

# **States Respond to Fiscal Pressure: State Medicaid Spending Growth and Cost Containment**

**Vern Smith, Ph.D.**

**Principal, Health Management Associates**

**September 22, 2003**

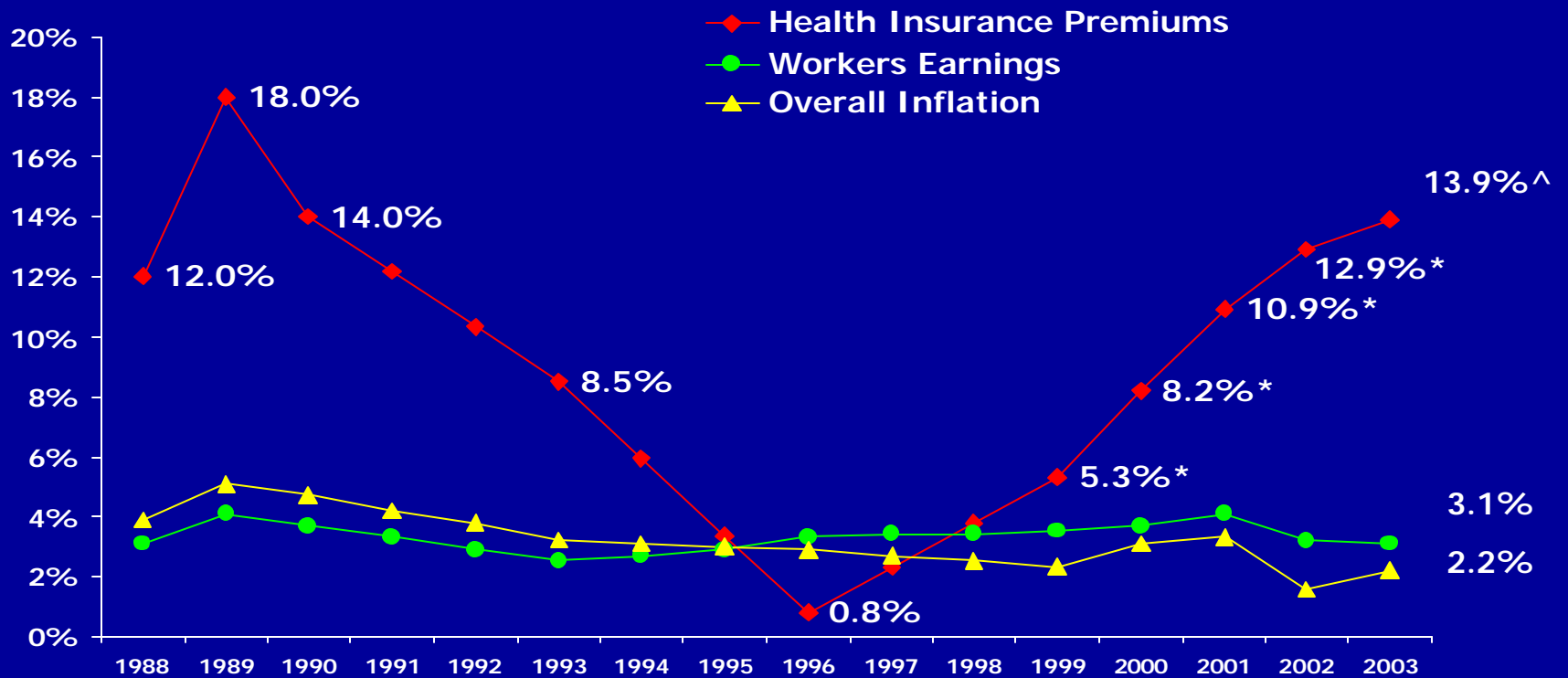
Figure 1

## 2003 Medicaid Budget Survey: Study Approach

- Purpose: To track current trends in Medicaid spending, enrollment and state Medicaid cost containment action.
- Responses from Medicaid officials in all 50 states and DC
- Responses reflect actual FY 2003 actions and legislative decisions for FY 2004
- 2003 is third annual survey; will be updated mid-way through FY 2004.

Figure 2

# Increases in Health Insurance Premiums Compared to Other Indicators, 1988-2003



Source: KFF/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002, 2003; 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), 1988-2003; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1988-2003.

\*Estimate is statistically different from the previous year shown at  $p < 0.05$ : 1996-1999, 1999-2000, 2000-2001, 2001-2002.

