Michigan League FOR Human Services

June 2008

Pressure on Medicaid Continues as Health Care Needs Increase

Michigan s 'public structures, including the Medicaid program, have not been adequately funded or maintained for many years. In each of the last several years, it has been a significant challenge to maintain eligibility and services in the face of major reduction proposals, which to date, have not been adopted by the Legislature. The program, due to its size, is targeted every budget cycle, without regard for the fact that it provides critical, needed health care services to those who qualify and payments to those who provide the care. Health care needs do not diminish in tough economic times. While health care costs can certainly be shifted, they cannot be eliminated.

The Medicaid Program escaped the FY2008 budget process without major provider reimbursement reductions or eligibility reductions, in part due to new special financing arrangements that capture additional federal funds. While the absence of cuts is good news, the absence of state funding support, with continued reliance on special financing mechanisms, is not good news for those who rely on the program for their medical care. Access to care will continue to be a major problem for Medicaid beneficiaries struggling to find providers to treat them.

FY2009 will likely continue the challenges of previous years, as state revenues will not be sufficient to fund the ongoing cost of state programs because Michigan s 'structural deficit has not been resolved. Despite recently enacted revenue increases, all of which are temporary, projected revenues for the foreseeable future will not be sufficient to maintain state programs, let alone restore funds lost through years of reductions, service cuts, and overall inadequate funding. The FY2009 Executive Budget did not propose major reductions, but does continue to rely on aggressive federal financing techniques to constrain the need for state general fund dollars.

It is worth noting that in FY2002, the Medicaid program required about 25 percent of the state s ' general fund, and in FY2009, with an increase of approximately 500,000 persons, the Medicaid program is still allocated only about 25 percent of the state s 'general fund.

The FY2009 Senate-passed budget for the Department of Community Health continues major reduction proposals with elimination of Medicaid coverage for federally defined optional 19 and 20 year olds, and reductions in Healthy Michigan Fund programs totaling $10.9 million. House action on the FY2009 Community Health budget has not been completed.

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State Funding Issues

The chronic underfunding of the Medicaid program has diminished provider participation and unnecessarily increased costs as recipients turn to hospital emergency rooms or other higher cost settings for care when providers refuse to treat them. The number of physicians participating in the Medicaid program has declined from 88 percent in 1999 to 64 percent in 2005 according to surveys completed by the Michigan State Medical Society. Any further cuts in the program will significantly reduce the percentage of physicians who will treat Medicaid clients, according to the same survey. Dentists who will see Medicaid patients are extremely difficult to find, as are many specialists. Only 17 percent of Michigan licensed dentists submitted at least one claim to the Medicaid program in 2006 according to a report produced by the Department of Community Health (*Study to Determine the Level of Participation by Michigan Licensed Dentists, April 1, 2007*). Physicians and dentists cited chronic underfunding of the program resulting in low reimbursement rates as the main reason they do not participate.

The following chart displays the initial annual appropriation for the Medicaid program (all sources of funding) as well as the staffing to administer the program and the caseloads to be served. As can be readily seen, the funding increases only slightly exceed the increases in the caseload for the period FY2001 ~~-~~FY2008. For the period 2001 - 2007, cumulative medical inflation totaled 30.9 percent (Bureau of Labor Statistics, Consumer Price Index, Medical Care component).

Fiscal Year	Staffing	Initial Annual Appropriation	Medicaid-Eligible Persons
FY2001	345.5	$5,520,288,600	1,117,600
FY2002	337.5	$5,603,010,000	1,211,800
FY2003	333.7	$6,258,195,300	1,293,200
FY2004	333.7	$6,316,394,600	1,366,200
FY2005	339.7	$6,817,057,100	1,430,100
FY2006	336.4	$6,809,271,100	1,475,800
FY2007	366.4	$7,298,137,800	1,540,440
FY2008	366.4	$8,131,847,700	1,581,000*
Change FY01-FY08:	+6.0%	+47.3%	+41.5%

**Projected*

Source of Appropriations: Senate Fiscal Agency

With funding increases just keeping pace with the caseload growth but certainly not inflation, it is easy to see why, providers, for the most part, have not seen rate increases in the last several years, and some type of program constraint or rate reduction has been implemented in each of the last eight years. In addition, it is important to note that in spite of Executive Order reductions and other mid-year reductions in each of the last six years, supplemental appropriations exceeding $200,000,000, and one year $500,000,000, have been required each year to maintain the program and avoid devastating mid-year program reductions.

