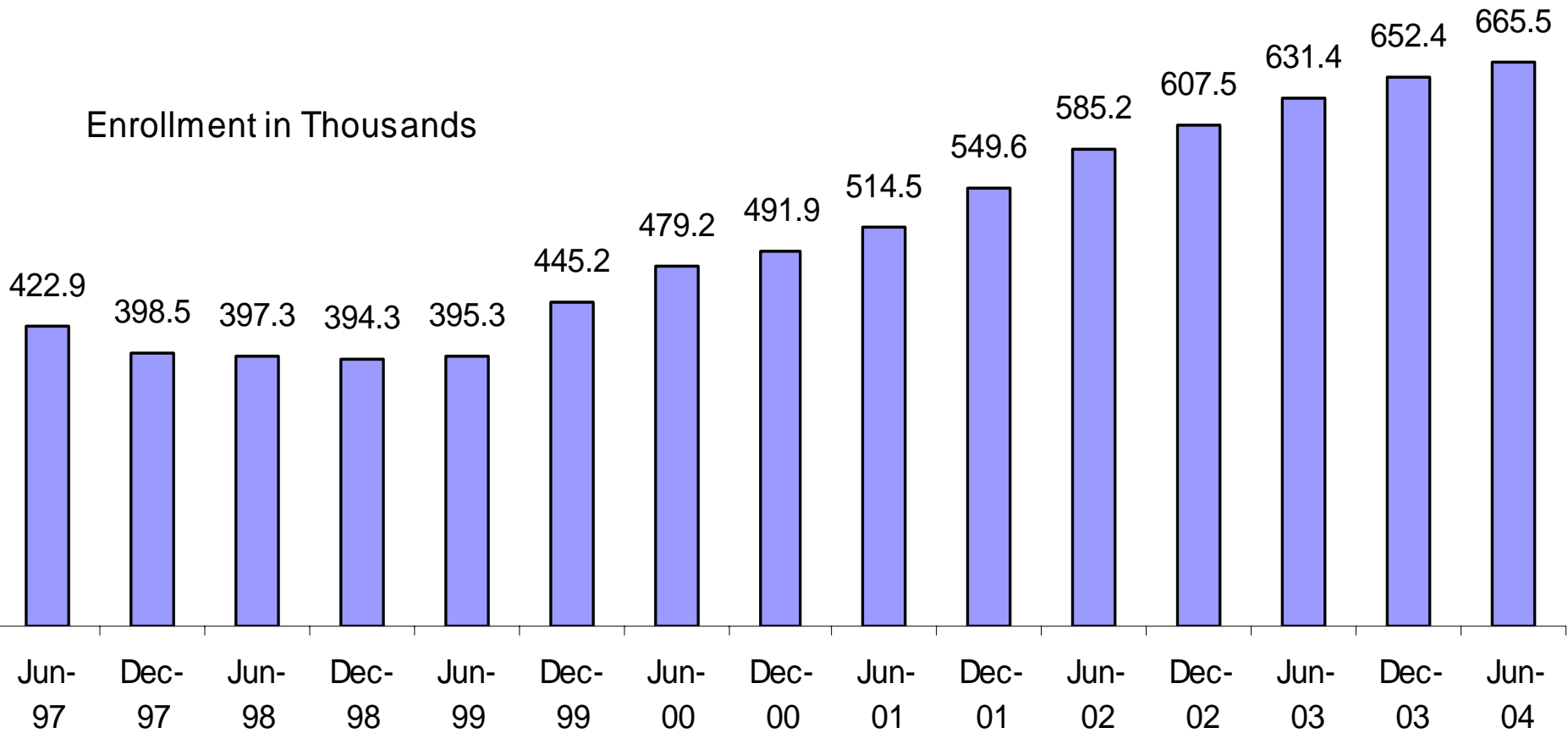
SOURCES: Eileen R. Ellis, Vernon K. Smith and David M. Rousseau, *Medicaid Enrollment in 50 States, June 2004 Update*, Kaiser Commission on Medicaid and the Uninsured. September 2005.