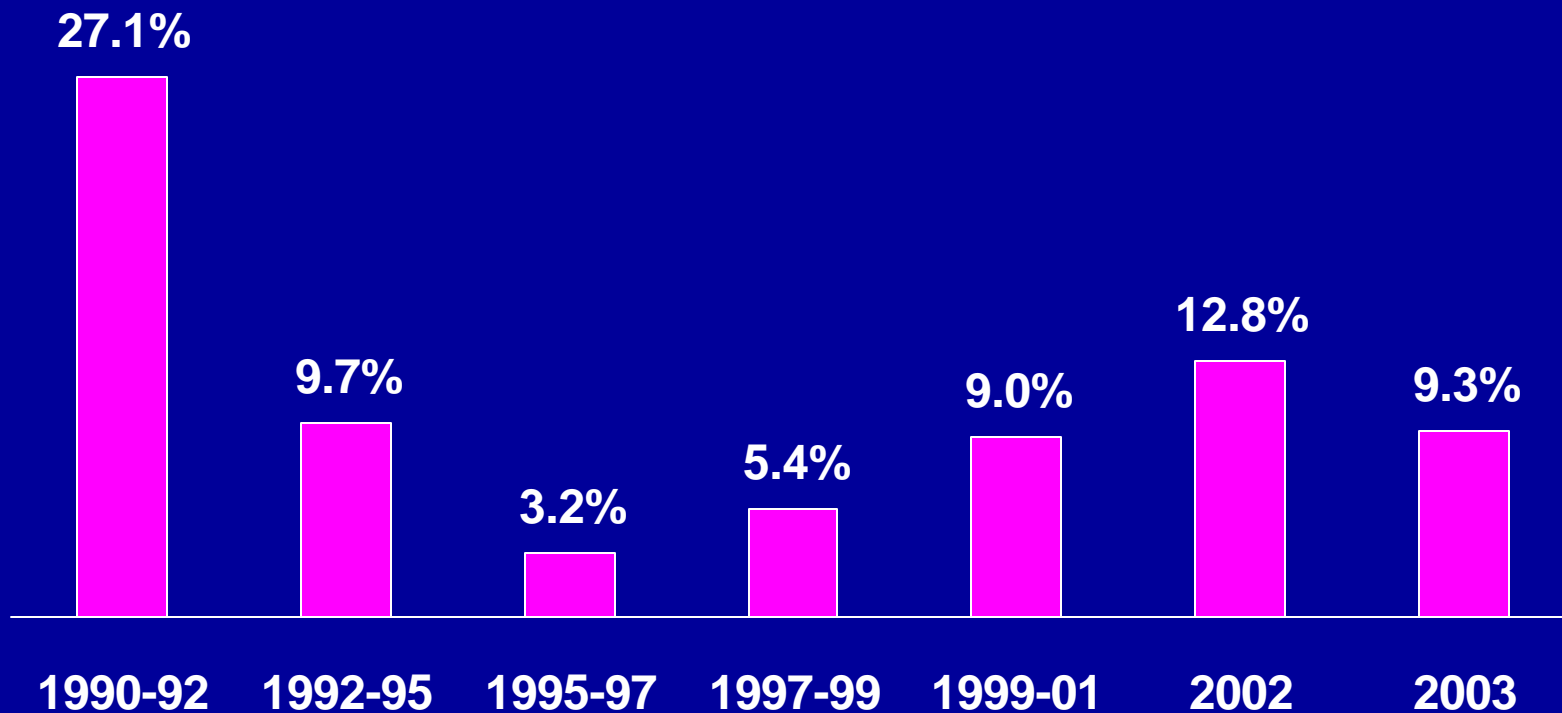
<sup>^</sup> Estimate is statistically different from the previous year shown at  $p < 0.1$ : 2002-2003.

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

Figure 3

# Average Annual Growth Rates of Total Medicaid Spending

Annual growth rate:



SOURCE: For 1990-1999: Urban Institute estimates prepared for the Kaiser Commission on Medicaid and the Uninsured, 2000. For 2001-2003: Health Management Associates, for the Kaiser Commission on Medicaid and the Uninsured.

**K A I S E R C O M M I S S I O N O N**  
**Medicaid and the Uninsured**

Figure 4

# Percent Change in U.S. Medicaid Enrollment, FY 1998 – FY 2003



Note: FY refers to the period ending in June of indicated year, the state fiscal year in 46 states.