A key factor in maintaining funding for the Medicaid program over the last decade has been the reliance on the use of provider taxes and special financing mechanisms to provide the state matching requirement. As indicated above, the general fund resources devoted to the program, as a percent of total state general fund resources, have remained unchanged over the last eight years in the face of enrollment increases of approximately a half million persons.

It is also important to note that over the eight year period cited above, staffing has increased only six percent, while the caseload served and funding have both increased over 40 percent. The administrative infrastructure of the Medicaid program has clearly been inadequately staffed over this period with declines over much of the period. In addition, the Medicaid payment system is outmoded and outdated resulting in delays in provider payments, further contributing to provider dissatisfaction with the program. The current system is more than 30 years old, making it ancient in the technology world. Recognizing the importance of a modern, efficient payment system, the Department has committed resources to develop and implement an updated provider enrollment, payment, and claims processing system. This, however, is being done within existing resources; no additional resources have been provided for this purpose. Key in this project is the availability of federal matching funds at a rate of 90 percent. Work continues on this effort with phased implementation beginning during 2008.

Federal Funding Issues

Since Medicaid is a state-federal partnership, it is important to recognize the amount of federal revenue that supports the program. In each of the years included in the above table, federal revenues represent more than 55 percent of the total. Of the $8.1 billion appropriated for FY2008, nearly $4.8 billion are federal revenues. Of every $1.00 spent, the federal government provides $.58 ($.60 for FY2009), enabling Michigan to purchase $2.38 of health care for only $1.00 of state spending. Conversely, for every state dollar cut from the program, $2.38 of health care services are lost.

The federal share of Medicaid spending is based on the Federal Medical Assistance Percentage (FMAP), a calculation of the three-year average of state per capita personal income compared to the national average. While the federal matching rate is increasing due to Michigan's ongoing economic woes, the federal matching rate would have been higher for the period FY2006 – FY2008 if a portion of the one-time contribution in 2003 of $16 billion by General Motors to their retirement fund had not counted as personal income for Michigan. That payment artificially increased Michigan's personal income for the federal matching rate calculation, thus reducing Michigan's matching rate for the subsequent 3-year rolling period that includes 2003. There is great concern that the state's federal matching rate could again be negatively impacted if the payments made by the auto makers into their Volunteer Employees' Beneficiary Associations (VEBA) are counted in Michigan's per capita personal income calculation for purposes of establishing the federal matching rate. While the VEBA's are not expected to be approved and implemented before 10/1/09, the federal matching impact would be felt in the middle of the period of state revenue declines that will result from the phase out of the temporary personal income tax rate increases approved in 2007.

The State Children's Health Insurance Program (SCHIP) reauthorization legislation, passed by Congress during the fall, included language to fix the above-described problem starting in FY2008, but the legislation was vetoed twice by the President, and efforts to override the veto were not successful. Some members of Michigan's House Delegation voted twice to uphold the veto. An override of the President's veto would, in addition to reauthorizing SCHIP, have restored an estimated $100 million in federal funds to Michigan for FY2008, and protected the federal matching rate into the future from the impacts of one-time or multi-year extraordinary employer contributions to health or pension trust funds. The restored federal funding would have eased state revenue shortfalls in both FY2008 and FY2009, and would have protected state services again threatened with cuts.

Over the last year, states have had to contend with ongoing efforts by the Centers for Medicare and Medicaid Services (CMS) to impose regulations, not passed by Congress, that alter the basic foundation of the program and shift costs to the states. These CMS efforts resulted in Congress passing moratoria last year on many of these regulations which, if implemented, would result in irreparable harm to Medicaid recipients and to states' economies (from the loss of billions of dollars of federal revenues). The projected federal funds loss to Michigan if these regulations are implemented is $3.9 Billion over five years, a catastrophic loss to the program and the state's economy. Congressional efforts are underway to continue the moratoria through March 2009. Both the House and Senate have passed separate bills

including the moratoria; it is unclear whether the President will veto the final legislation.

