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## **The Vermont Legislative Research Shop**

### **Medicaid: Cost Cutting**

“Medicaid provides health insurance for more than 50 million low-income people, pays for more than one-third of all births, and finances care for two-thirds of nursing home residents. The cost of the program, financed jointly by the federal government and the states, shot up 63% in the last five years. For more than two decades, federal and state officials have been engaged in a tug-of-war who should pay how much of the cost”<sup>1</sup>

Recently, President Bush has proposed a \$60 billion (2%) cut from projected federal Medicaid spending over the next ten years. If these cuts are passed by congress, states must find solutions to the Medicaid crisis that do not rely on federal funds.

### **Solutions, State by State**

In the fiscal year 2005, all 50 states and the District of Columbia are taking actions to cut Medicaid costs. Figure 1 shows the variety of cost cutting actions that have been taken by the fifty states and Washington D.C. This graph shows that a majority of states have engaged in freezing or cutting provider payments, pharmacy controls and disease/case management in order to contain the costs of Medicaid and a minority of states have taken six other initiatives to contain Medicaid costs

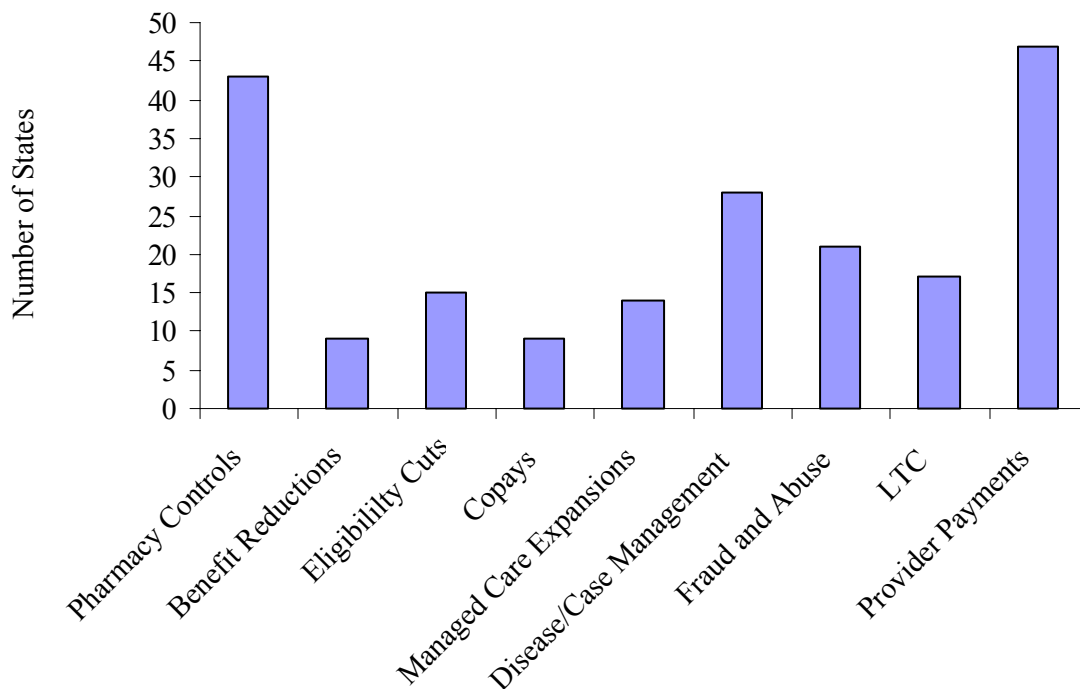
In Vermont, steps have been taken to freeze or cut payments to providers, control pharmacy utilization and/or control the cost of pharmaceuticals, tightened controls on fraud and abuse, and enacted “[c]ost containment initiatives for long term care and home and community based services programs.”<sup>2</sup>

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<sup>1</sup> Pear, Robert. “Governors and Officials Step up Talks on Medicaid.” March 2, 2005. *New York Times*. <http://query.nytimes.com/gst/abstract.html?res=F60E11FE38590C718CDDAA0894DD404482&incamp=archive:se> arch. Accessed March 10, 2005.

<sup>2</sup> The Kaiser Family Foundation. “Medicaid Cost Containment Actions Taken by the States, FY2005.”