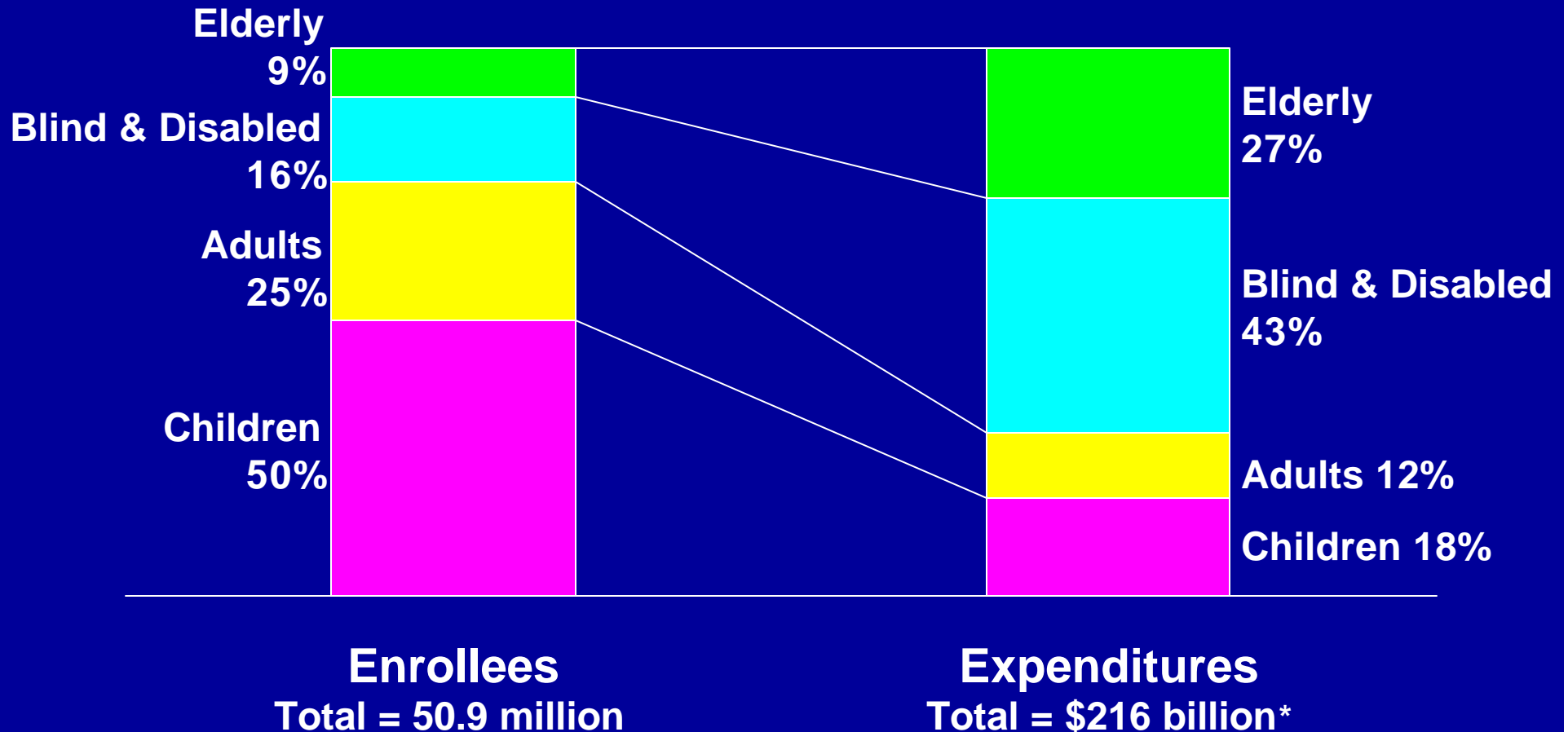
SOURCES: FY 1998-2001: Eileen Ellis, Vernon Smith, Jason Jorkasky and David Rousseau, *Medicaid Enrollment in 50 States: June 2002 Data Update*, Kaiser Commission on Medicaid and the Uninsured, July 2003. <http://www.kff.org/content/2003/4124/4124.pdf>

FY2003 and FY2004: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, June 2003.