Other Issues and Challenges

- State Children's Health Insurance Program (SCHIP) not reauthorized. Because of the inability of Congress to override two Presidential vetoes of SCHIP reauthorization legislation, continuation legislation was adopted to extend the SCHIP program at basically its current level of funding through March 2009. At that time, efforts will again be made to reauthorize and improve this very popular program. The SCHIP program in Michigan is called MIChild.

- Medicaid citizenship documentation requirement poses barriers for U.S. citizens. The federal Deficit Reduction Act of 2005 mandated documentation of citizenship for Medicaid eligibility purposes. The law was implemented in Michigan in April 2007, and immediately, the Medicaid caseload began to decline after more than six years of monthly increases. The resulting caseload decline provided a major savings assumption for the FY2008 budget, with budgeted savings of $33.4 million in total. The Medicaid program has always had a citizenship requirement for program eligibility, but documents, mandated by the federal government, such as passports, photo ID's, or birth certificates, must now be provided to prove citizenship and identity. If Michigan's experience is similar to that of states that have actually tracked the impact, it is actually U. S. citizens who are being inappropriately denied or terminated from services because they are unable to obtain or to afford the cost of required documents. Michigan does not have a history of citizenship errors in the Medicaid program. An audit completed prior to implementation of the documentation requirement found <u>one</u> citizenship error in the 1,752 cases audited. While Medicaid caseload savings may occur in the short term, the long term impact on citizens and the Michigan economy will be detrimental as the number of uninsured in Michigan and the amount of uncompensated care both increase.

The following table displays results from 6 states tracking the impact of this federal policy:

FEDERAL SPENDING AND THE NUMBER OF UNDOCUMENTED IMMIGRANTS FOUND

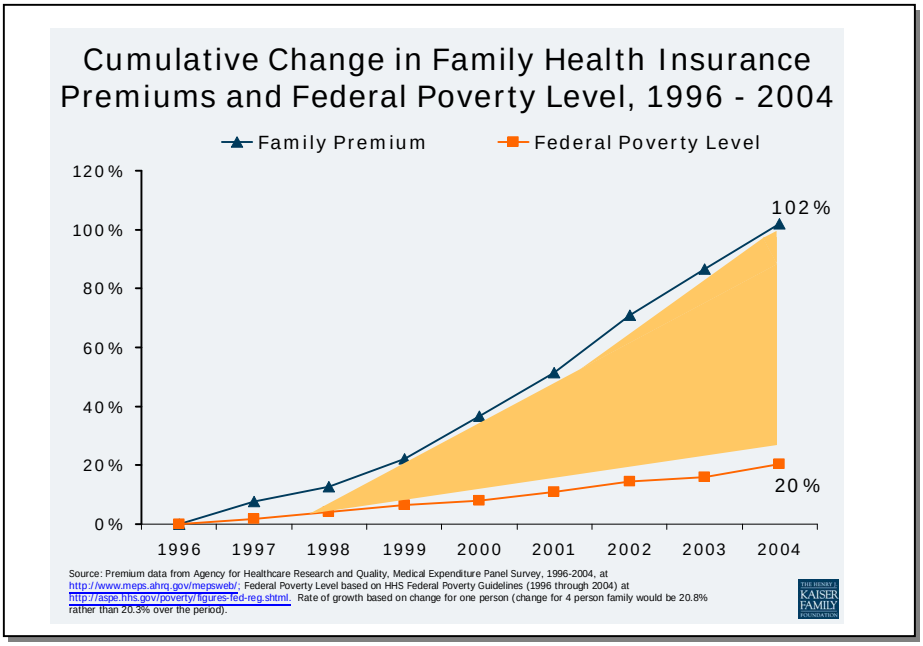
	Additional Federal Spending	Number of Undocumented Immigrants Found	Number of Medicaid Enrollees for 2004	Estimated Federal Savings from Undocumented Immigrants Found
Colorado	$1,500,000	0	398,500	$0
Kansas	$750,000	1	253,600	$1,816
Louisiana	$2,000,795	6	816,700	$8,095
Minnesota	$650,000	0	545,000	$0
Washington	$2,500,000	1	953,100	$1,138
Wisconsin	$900,000	0	688,600	$0
Total	**$8,300,795**	**8**	**3,655,500**	**$11,048**