<http://www.kff.org/medicaid/7349.cfm>

Wisconsin Medicaid 1997 - 2004

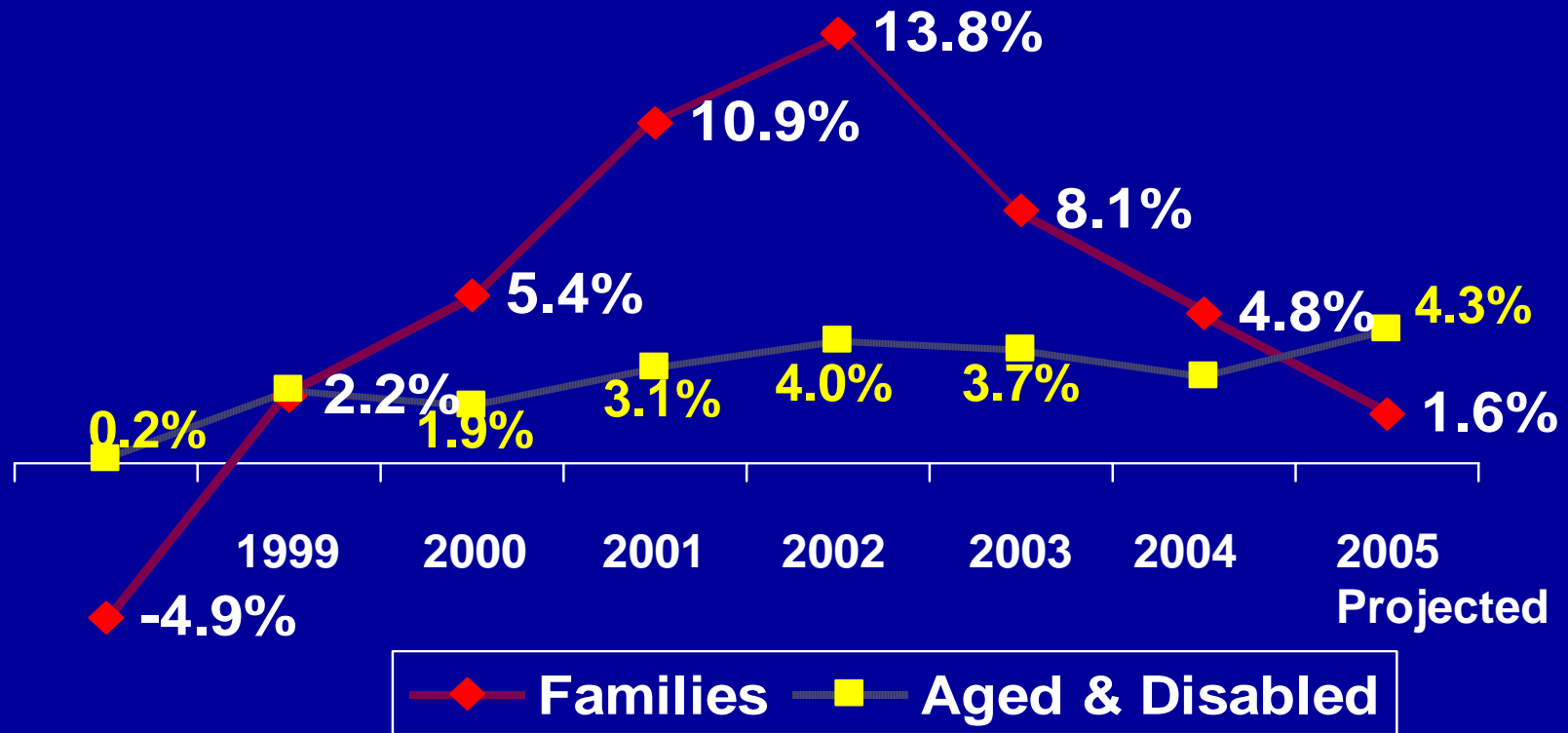
Total Medicaid Enrollment in Wisconsin

Enrollment in Thousands



Eileen R. Ellis and Vernon K. Smith, *Medicaid Enrollment in 50 States: June 2004 Data Update*, Kaiser Commission on Medicaid and the Uninsured. September 2005. <http://www.kff.org/medicaid/7349.cfm>