**KAISER COMMISSION ON  
Medicaid and the Uninsured**

Figure 5

# Medicaid Enrollees and Expenditures by Enrollment Group, 2002



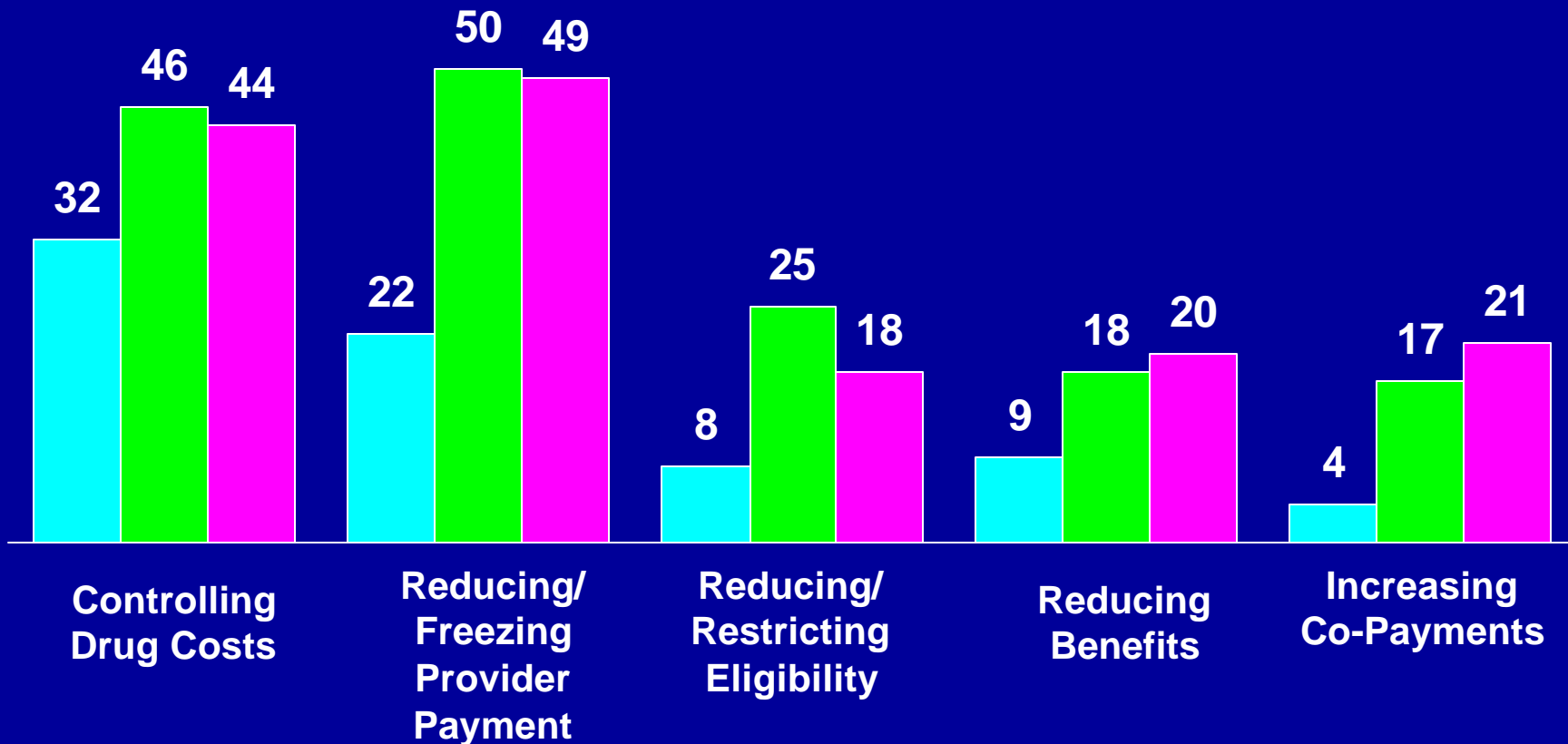
Expenditure distribution based on CBO data that includes only spending on services and excludes DSH, supplemental provider payments, vaccines for children, and administration.

SOURCE: Kaiser Commission estimates based on CBO and OMB data, 2003.

Figure 6

# States Undertaking Medicaid Cost Containment Strategies FY 2002 - FY 2004

■ Implemented in FY 2002 ■ Implemented in FY 2003 ■ Planned as of July 1 for FY 2004



