



# Medicaid Spending: Controlling Costs

## *No Simple Solutions to Complex Issues*

Office of Legislative Research and General Counsel

### Summary

**THE PROBLEM:**  
***Rising Medicaid costs in light of current state budget shortfalls***

#### What is Medicaid?

- Primary health care program for the impoverished, with eligibility groups including the elderly, disabled, parents, and children
- Funded by state and federal tax dollars
- Mandatory services and populations
  - States required to provide certain services
  - States can opt to cover other services or populations
  - All recipients receive same coverage, states cannot pick and choose services for different populations
  - Administered at the state level
  - Utah's match rate is 29%; for every \$1.00 Utah spends, the federal government contributes \$2.80

#### Cost Control Measures

An overview of ten Medicaid budget reductions or cuts in FY 2002 and FY 2003 to help reduce rising costs

#### Policy Options for Rising Medicaid Costs

1. **Provide less:** reduce or eliminate benefits
2. **Pay less:** reduce provider compensation
3. **Pay for fewer:** eliminate eligibility groups
4. **Do better:**
  - administer more efficient care
  - eliminate wasteful systems
  - focus on prevention

#### The Problem

**Medicaid costs continue to demand an increasing portion of Utah's budget.**

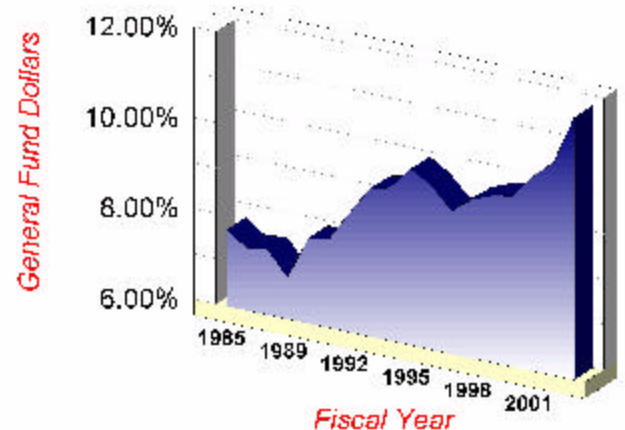
Since 1985, Medicaid spending has risen from 7.7% to 11.8% of the total state budget—one of the fastest growing budget expenditures. Similar trends are occurring nationwide.

The increase in Medicaid spending has resulted from increased enrollment and the rising cost of services and prescription drugs.

The rapid increases in Medicaid have been a serious concern for years but have become particularly serious in light of the State's budget shortfalls.

In order to balance the State budget in the last two fiscal years, Medicaid cuts have been implemented. The following page highlights those cuts and the fiscal impacts for FY 2002 and FY 2003.

#### PERCENT OF UTAH'S TOTAL BUDGET SPENT ON MEDICAID



## COST CONTROL MEASURES

### Reduced Retroactive Eligibility Period

Federal law mandates at least a 90-day retroactive eligibility period. Utah no longer extends retroactive eligibility beyond 90 days.

- **General Fund savings = \$933,000**
- ▶ **lost federal dollars = \$2,612,400**

### Reduced Chiropractic Funding

Funding reduced by three cents per member per service.

- **General Fund savings = \$131,758**
- ▶ **lost federal dollars = \$368,922**

### Cut Podiatry Services for Adults

This has a more severe impact on diabetic Medicaid recipients. Certain medical codes essential to diabetics and other serious chronic conditions are currently being identified; however, those services would be offered to all Medicaid recipients.

- **General Fund savings \$105,000**
- ▶ **lost federal dollars = \$294,000**

### Cut Adult Speech and Hearing Services

Eliminated funding for speech and hearing exams, and hearing aids.

- **General Fund savings = \$108,000**
- ▶ **lost federal dollars = \$302,400**

### Cut Adult Dental Non-Emergent Care

Emergency relief is covered including extraction for infected teeth but not fillings or check-ups.

- **General Funds savings = \$1,700,000**
- ▶ **lost federal dollars = \$4,760,000**

### Cut the Medical Assistance Budget

Reduced supplies and equipment.

- **General Fund savings = \$30,000**
- ▶ **lost federal dollars = \$84,000**

### Increased Co-Payments

Per visit and cumulative co-payments increased.

- **General Fund savings = \$285,000**
- ▶ **lost federal dollars = \$798,000**

### Revised Prescription Limit

Medicaid no longer limits monthly prescriptions; however, coordinating physicians will review all prescriptions, increasing physician flexibility to control patients' health care and contain costs. Unused medications from nursing homes in original manufacturers packages are now allowed to be recycled.

- **General Fund savings = \$1,500,000**
- ▶ **lost federal dollars = \$4,200,000**



### Increased Premiums for Working Disabled "Ticket to Work"

The Ticket to Work program encourages people with disabilities to work. However, when the working disabled begin to work and earn more income, they may no longer qualify for Medicaid. Therefore, the Ticket to Work program allows the working disabled to purchase health care coverage. The buy-in premiums for the program were increased to 30% to 55% of the recipients income, based on a sliding scale.

- **General Fund savings = \$400,000**
- ▶ **lost federal dollars = \$1,120,000**

### Administrative Measures Taken

Delayed updates for computer equipment, eliminated third parties for data collection, and lost 15 employee positions through attrition.