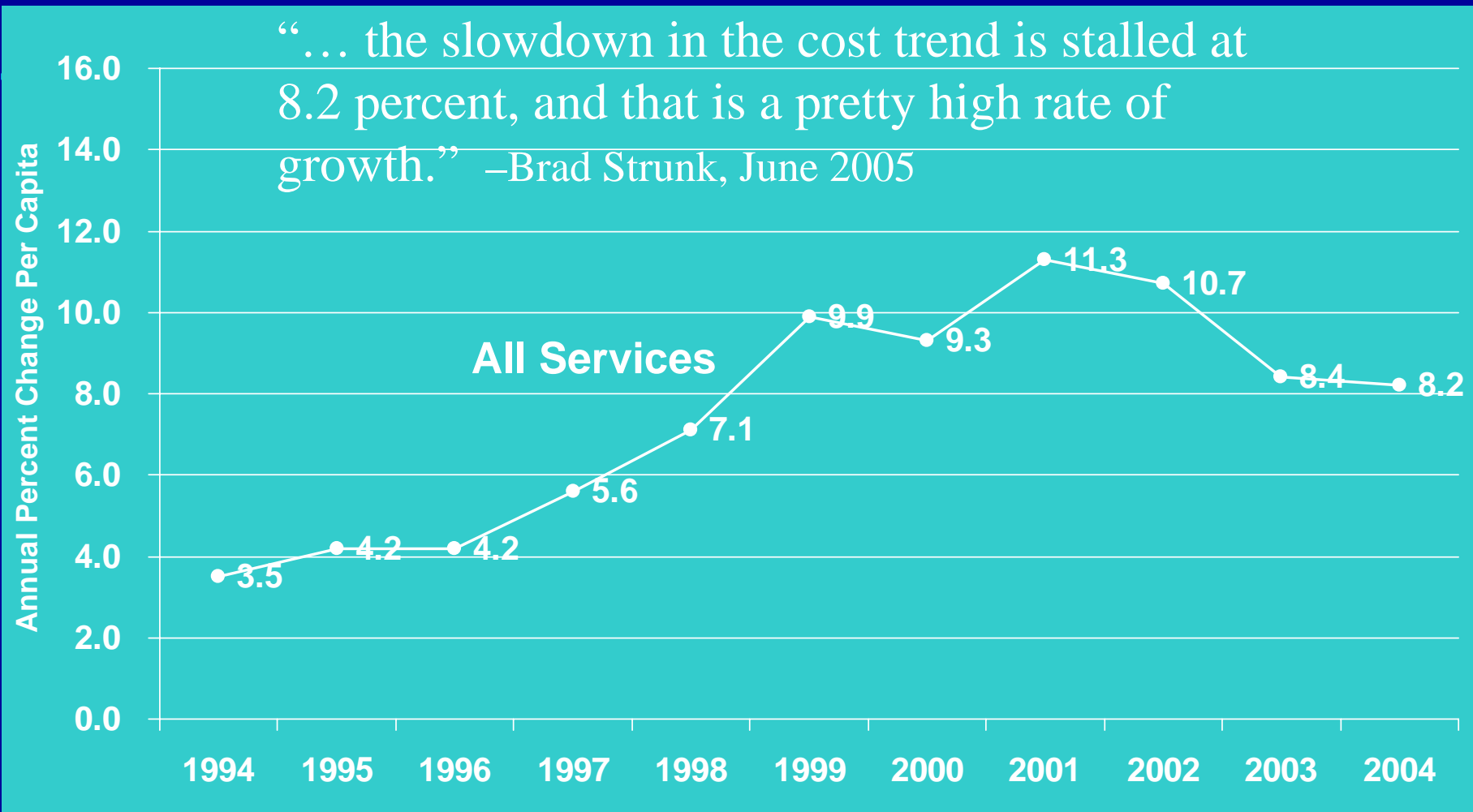
Percent Change in U.S. Medicaid Enrollment by Category: Families, Children, Pregnant Women vs. Aged and Disabled FY 1998 – FY 2003



1998

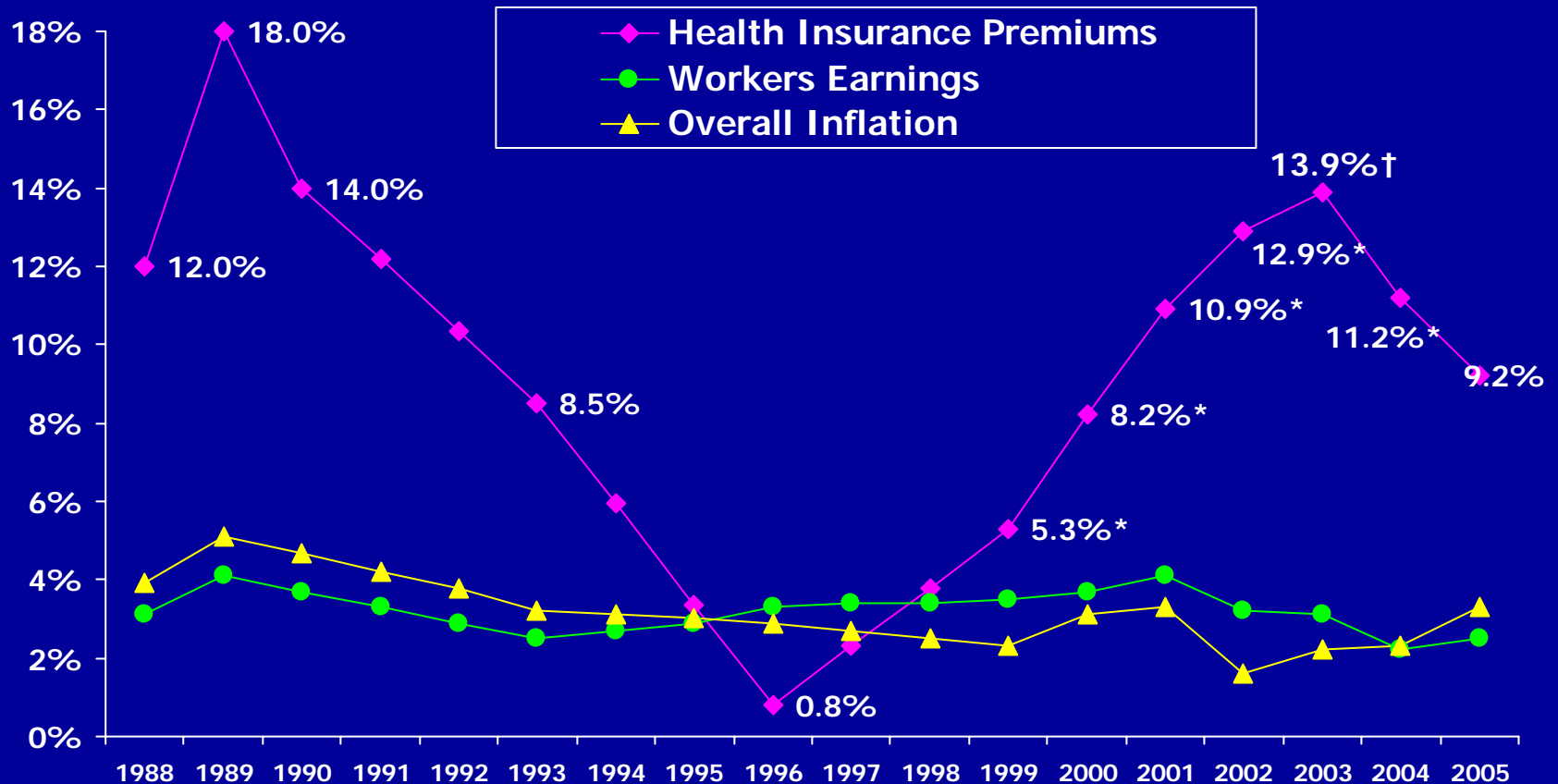
Note: Percentages reflect annual changes from June to the June of the indicated year. 2005 is federal fiscal year, estimated by HMA from: CBO, March 2005 Medicaid Baseline.
Source: 1998-2004: Eileen Ellis, Vernon Smith and David Rousseau, *Medicaid Enrollment in 50 States: June 2004 Data Update*, Kaiser Commission on Medicaid and the Uninsured. 2005.