Medicaid Cost Containment Actions Taken by States, FY2005



**Figure 1:** Cost cutting strategies of the fifty states and the District of Columbia.<sup>3</sup>

**Definitions:**

**Provider Payments:** Provider payment rate change, which may involve a payment rate freeze or cut. Providers include physicians, inpatient hospitals, and nursing homes and managed care organizations.

**Pharmacy Controls:** Pharmacy utilization or cost control initiatives.

**Benefit Reductions:** Benefits restrictions, reductions or eliminations.

**Eligibility Cuts:** Eligibility reductions or restrictions. This may involve changes to eligibility standards, application and renewal process, or premiums.

**Co pays:** New or higher co-payments for services. In imposing co-payments, states must comply with Federal Medicaid law, which specifies that co-payments must be "nominal", generally defined as \$3.00 or less per service. The law also provides exemptions so co-payments cannot apply to certain services or certain eligibility groups such as children or pregnant women. Federal law requires that a provider must render a service regardless of co-payment.

**Managed Care Expansion:** Increase managed care enrollment, or expand primary care case management or risk based managed care into additional service areas.

**Disease/Case Management:** New or expanded disease or case management programs.

**Fraud and Abuse:** New or enhanced fraud and abuse detection or prevention activities including recipient lock-in, establishment of a new Medicaid fraud unit within the state Office of Inspector General, and greater focus on third party liability recoveries.

**LTC:** Cost containment initiatives for long term care and home and community based services programs.<sup>4</sup>

<sup>3</sup> The Kaiser Family Foundation. "Medicaid Cost Containment Actions Taken by the States, FY2005." No date specified. Statehealthfacts.org. <http://www.statehealthfacts.kff.org/cgi-bin/healthfacts.cgi?action=compare&category=Medicaid+%26+SCHIP&subcategory=Medicaid+Cost+Containment&topic=Medicaid+Cost+Containment+Actions>. Accessed March 17, 2005.

## Increasing Taxes

**Kansas:** Democratic Governor Kathleen Sebelius has recently proposed expanding “medical services for the needy.”<sup>5</sup> Instead of reducing benefits in order to balance budgets, Sebelius has suggested an increase in taxes on tobacco in order to pay for Medicaid programs. Opponents include the Republican-controlled legislature that opposes raising taxes, and those concerned with expanding benefits in a market where fees for services are already rising.

## Cutting Benefits

**Missouri:** Over the past five years, Medicaid costs in the state have risen by 52%. In response, Governor Matt Blunt (R) has proposed cutting services. These cuts would drop 89,000 out of the 1 million beneficiaries within the state, and cut benefits to nearly 400,000 more.<sup>6</sup>

**Oregon:** Over the course of the past several years, the state of Oregon has made sweeping reforms to its state Medicaid Program, the Oregon Health Plan (OHP). These changes include the creation of OHP Standard (a Medicaid program with greatly reduced benefits, higher premiums, and a greater level of cost sharing for poor parents and other adults), a significant reduction in benefits for all beneficiaries, and the cutting of Oregon’s Medically Needy Program (which provides assistance for patients suffering from serious chronic illnesses such as Chron’s and severe diabetes).<sup>7</sup>

According to the Kaiser Commission on Medicaid and the Uninsured, the cuts in Oregon resulted in many patients being unable to obtain medical care. Those hit hardest by the cuts included low-income workers and the unemployed who did not have access to employer-sponsored or private insurance programs. Furthermore, Oregon instituted a strict monthly payment plan, which many enrollees either could not afford or were unable to pay on time. If payment was late by even a single day, dis-enrollees were forced to wait six months (often without any form of medical coverage) before reapplying.<sup>8</sup>

**Utah:** Former Governor and current secretary of health and human services Mike Leavitt changed Utah’s state Medicaid program by installing a basic level of healthcare to a greater percentage of the population while simultaneously reducing coverage for some health benefits by requiring co-pay. The program also depends on the state hospitals and doctors to provide specialty services free of charge. This particular plan is “broadening the focus from the question of who does and who does not have health service, to what constitutes basic health coverage.”<sup>9</sup>

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<sup>4</sup> The Kaiser Family Foundation. “Medicaid Cost Containment Actions Taken by the States, FY2005.”

<sup>5</sup> John Hanna. “Kansas Ponders Expansion of Medicaid.” March 8, 2005. Associated Press.

<sup>6</sup> John Hanna. “Kansas Ponders Expansion of Medicaid.”