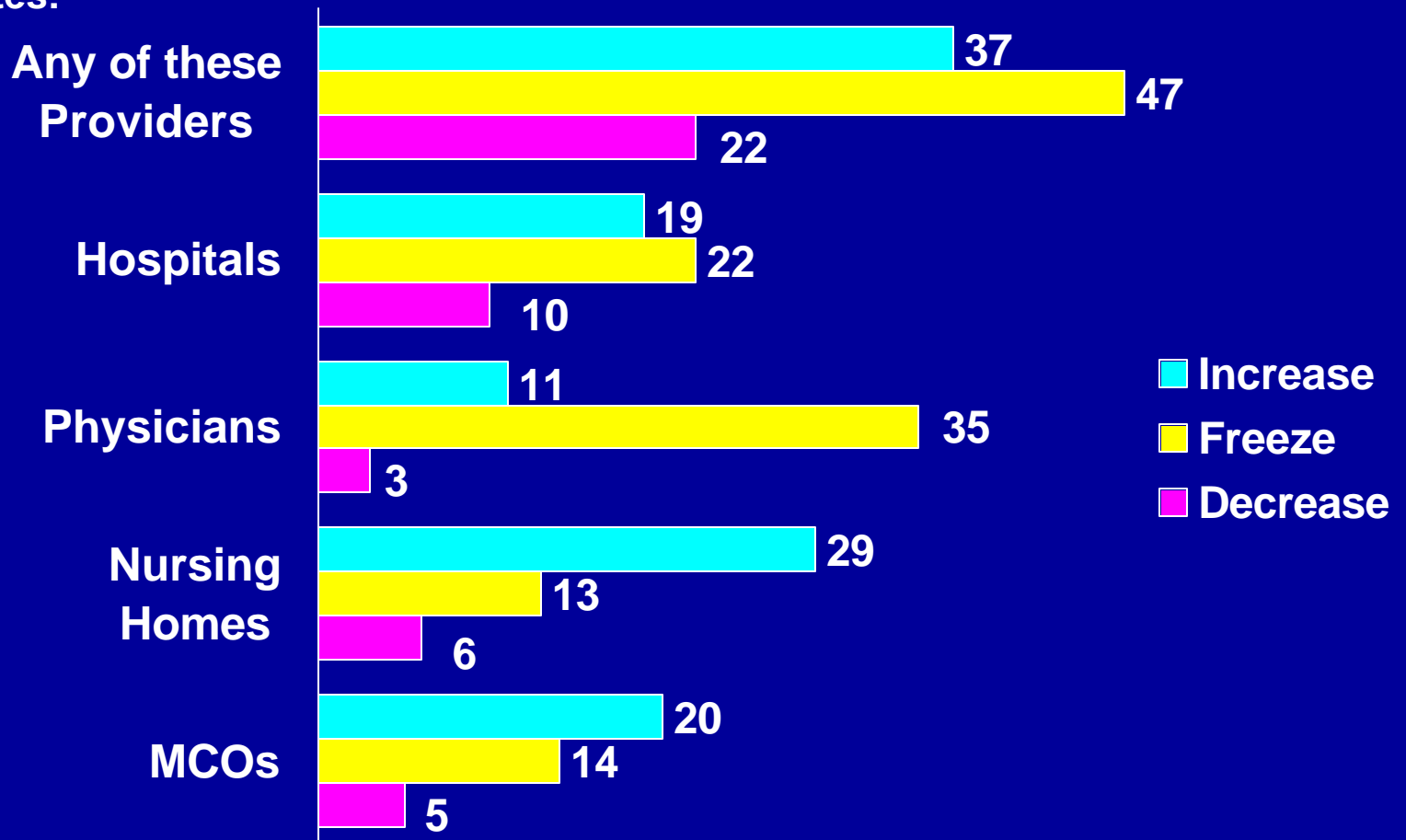
SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, June and December 2002 and September 2003.

**K A I S E R C O M M I S S I O N O N**  
**Medicaid and the Uninsured**

Figure 7

# Most Medicaid Programs Will Cut or Freeze Some Provider Rates in FY2004

Number of States  
Changing Rates:

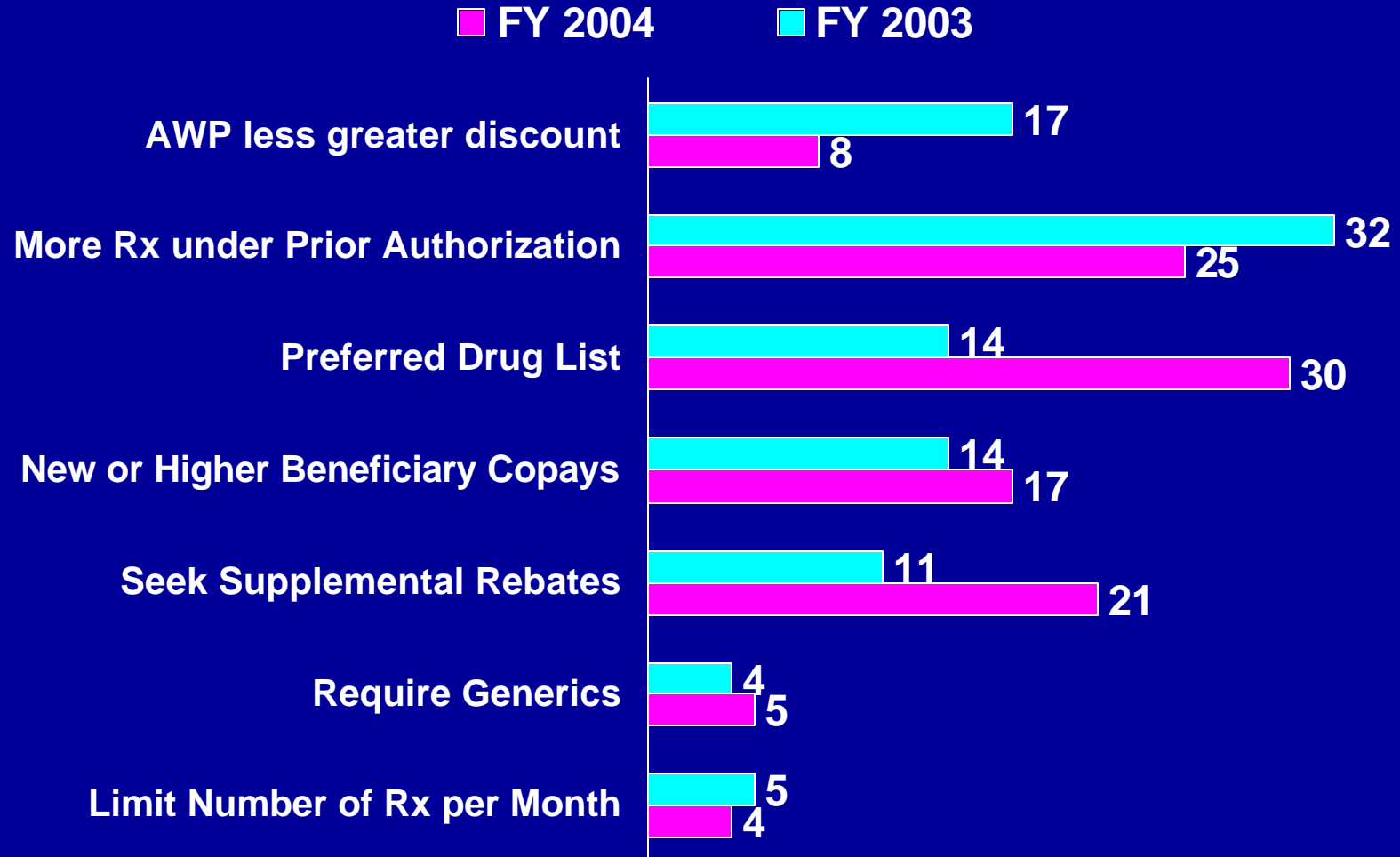


SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, September 2003.