Growth in Per Capita U.S. Health Care Spending, All Services: 1991-2004



Source: Bradley Strunk, Paul Ginsburg and John P. Cookson, “Tracking Health Care Costs: Declining Growth Trend Pauses in 2004,” Health Affairs Web Exclusive, 21 June 2005.

Increases in Health Insurance Premiums Compared to Earnings and Inflation, 1988-2005



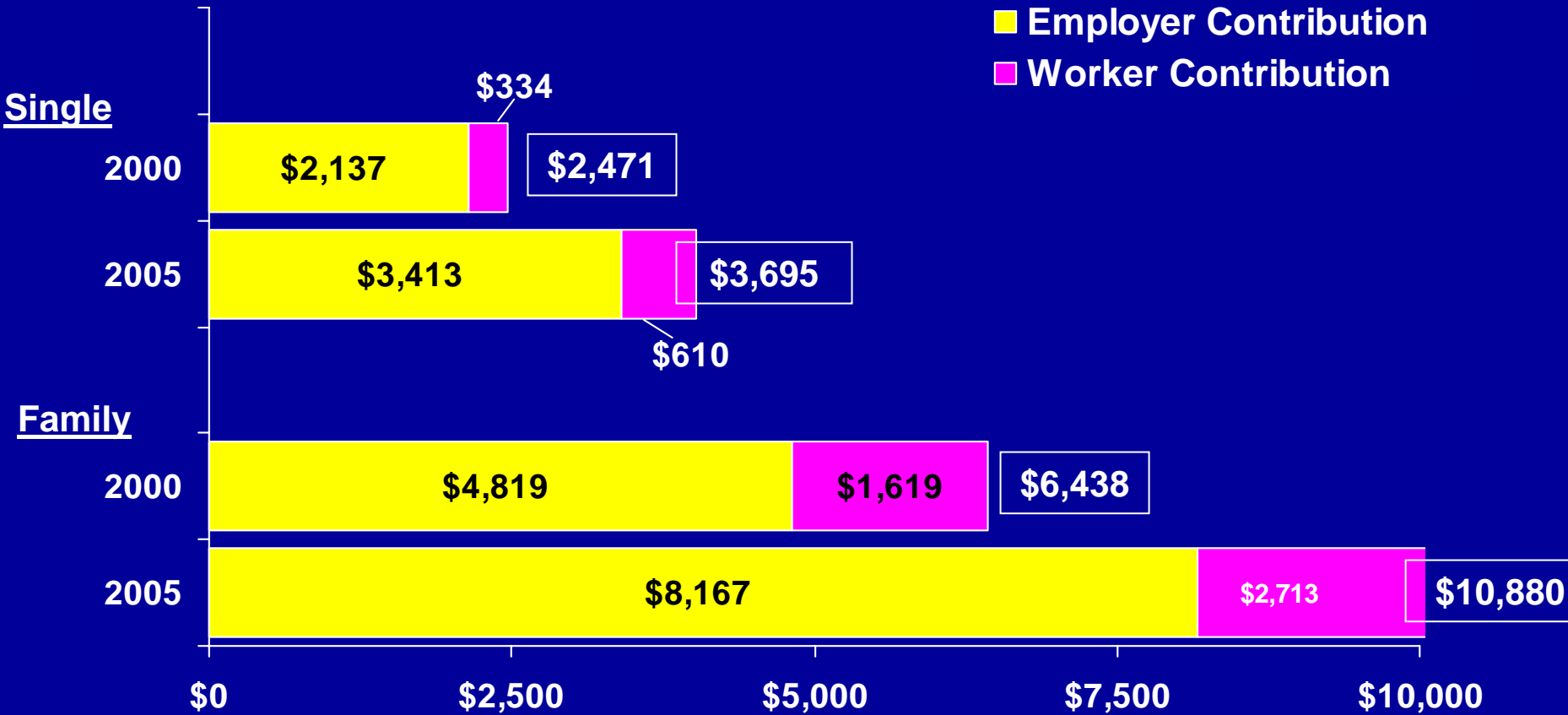
* Estimate is statistically different from the previous year shown at $p < 0.05$.