- **General Fund savings = \$1,203,300**
- ▶ **lost federal dollars = \$3,369,240**

Sources: Utah Department of Health and the Office of the Legislative Fiscal Analyst

## General Fund savings FY 2002 and FY 2003:

**\$5,192,758 in services**  
**\$1,203,300 in administration**

- This amounts to over **\$17,900,000 lost federal dollars.**
- However, the Legislature appropriated \$3,601,600 in one-time monies.
- Therefore, the **net loss of federal funds** for FY 2002 was only approximately **\$7,824,482.**

# POLICY OPTIONS FOR RISING MEDICAID COSTS

The cuts discussed in the last section reduced the costs of the current Medicaid program. However, the historically rapid increases in Medicaid are still present due to enrollment increases and the rising costs of services and prescription drugs.

## WHERE DO WE GO FROM HERE?

There are several alternatives to address the long-term problem of chronically growing Medicaid costs. However, each solution comes with its own set of consequences.

The Legislature must balance the benefits and consequences of each when dealing with this complex and important issue.

### 1. PROVIDE LESS

#### Provide fewer benefits

- Utah can further reduce or cut some optional services to adults. However, by federal mandate, states must cover certain mandatory services.
  - ▶ **Mandatory services** include: inpatient hospital, outpatient hospital, rural health clinic, physician visits, laboratory and x-rays, nursing home, home health, family planning, nurse mid-wife, nurse practitioner, federally qualified health centers, durable medical equipment and some medical supplies, transportation, and pregnancy-related services.
  - ▶ **Optional services** include: Some pharmacy, speech-language, audiology, intermediate care facilities for the mentally retarded, personal care, case management, inpatient psychiatry services for individuals under age 22, hospice, private duty nursing, dental, physical therapy, occupational therapy, chiropractic, skills development, dialysis, interpretive services, substance abuse, mental health, podiatry, and some medical supplies.
- The distinction between mandatory and optional services only applies to adults. If a child on Medicaid needs a medical service, the State is required to pay, even if it is not a service normally covered.

#### Impact of providing, reducing, or deferring services

- The result could be higher treatment costs later as untreated conditions often result in expensive hospital stays.
- Also results in fewer federal Medicaid dollars spent in Utah.

### 2. PAY LESS

#### Pay Providers and physicians less

- This may shift costs to private insurance; premiums may rise for other patients.

- It may create patient access problems if providers refuse to treat Medicaid patients.
  - ▶ Currently, only two HMOs serve Medicaid patients in Utah: Molina of Utah and HealthyU.
  - ▶ Altius Health Plans, IHC, and United Healthcare no longer provide Medicaid through HMOs.

#### Pay less by increasing co-payments

- Co-payments are federally regulated and in some situations Utah's co-payments already doubled this year.

### 3. PAY FOR FEWER

#### Eliminate eligibility groups

- This shifts the burden of payment, as individuals no longer covered by Medicaid turn to other government programs for assistance, such as community health clinics and local health departments which have limited capacity.
- State and local governments still end up paying most of these costs without the benefit of federal cost sharing.

### 4. DO BETTER

#### Administer more efficient care

- For the past decade, HMOs were considered the most efficient way to administer care.
- However, HMOs are increasingly unwilling to provide Medicaid services because of increasing costs and decreasing funding.
- Utah is leading the nation with a new waiver, the Primary Care Network (PCN). Using Medicaid dollars, Utah will provide services to non-traditional Medicaid recipients.
- The waiver allows the PCN to require higher co-pays and limit mandatory benefits for non-traditional Medicaid patients.
- This allows Utah to spend federally matched Medicaid dollars outside the usually rigid guidelines for Medicaid spending.

#### Eliminate unnecessary and wasteful systems

- Utah has already cut or reduced many of Medicaid's optional services and administrative costs in the FY 2002 and FY 2003 budgets. Further reductions may be a consideration.

#### Focus on prevention with long-term results

- Requires a substantial initial investment with promise of future savings.
- May not be feasible in tight budget years, because funds are not available to make the initial investment.

## CONCLUSION: NO SIMPLE SOLUTIONS FOR COMPLEX ISSUES

- Health budget strategies have complicated interactions with each other and may be difficult to reconcile.
- Eventually, pressure on Medicaid spending from enrollment growth should subside with an improving economy. Unfortunately, other Medicaid costs, such as health care inflation and prescription drug prices, will likely continue to increase even when the economy recovers.
- Congress faces on-going pressure to increase funding for Medicaid in order to assist states in their struggle to keep pace with rising health care costs. These rising costs continually demand a larger percentage of state budgets. However, increased federal funding of Medicaid may require increases in the state match.
- Utah has implemented some cost cutting measures in the Medicaid budget and must carefully weigh future decisions regarding definitions of Medicaid services, eligible populations, and reimbursement rates.
- The ultimate challenge for policymakers is balancing Medicaid spending with the reality that Medicaid literally provides life-giving services to the most vulnerable populations.

### No Simple Solutions

Growth in Medicaid spending has many complex causes and state responses will have to be equally multi-faceted.



#### Office of Legislative Research and General Counsel

436 State Capitol  
Salt Lake City, UT 84114-0121  
Phone: (801) 538-1032  
Fax: (801) 538-1712

For more information, please contact our office or access our website at: [www.le.state.ut.us](http://www.le.state.ut.us)