K A I S E R C O M M I S S I O N O N  
Medicaid and the Uninsured

Figure 8

# Medicaid Prescription Drug Policy Changes FY2003 and FY2004

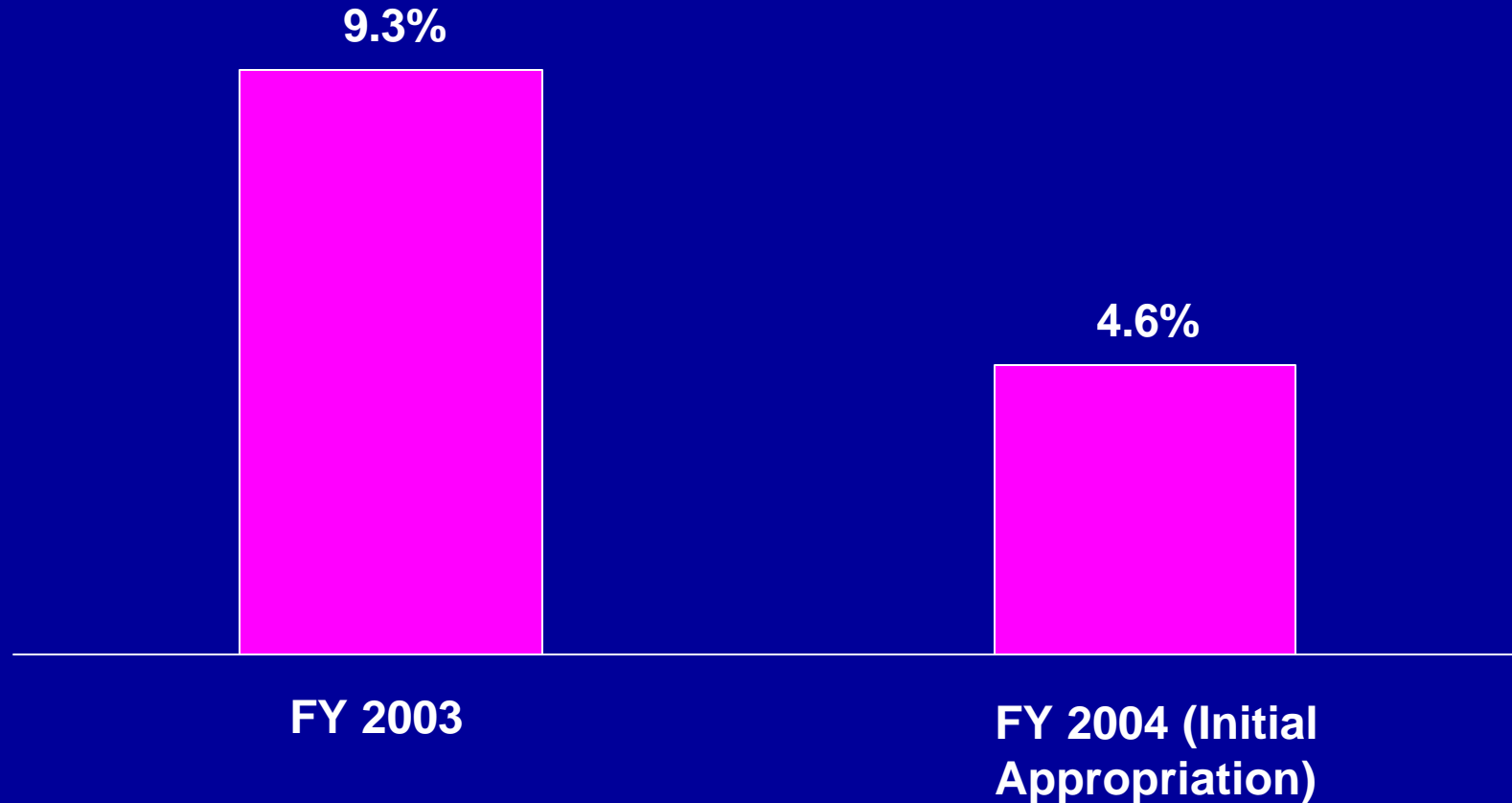


SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, September 2003.

KAISER COMMISSION ON  
**Medicaid and the Uninsured**

Figure 9

# Average Annual Growth Rates for Total Medicaid Spending

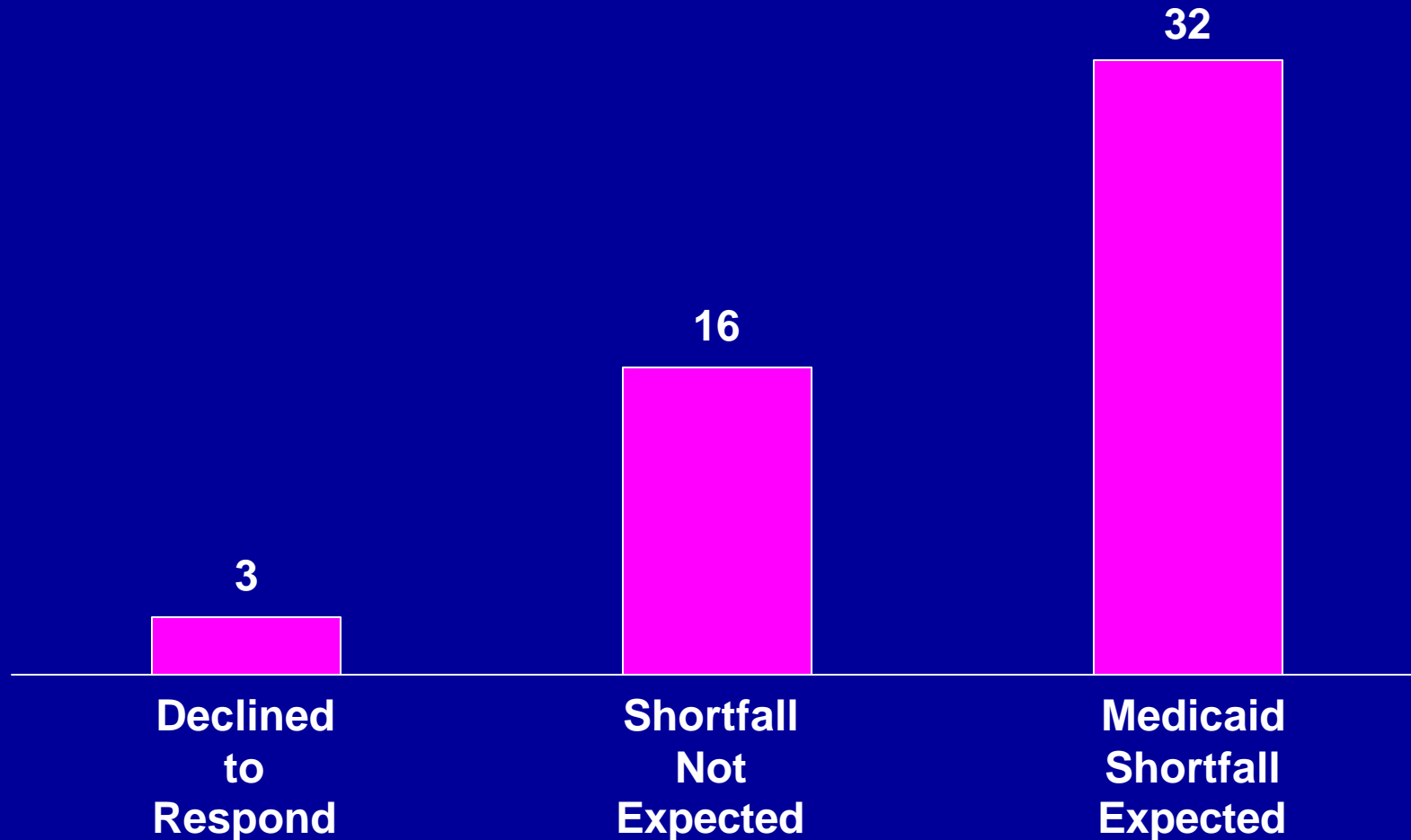


SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, September 2003.