† Estimate is statistically different from the previous year shown at $p < 0.1$.

Note: Data on premium increases reflect the cost of health insurance premiums for a family of four.

Source: KFF/HRET Survey of Employer-Sponsored Health Benefits: 1999-2004; KPMG Survey of Employer-Sponsored Health Benefits: 1993, 1996; The Health Insurance Association of America (HIAA): 1988, 1989, 1990; Bureau of Labor Statistics, Consumer Price Index (U.S. City Average of Annual Inflation (April to April), 1988-2005; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey (April to April), 1988-2005.

Average Annual Premium Costs for Covered Workers, 2000 and 2005



Note: Family coverage is defined as health coverage for a family of four.
 SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2000 and 2005.

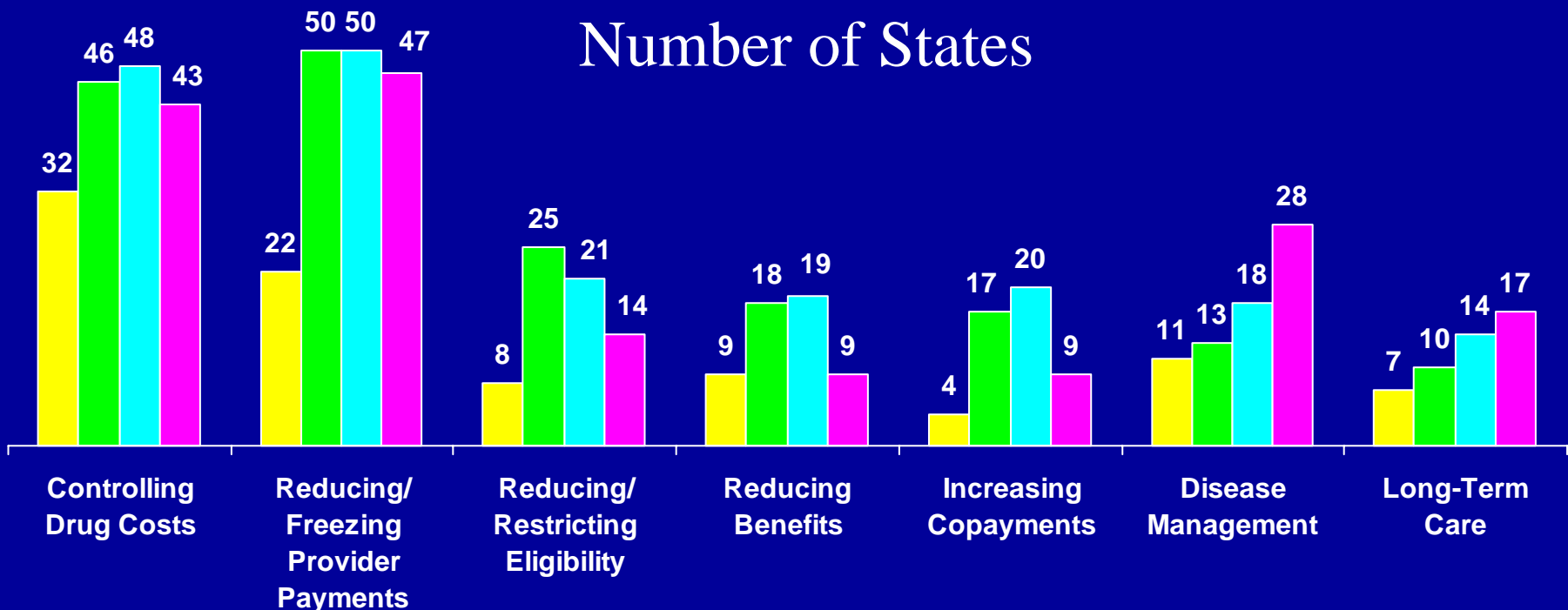
Most Private Sector Strategies Are Not Available to Control Medicaid Costs