<sup>7</sup> Artiga, Samantha, LeCouteur, Gene, Perry, Michael, Rousseau, David. “The Impact of Medicaid Reductions in Oregon: Focus Group Insights.” December 2004. Kaiser Commission on Medicaid and the Uninsured. Lake, Snell, Perry, & Associates, Inc.

<http://www.kff.org/medicaid/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=50058>. Accessed March 10, 2005.

<sup>8</sup> Artiga, Samantha, et al. “The Impact of Medicaid Reductions in Oregon: Focus Group Insights.”

<sup>9</sup> Abelson, Reed, Johnson, Kirk. “Model in Utah may be Future for Medicaid.” February 24, 2005. *New York Times*.

The plan contains premiums and co-pays in order to teach the public about private policy. The program does not change nursing home care. The current plan does not cover extended hospital stays and severe illnesses.<sup>10</sup>

A study done by the Utah Health Department concluded that co-payment did not have a large effect on people's health care decisions. A small population, large hospitals, and a large amount of private charity due to the presence of the Church of Jesus Christ of Later-Day Saints aided Utah.<sup>11</sup>

## Alternative Solutions

**South Carolina:** In South Carolina, "Medicaid Modernization Act lets the state Department of Health and Human Services more closely manage care for people with chronic health conditions. The bill also requires more auditing and proof that people are eligible for benefits. For instance, Health and Human Services will have to use an electronic link with the Employment Security Commission to get earnings information on applicants and people may be required to prove they are residents or citizens to qualify."<sup>12</sup> The bill, titled the South Carolina Medicaid Modernization Act (S. 305), is "[c]urrently residing in the [state] House committee on Ways and Means"<sup>13</sup>

**Florida:** In response to the looming Medicaid crisis, Gov. Jeb Bush has proposed a general framework for what could be called the privatization of Florida's Medicaid system. Rather than directly reimbursing practitioners, the state of Florida would pay out a specified percentage of the fund to private HMOs, who in turn could establish caps for Medicaid spending much lower than allowed for the state program. Funding for additional care would be awarded to patients through a catastrophic fund maintained by a percent of Medicaid premiums. This plan is made possible by waivers granted by the federal government that allow states to deny coverage on optional treatments, including dental, optometric and podiatric related health care. Governor Bush argues that more efficiently managing Medicaid dollars and tailoring custom coverage plans for beneficiaries would allow the state to provide the most basic coverage to a greater number of those in need of care. However, others argue that the cuts in benefits would be extremely detrimental to those who need Medicaid's help the most.<sup>14</sup>

## Managed Care Plans

Managed care is a healthcare option wherein a private insurer makes a set monthly payment to a patient's primary caretaker, who is then responsible for all of the patient's medical treatment. These plans encourage patients to focus on preventive and primary care rather than only seeking

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<http://query.nytimes.com/gst/abstract.html?res=F50F16F73D590C778EDDAB0894DD404482&incamp=archive:se> arch. Accessed March 10, 2005.

<sup>10</sup> Abelson, Reed et al. "Model in Utah may be Future for Medicaid."

<sup>11</sup> Abelson, Reed et al. "Model in Utah may be Future for Medicaid."

<sup>12</sup> The Associated Press. "Senate Approves State Medicaid Changes." March 10, 2005. Myrtlebeachonline.com. <http://www.myrtlebeachonline.com/mld/myrtlebeachonline/news/local/11102677.htm>. Accessed March 10, 2005.

<sup>13</sup> South Carolina General Assembly, 116<sup>th</sup> session, 2005-2006. "S. 305: Status Information."

[http://www.scstatehouse.net/sess116\\_2005-2006/bills/305.htm](http://www.scstatehouse.net/sess116_2005-2006/bills/305.htm). Accessed March 15, 2005.

<sup>14</sup> Ulferts, Alisa. "Medicaid in Crisis." February 27, 2005. *St. Petersburg Times Online*.