For the six states, the administrative costs of implementing the documentation requirements far exceeded the savings to the taxpayers. The total regular non-disabled, non-elderly Medicaid enrollment in these six states was 3,655,500 in 2004. The average federal cost of providing care to a non-disabled Medicaid beneficiary under 65 in the six states ranged from $1,138 to $1,816 per year. Assuming that the undocumented immigrants who were denied coverage had average Medicaid expenses, the total savings to the federal government from identifying these eight individuals was $11,048.

Source: Summary of GAO and Staff Findings, MEDICAID CITIZENSHIP DOCUMENTATION REQUIREMENTS DENY COVERAGE TO CITIZENS AND COST TAXPAYERS MILLIONS Committee on Oversight and Government Reform, Rep. Henry A. Waxman, Chairman July 24, 2007

§ Adult Benefits Waiver – This federal waiver allows Michigan to provide an ambulatory benefit to childless adults with incomes at or below 35 percent of the federal poverty level ($3,600 per year) using unspent State Children's Health Insurance Program (SCHIP) funds (that would have been returned to the federal government due to the high incidence of Medicaid eligibility in MIChild applicants). The waiver expires on January 31, 2009, and it is not known what, if any, options might be available to the state under a new administration to continue this program. While the Executive Budget assumes renewal of the waiver, it is unlikely that the current Administration would approve an extension. Without federal funds available for the program, more than $100 million would have to be replaced with state or other funds, or the program would have to be reduced or eliminated, increasing the number of uninsured.

§ Rising health care costs and declining personal income – With continued projected increases in the unemployment rate and declines in personal income, the family health security of Michigan residents is in jeopardy. With health insurance premiums rising more rapidly than the federal poverty level, the protection offered the sickest and poorest Americans by programs like Medicaid and SCHIP with eligibility tied to the poverty line has not kept pace with rising health insurance costs over time. *Kaiser Family Foundation, Data Spotlight at* www.kff.org



As the trend of rising health insurance premiums and cost sharing continues, and wages stagnate, families are faced with paying a greater percentage of their incomes for health care coverage. For many families, when the percentage becomes too high, they are priced out of health care coverage altogether, leaving them uninsured if their incomes are too high for public coverage, for which eligibility, based on poverty levels, has grown at a very slow pace as depicted in the above chart.

§ High cost of health care is taking its toll – The number of Michigan families who are spending more than 10 percent and more that 25 percent of their pre-tax family incomes on health care costs continues to increase. A report released in December 2007 by Families USA, a national health advocacy organization, cited more than two million non-elderly individuals in Michigan (more than 22 percent of the population) who will spend more than 10 percent of their pre-tax incomes on health care costs in 2008. In addition, more than 500,000 non-elderly individuals in Michigan (nearly six percent of the population) will spend more than 25 percent of their pre-tax

incomes on health care costs. It is important to note that in each of the above categories, more than 80 percent of the individuals *have insurance*. These data suggest that working families have very difficult choices to make when their family budgets may not have more than five percent of their pre-tax income available for health care costs. The full report, *Too Great a Burden: Michigan's Families at Risk* can be found on the Families USA website http://www.familiesusa.org/assets/pdfs/too-great-a-burden/michigan.pdf.

Summary

The value and importance of health care to all Michigan residents cannot be over-emphasized. It is a key component of the quality of life for families and communities. Policy makers must respond to the health care challenges facing the State with a vision that provides investment in quality public services which are critical for residents to thrive and businesses to prosper. Medicaid, serving the spectrum of Michigan residents, is a key program and must be strengthened, rather than shredded, to provide the services Michigan residents need. Other programs and policies must be addressed as well if Michigan is to leverage needed federal funds in the future and ensure the strongest health care safety net possible.

PKc:Medicaid 2008.doc/jh