- Premiums: Increase employee share
 - 68% of employers
- Deductibles: Increase
 - 32% of employers
- Prescription drugs: Institute higher, multi-tier copays
 - 46% of employers
- Office visits: Raise copays
 - 42% of employers
- Drop coverage for employees or dependents
 - Percentage of all firms offering health benefits dropped from 69% in 2000 to 60% in 2005, a drop of 266,000 firms; 90% were 3 – 24 employee firms

State Strategies to Contain Medicaid Costs: New Initiatives by Year FY 2002 – FY 2005

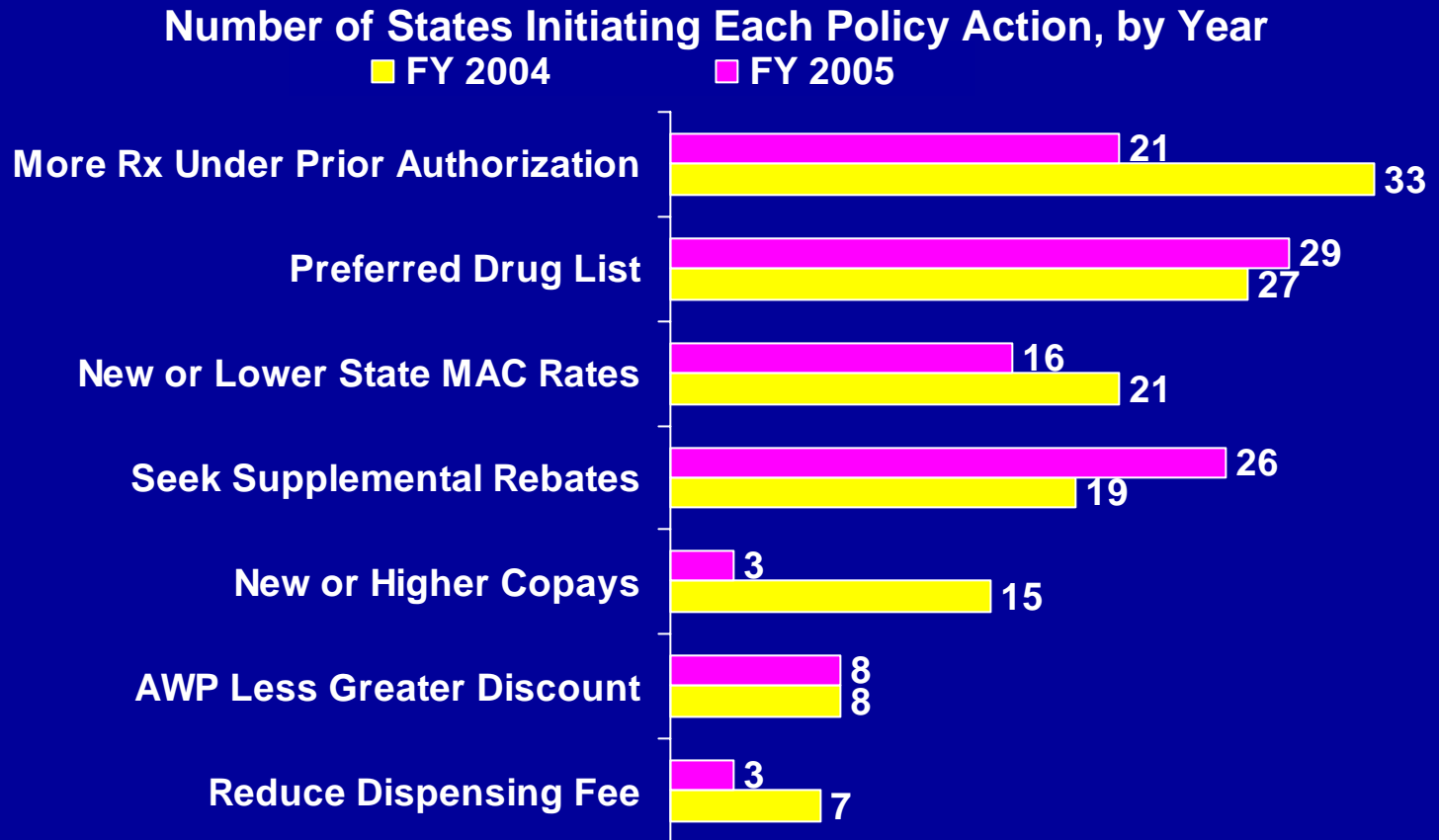
■ Implemented 2002 ■ Implemented 2003 ■ Implemented 2004 ■ Adopted for 2005