[http://www.sptimes.com/2005/02/27/Perspective/Medicaid\\_in\\_crisis.shtml](http://www.sptimes.com/2005/02/27/Perspective/Medicaid_in_crisis.shtml). Accessed March 15, 2005.

medical attention when necessary. Managed care plans have been found to improve patient access to services, overall patient well being, and be more cost efficient than typical fee-per-service Medicaid programs.<sup>15</sup>

According to America's Health Insurance Providers (AHIP), an organization that advocates on behalf of 1,300 health insurance providers around the country, through outreach and health education programs, managed care programs result in far fewer emergency room visits by Medicaid beneficiaries. Programs may be found in states across the country. One of the best examples is found in Philadelphia, Pennsylvania, where Keystone Mercy Health Plan offers the Healthy Hoops Asthma Management Program. While the program is still in its infancy, they have had positive results. After identifying three zip codes with above average rates of Asthma in West Philadelphia, Healthy Hoops mailed enrollment forms and brochures to families in the area. The program consisted of several program events, during which the focus was Asthma disease management. Families were offered the opportunity to participate in a free full-day basketball camp in exchange for having a health screening and going to all program events where they were educated on proper medication use and other aspects of asthma management. Families were barred from participating in the basketball camp if they did not attend events and have a screening. Among participating children, emergency room visit rates fell from 40% to 6%.<sup>16</sup>

### **Possible Changes at the National Level**

In February of this year, the National Governors Association (NGA) met to discuss the issue of Medicaid on a national level. The discussion centered on five guiding principles to help fix the flaws within the Medicaid system. These principles are: (1) modernizing Medicaid; (2) promoting personal responsibility; (3) embracing market solutions; (4) creating alternatives for long term care and sustainability; and (5) affordability.<sup>17</sup>

The general conclusion of the meeting was that the Medicaid system was designed for a much different healthcare model than what currently exists in the United States. Modernization would include delivering states waivers for optional benefits such as family planning, in order to give states greater flexibility with their Medicaid budgets. Options such as having beneficiaries provide co-pays for services would add a greater element of personal responsibility. The NGA also recommended turning to the private sector to assist in areas such as quality service and improvement, benefit design, and "efficiency in care management."<sup>18</sup>

Possible cost cutting strategies could also include enforcing laws that require pharmaceutical companies to offer states discounted prices through the use of rebates. Currently, federal health

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<sup>15</sup> University of Michigan Health Services. "What is Managed Care?" 2005. Regents of the University of Michigan. <http://www.med.umich.edu/1libr/primry/whatis02.htm>. Accessed March 10, 2005

<sup>16</sup> America's Health Insurance Plans. "Innovations in Medicaid Managed Care." March 2005. <http://www.ahip.org/content/default.aspx?docid=8414>. Accessed March 10, 2005.

<sup>17</sup> Moody, Greg. Smith, Vernon. "Medicaid in 2005: Principals and Proposals for Reform." February 2005. National Association of Governors. <http://www.nga.org/cda/files/0502MEDICAID.pdf>. Accessed March 10, 2005.

<sup>18</sup> Moody, Greg. Smith, Vernon. "Medicaid in 2005: Principals and Proposals for Reform."

officials are not enforcing these laws, but instead allow “drug companies to use any reasonable assumptions they want in computing discounts.”<sup>19</sup>

### **Senate Medicaid Budget proposals**

On March 17<sup>th</sup>, 2005 the Senate voted to restore 14 billion dollars of the Medicaid cuts proposed by President Bush over the next five years. This decision comes as the House debates cuts of up to 20 billion dollars in Medicaid. Various Senators commented on mounting pressure from their home states and governors to vote against a Medicaid cut. “Senator DeWine called the approach ‘very logical’ and said the Medicaid cuts would be devastating for his state of Ohio.”<sup>20</sup>

Due to discrepancies between the United States House of Representatives and the Senate a conference committee will review the Medicaid proposals.

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Compiled at the request of Representative Mark Larson by James Pasch, Jaye Samuels, and Jennifer Duffy under the Supervision of Professor Anthony Gierzynski on April 5, 2005.

#### **Disclaimer**

This report has been prepared by undergraduate students at the University of Vermont under the supervision of Professor Anthony Gierzynski. The material contained in the reports does not reflect official policy of the University of Vermont.

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<sup>19</sup> Moody, Greg. Smith, Vernon. “Medicaid in 2005: Principals and Proposals for Reform.”

<sup>20</sup> Stout, David. “Senate Votes to Restore \$14 Billion in Medicaid Cuts.” March 17, 2005. *New York Times*. <http://www.nytimes.com/2005/03/17/politics/17cnd-budget.html?hp&ex=1111122000&en=5dbca593f974150b&ei=5094&partner=homepage>. Accessed March 17, 2005.