



THE KAISER COMMISSION ON **Medicaid and the Uninsured**

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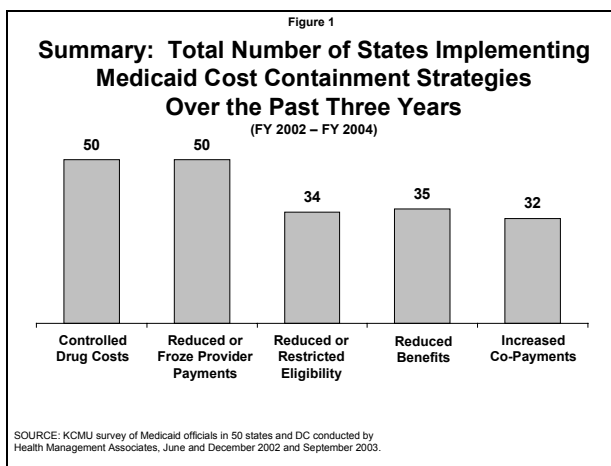
MEDICAID SPENDING GROWTH SLOWS FOR FIRST TIME IN 7 YEARS AS STATES COPE WITH FISCAL CRISIS; ALL STATES EXPECT TO MAKE MORE CUTS IN FY2004

In the Past Three Years, Two-thirds of States Have Reduced Eligibility and Restricted Health Care Benefits for Families and Low-Income Seniors

WASHINGTON, DC—With most states coping with their fourth year of fiscal stress, all 50 states and the District of Columbia (DC) have planned or implemented Medicaid cost containment actions for fiscal year (FY) 2004. The third annual survey of the 50 states and the District of Columbia released today by the Kaiser Commission on Medicaid and the Uninsured (KCMU) reveals that the continuing fiscal crisis in the states is having a far-reaching impact on health coverage for low-income individuals and families at a time when enrollment is increasing due to sluggish economic conditions. After three years of efforts to curb Medicaid spending growth, states report the average spending growth for Medicaid in 2003 was 9.3 percent, down from 12.8 percent in 2002. This marks the first time since 1996 that the growth rate has declined.

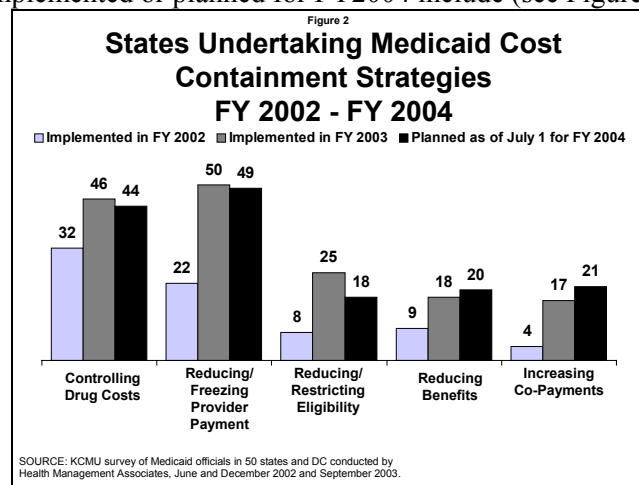
“The duration of the state fiscal crisis is impacting Medicaid coverage broadly and deeply. With 34 states reducing eligibility and even more restricting health care benefits over the last three years, the state fiscal crisis is putting health care for low-income families and the elderly and disabled at risk. Many will get less care and others will lose it altogether,” said Diane Rowland, executive director of KCMU. See Figure 1.

The Commission released two additional new reports on the states’ fiscal situation and on the factors contributing to Medicaid spending growth. The first study documents that the primary cause of the state fiscal crisis has been the sudden falloff in state tax revenue and Medicaid’s growth has played a much smaller role. The study concluded that states are likely to face continued fiscal difficulties for the next several years. The second study indicates that health care spending for individuals with disabilities and the elderly accounted for nearly 60 percent of Medicaid spending growth from FY2000-02.



State Actions to Reduce Medicaid Spending

States Respond to Fiscal Pressure: State Medicaid Spending Growth and Cost Containment (Pub#4137), is based on a survey conducted by Health Management Associates for KCMU in June 2003, at the end of most states' 2003 fiscal year. The survey reveals that all 50 states and DC implemented Medicaid cost control strategies in FY2003 and they all planned additional action for FY2004. Most states adopted the familiar strategies of curbing provider payments and prescription drug cost controls. Although states' emphasis on restricting eligibility is diminishing slightly in FY 2004, increasing numbers of states are restricting benefits and imposing new or higher co-payments, especially for prescription drugs. The survey found that the \$20 billion Congress provided in fiscal relief to the states in June 2003 was critical to preventing additional, more far-reaching cost containment actions and helped some states like Ohio avoid significant reductions in eligibility. States expressed strong concern about what will happen next year, after the fiscal relief expires but before state fiscal conditions are likely to improve. Some of the actions states have implemented or planned for FY2004 include (see Figure 2):



- Provider payment reductions (49 states), including freezing or reducing rates, (popular targets included physicians and inpatient hospital rates);
- Prescription drug cost controls (44 states), with a trend towards more states developing preferred drug lists (PDLs) and seeking supplemental rebates;
- Reducing benefits (20 states), including restricting or eliminating dental coverage, vision and eyeglass coverage, limiting physician visits, and eliminating or limiting home care;
- Eligibility cuts and restrictions (18 states), with some states decreasing income eligibility limits, decreasing resource allowance and income standards for long-term care, and reducing continuous eligibility and transitional Medicaid; and
- Increasing beneficiary co-payments (21 states), especially prescription drugs, but also on services like physician office visits, hearing, vision, dental, and outpatient hospital services.