Number of States



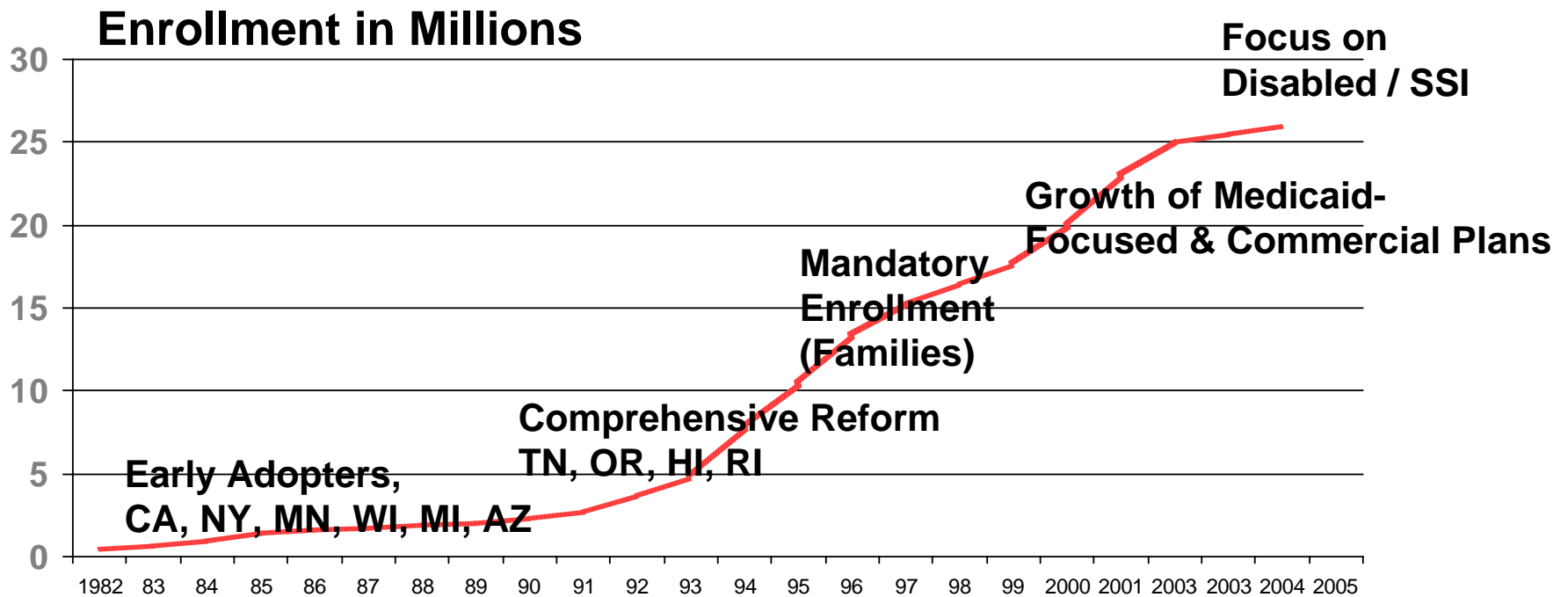
SOURCE: Vernon Smith, Rekha Ramesh, Kathy Gifford, Eileen Ellis, Robin Rudowitz and Molly O'Malley, *The Continuing Medicaid Budget Challenge: State Medicaid Spending Growth and Cost Containment in Fiscal Years 2004 and 2005*, Kaiser Commission on Medicaid and the Uninsured, October 2004.

Medicaid Prescription Drug Policy Changes in FY 2004 and FY 2005



SOURCE: Vernon Smith, Rekha Ramesh, Kathy Gifford, Eileen Ellis, Robin Rudowitz and Molly O'Malley, *The Continuing Medicaid Budget Challenge: State Medicaid Spending Growth and Cost Containment in Fiscal years 2004 and 2005*, Kaiser Commission on Medicaid and the Uninsured, October 2004.