K A I S E R C O M M I S S I O N O N  
Medicaid and the Uninsured

Figure 10

## Number of States Expecting a Medicaid Budget Shortfall in FY2004



SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, September 2003.

K A I S E R C O M M I S S I O N O N  
Medicaid and the Uninsured

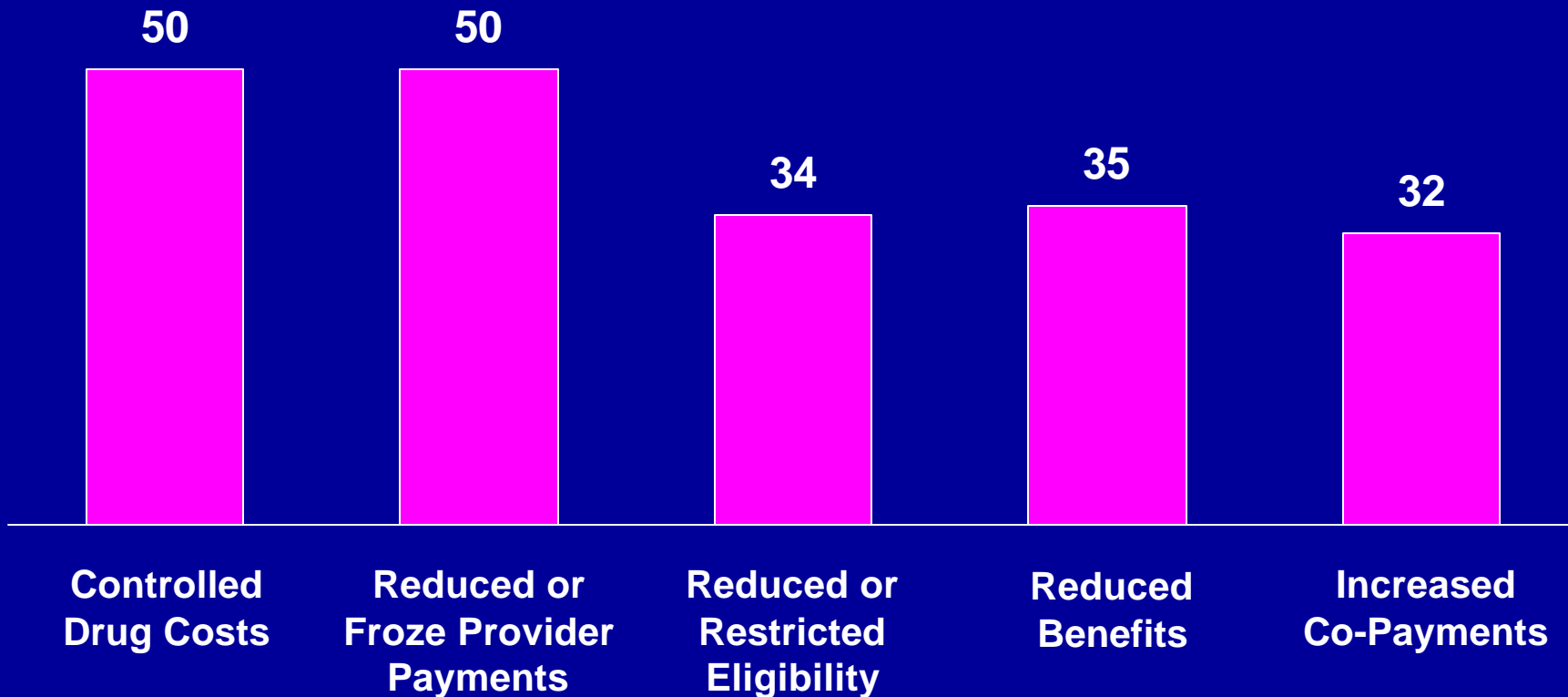
Figure 11

## **Temporary Federal Fiscal Relief Helped (Jobs and Growth Tax Relief Reconciliation Act of 2003)**

- **Enhanced federal Medicaid matching rate (“FMAP”) will help States to June 2004.**
  - softened or prevented cuts that would have been made for FY 2004
  - May prevent mid-year cuts
- **Concern strongly expressed for FY 2005: fiscal relief will expire, but revenues will remain low while Medicaid costs continue to increase.**

Figure 12

# Summary: Total Number of States Implementing Medicaid Cost Containment Strategies Over the Past Three Years (FY 2002 – FY 2004)



SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, June and December 2002 and September 2003.

**K A I S E R C O M M I S S I O N O N**  
**Medicaid and the Uninsured**

## Looking Ahead to FY 2004

- **The outlook is for continuing budget pressure on Medicaid**
  - **State officials expect Medicaid enrollment and costs to continue to grow faster than state revenues**
  - **Task of controlling Medicaid cost growth will be more difficult**