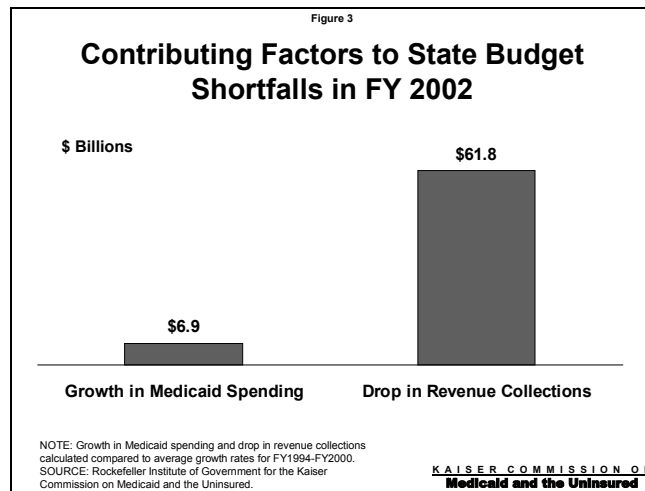
The survey also found that even as Medicaid enrollment grew due to the sluggish economy, average Medicaid spending growth for FY2003 was 9.3 percent—one-quarter below the FY 2002 levels and the first reduction in the rate of Medicaid spending growth in seven years. This decline is a departure from recent trends in private insurance, where rates of growth continue increasing.

Outlook and Current Status of States' Fiscal Situation

The current state fiscal crisis has entered its fourth year for many states and with little prospect of marked improvement for the next few years, public programs like Medicaid are likely to be the target of more cuts. *The Current State Fiscal Crisis and Its Aftermath* (Pub#4138), prepared by the Nelson Rockefeller Institute of Government for KCMU finds that the current state tax revenue decline has been dramatic. Measured as a share of the economy, the falloff is twice as steep than the state revenue declines of the recessions of 1990-91 and 1980-82—7.4 percent versus 3.5

percent and 3 percent, respectively. With such a precipitous drop in revenue, capital gains income would have to more than double to return to the levels of just two years ago. This is unlikely to happen in the near term, so states will continue to face the prospect of having to curb spending even more. It may be even harder in future years to balance state budgets, because many states used one-time budget balancing measures to fill budget holes and put off problems to FY2005 and beyond.

The report also finds that the primary cause of the fiscal crisis is the falloff in state tax revenue. In FY2002, the decline in revenue collection was \$62 billion, while Medicaid spending increased by about \$7 billion (see Figure 3.)



Factors Contributing to Medicaid Spending Growth

The third report released today, *Medicaid Spending Growth: 2000-2002* (Pub#4139) prepared by The Urban Institute researchers for KCMU, finds that rapid Medicaid spending growth has been driven, in part, by enrollment increases resulting from the loss of income and private insurance coverage during the current economic downturn, together with continued increases in hospital and prescription drug costs that have affected the entire health care sector. Despite slower enrollment growth for the elderly and individuals with disabilities than for children and non-disabled adults, the elderly and individuals with disabilities accounted for almost 60 percent of the spending growth reflecting their greater use of health care services. Although current Medicaid spending growth rates may be high relative to state fiscal capacity, per enrollee spending growth is below levels seen in the private sector. Major findings include:

- Recent rapid Medicaid enrollment growth can largely be attributed to the economic downturn, which resulted in declining incomes and lower rates of employer-sponsored insurance among low-income Americans. Medicaid enrollment growth helped to soften the recession's effects, stemming further increases in the number of uninsured.
- The elderly and disabled, for whom enrollment growth was far lower than for children and non-disabled adults, still accounted for nearly 60 percent of the growth in Medicaid spending over the last two years due to the high cost of serving these populations, particularly for acute care services including prescription drugs.
- Medicaid spending per enrollee increased by 8.6 percent per year between 2000 and 2002. However, this is lower than the rates of increase in health care spending per person observed for those with private insurance and considerably lower than the rise in private health insurance premiums, which increased by about 12 percent per year during this period.

Today's released reports are all available online at www.kff.org/content/2003/20030922 . In addition, the webcast of a policy briefing in Washington, D.C. on these subjects can be viewed live and then after 3 p.m. EDT today at the following link <http://www.kaisernetwork.org/healthcast/kff/22sep03> .

The Kaiser Commission on Medicaid and the Uninsured (KCMU) serves as a policy institute and forum for analyzing health care coverage and access for the low-income population and assessing options for reform. The Commission, begun in 1991, strives to bring increased public awareness and expanded analytic effort to the policy debate over health coverage and access, with a special focus on Medicaid and the uninsured. The Commission is a major initiative of the Henry J. Kaiser Family Foundation and is based at the Foundation's Washington, DC office. The Henry J. Kaiser Family Foundation is a non-profit, independent national health care philanthropy dedicated to providing information and analysis on health issues to policymakers, the media and the general public. The Foundation is not associated with Kaiser Permanente or Kaiser Industries.

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