Managed Care As a Medicaid Cost Containment Strategy: New Focus on SSI

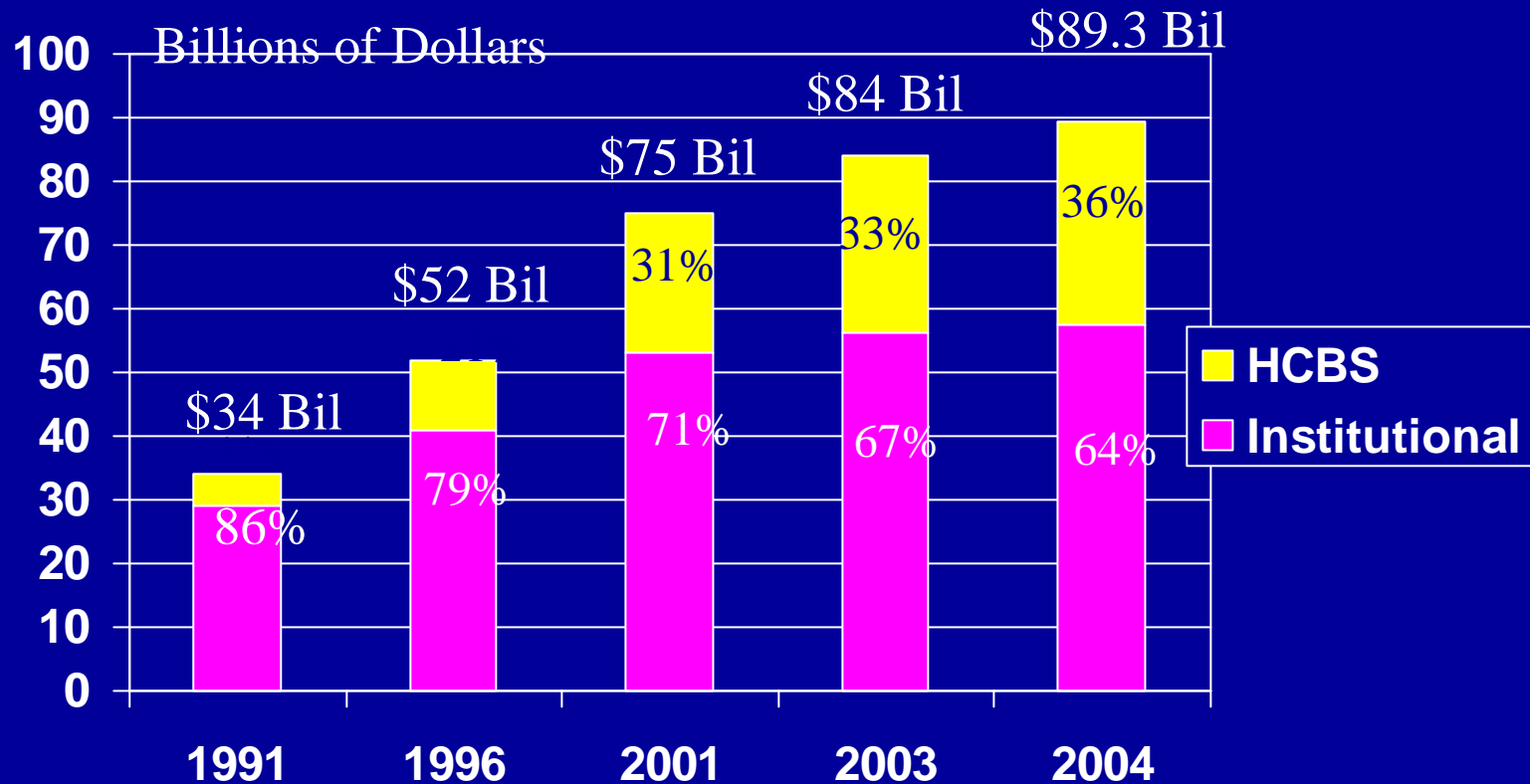


Other Cost Containment Actions

- Managed care and care management initiatives (frequently focusing on asthma, diabetes, hypertension and congestive heart failure):
 - **13 states in '03**
 - **15 states in '04**
 - **14 states in '05**
- New or enhanced fraud and abuse controls
 - **19 states in '03**
 - **17 states in '04**
 - **21 states in '05**
- New Provider Taxes (most frequently nursing home, but also HMO, hospital, ICF/MR and pharmacy):
 - **10 states in '03**
 - **11 states in '04**
 - **14 states in '05**

SOURCE: Vernon Smith, Rekha Ramesh, Kathy Gifford, Eileen Ellis, Robin Rudowitz and Molly O'Malley, *The Continuing Medicaid Budget Challenge: State Medicaid Spending Growth and Cost Containment in Fiscal years 2004 and 2005*, Kaiser Commission on Medicaid and the Uninsured, October 2004.

Medicaid Long Term Care Trend Is Toward Home and Community Care Selected Years 1991 - 2004



States Are Now Looking for New Ways to Make Medicaid Better

- Modernize Medicaid Rules
- Promote Personal Responsibility
- Embrace Market Solutions
- Encourage Alternatives for Long Term Care
- Achieve Sustainability and Affordability

Reform Strategies Via Waivers Within Current Law: Examples

- Florida
- South Carolina
- West Virginia
- Vermont

Medicaid Spending Projections

- CMS:
 - 2006 – 2014: 8.6% average annual growth
- CBO:
 - 2007 – 2015: 8.4% average annual growth

Sources: CMS, Office of the Actuary, in: Stephen Heffler, et al., "U.S. Health Spending Projections for 2004 -2014," *Health Affairs Web Exclusive*, 23February2005; and: CBO, *The Budget and Economic Outlook: Fiscal Years 2006 – 2015*, January 25, 2005.

The Outlook: Expect Continued Focus on Medicaid and How to Control Costs

- Medicaid spending:
 - 8% to 9% growth per year projected through 2015
- Medicaid enrollment:
 - Greater growth among elderly and disabled
- Medicare prescription drug benefit:
 - Will add to challenges and costs in 2006
- Bottom line:
 - Cost pressure will continue to drive Medicaid policies, at both federal and state levels.