# US state Medicaid funding already squeezed in advance of federal cuts

John Marion
4 November 2011

As the economic crisis continues to crush US state revenues and drive up Medicaid enrollment, funding for the health care program for the poor is being further undermined by the drying up of federal stimulus funds, according to a report issued last week by the Kaiser Family Foundation.

Kaiser's yearly 50-state Medicaid budget survey describes the effects of the ongoing economic crisis on Medicaid spending and analyzes coverage and policy trends in US states for fiscal years 2011 and 2012.

While deep, the cuts documented in the survey pale in comparison to the cuts likely to be proposed by the federal deficit "supercommittee" at the end of this month. (See "Washington austerity drive targets Medicare, Social Security") Whatever the specific outcome of that process, it is bound to slash benefits for millions of children, unemployed, and disabled workers.

Along with recent reports from the Massachusetts Medicaid Policy Institute (MMPI), the Kaiser survey gives the lie to claims that the high cost of treatment is at the root of the crisis. In part because of cost-cutting measures like higher patient co-pays and artificially low provider reimbursement rates, average per capita Medicaid spending often increases by only 1-2 percent per year. In Massachusetts, the rate of increase is lower than that of private insurers.

Instead, recent Medicaid cost increases have been driven by enrollment increases due to high unemployment. Nationwide, meanwhile, Medicaid enrollment increased by 5.5 percent in federal fiscal year 2011, while total Medicaid spending increased by 7.3 percent.

Medicaid is funded jointly by the federal government and the states, with federal matching funds determined according to a formula stipulated in the Social Security Act. Under this formula, the Federal Matching Percentage (FMAP) is inversely proportional to each state's average personal income, with the highest federal matching percentages going to the states with the lowest average income. According to the Kaiser report, the range of federal matching in fiscal year 2012 starts at 50 percent and rises to about 74 percent for the poorest states.

The American Recovery and Reinvestment Act (ARRA) provided supplemental federal funding for Medicaid, among other programs. According to Kaiser, these extra federal funds "brought about the only declines in state spending on Medicaid in the program's history," but because the ARRA money ran out in June 2011, state Medicaid spending is projected to increase by 28.7 percent nationwide in the next year.

The Kaiser Survey found that more than 30 states used some of the savings due to stimulus funding in fiscal years 2010 and 2011 to close deficits in their general funds. However, more than 40 states used all or some of the money to reduce Medicaid budget shortfalls.

The Kaiser Issue Brief on Medicaid and ARRA notes that "when the increased ARRA FMAP funds expired on July 1, 2011, every state but North Dakota had a higher unemployment rate than when the relief started, and 22 states and the District of Columbia had unemployment rates two percentage points higher." Ten states plus DC had unemployment rates over 10 percent when the ARRA funding ran out.

Kaiser goes on to estimate that Medicaid and CHIP (Children's Health Insurance Program) enrollment increases by 1 million people for every 1 percent increase in national unemployment, while this "same 1 percentage point increase in the unemployment rate results in a 3 to 4 percent decline in state revenues."

The crisis in state budgets has been building since the beginning of the economic recession. The Kaiser brief on state budgets and the recession states that "it is worth keeping in mind relative magnitudes here—total state revenues, including investment income as well as taxes, dropped by 30 percent ($495.4 billion across all states) in state fiscal year 2009 compared to total Medicaid spending increases of about 7.6 percent in that year ($25.5 billion across all states).”

While millions of unemployed workers turned to Medicaid for a basic social need, state governments continued to balance their budgets on the backs of the working class. In fiscal year 2009, only 2.7 percent of state revenues came from taxes on corporations, while 16.4 percent came from individual income taxes and 22.9 percent from regressive sales taxes.

At the same time, Kaiser notes that 72 percent of states’ general expenditures are for education, public welfare (including Medicaid), health, and hospitals (roads and other capital expenditures usually come from separate budgets). Therefore, these essential needs are being cut in state budgets while the federal government continues to spend on predatory wars abroad.

The Center on Budget and Policy Priorities has reported that spending on K-12 education has been cut in 34 states and Washington DC since 2008, while 43 states have slashed spending on colleges and universities. Health care has been cut in 31 states, employee compensation in 44 states plus DC, and services to the elderly and disabled in 29 states and DC.

The yearly Kaiser survey ends with case studies of three states: Minnesota, New York and Tennessee. In addition, an October 2011 report from the Massachusetts Medicaid Policy Institute (MMPI) rounds out the picture by examining Medicaid spending in a state that has already implemented a mandatory health insurance law.

In Minnesota, budget cuts following this July’s government shutdown will mean 10 percent cuts in rates paid to Managed Care Organizations and 1.5 percent in rates for long-term care providers. In a particularly heartless provision, hospitals will be able to mitigate the 10 percent cut in reimbursement rates for inpatient care by cutting emergency room admissions. These cuts come on top of fiscal year 2011 reimbursement rate reductions for hospitals, specialty physicians and dentists. At the same time, the state legislature has refused to raise taxes on the wealthy.

In New York, the fiscal year 2012 budget includes no new taxes, but caps overall Medicaid spending and gives the commissioner of the Department of Health the undemocratic authority to cut spending if it exceeds the cap. In passing the budget, the state legislature rushed through “a majority of the recommendations” of the Medicaid Redesign Team, which was appointed less than three months before its recommendations were finalized. Chief among them is a mandatory transition from fee-for-service payments to “managed care,” under which insurers typically pay a set amount per year per person, regardless of the amount of care needed.

About Tennessee, Kaiser reports that “despite optimistic revenue projections, in August the Tennessee Finance Commissioner directed all State agency heads to draw up plans to include both a 15 percent and 30 percent cut that might be necessary due to federal deficit reduction activities.” In Medicaid funding, cuts will be made to reimbursement rates for dentists, nursing homes, physicians delivering babies, and providers of lab, x-ray and ambulance services.

In addition to federal funding cuts, the dictates of predatory bond investors are driving the cuts in Tennessee. Kaiser notes that “these proposals are the State’s effort to demonstrate to credit rating agencies that it will be able to absorb any federal cuts that may be forthcoming.”

In Massachusetts, where enrollees in MassHealth, the state’s Medicaid program, include 72 percent of children below the federal poverty level, 63 percent of nursing home residents, and 19 percent of all non-elderly adults, total enrollment increased by 5.3 percent in fiscal years 2008 and 2010, and 3.8 percent in 2009. According to the MMPI, 72 percent of these additional enrollees have been driven into the program by the economic crisis, and not by the state’s mandatory health insurance law.

Like other states, Massachusetts is forcing its Medicaid recipients into managed care organizations (MCOs), which limit the payments to providers and also limit the providers available to each patient. While the wealthy can afford top-shelf insurance and treatment at some of the world’s best hospitals, unemployed workers are forced into a payment system bureaucratically known as “capitation.”