

## Medicaid Reform What is the Right Prescription for Florida?

Medicaid is a joint federal-state program that provides health care coverage for 2.1 million Floridians. In FY 2004, the Medicaid budget exceeded \$11 billion. Concerned with program growth, policymakers plan to seek a federal waiver that would give the state more flexibility in implementation in exchange for limits on future federal funding.

### Summary Statements:

Evaluation of Medicaid's current program funding, coverage and services—and the potential impact of reform efforts on pregnant women and children—led the Florida Association of Healthy Start Coalitions to adopt these principles:

1. "Baby Steps" should be taken in Florida's Medicaid reform process. A thoughtful, systematic review process is necessary. Comprehensive consideration of the issues, careful planning and broad citizen and provider input are critical to the development of sound solutions. To this end, the Association supports the establishment of a statewide Medicaid Reform Commission, to craft a comprehensive package of program reforms.
2. Targeted cost containment strategies will be more effective than across-the-board cuts or caps on eligibility, provider fees or services.
3. Medicaid reforms should maximize dollars available for health care. Third party administrative costs reduce enrollee benefits and provider payments.
4. Medicaid reforms should balance cuts with increased investment in primary and preventive health care for Florida's most vulnerable families. Preventive and primary health care is less expensive and reduces the need for costly chronic, acute and long-term care services. Increased support for preventive and primary care, particularly for those who do not currently have access to this care, represents Florida's most significant opportunity for controlling Medicaid costs in the future.

### Overview

Medicaid is a joint federal-state program that provides funding for vulnerable populations, including pregnant women, children, the disabled and low-income elderly. Florida's Medicaid program currently covers more than 2.1 million residents. Children make up more than half of the Medicaid enrollees. The program pays for nearly half of all births in the state by providing expanded benefits to uninsured pregnant women. Florida also provides optional benefits that expand coverage for family planning services and Healthy Start case management services. Medicaid program costs exceeded \$11 billion in FY 2004, including \$6.7 billion in federal funding and \$4.6 billion in state funding. It is the single largest source of federal funds coming into the state.

Concerned with the growth in the state's share of Medicaid costs, the state plans to seek a federal waiver that would provide the state with more flexibility in program design and funding. In return, federal support to the state would be capped based on anticipated expenditures and savings.

Proponents of reform cite the following as rationale for a massive overhaul:

- The Medicaid program has not changed significantly since its inception in 1965, despite enormous changes in health care.
- The current program is too costly and consumes too much of the state's budget.
- The current program does not allow sufficient flexibility to meet the needs of those it was designed to serve.

This paper explores issues related to Florida's Medicaid reform efforts and proposes cost-control principles that balance fiscal concerns with the health care needs of the state's neediest residents.

### **Medicaid Expenditures and Cost-Effectiveness**

While Medicaid represents a large proportion of the state budget, Florida spends significantly less per person than the national average (\$4,679 vs. \$5,985 in 2002). In fact, the state ranks 41<sup>st</sup> among states in per enrollees spending. Additionally, Medicaid costs have increased at a slower pace than private insurance costs over the past few years.<sup>1</sup>

The United States is struggling with health care costs. The problem is not limited to the poor. In fact, health care in the source of financial crises for middle class Americans, contributing to half of all personal bankruptcies in 1999.<sup>2</sup>

Proponents of massive overhauls of Florida's Medicaid program claim expenditures are "too costly." In fact, Florida's system is quite cost effective, even when compared to private insurance products. Medicaid recipients tend to be older and sicker than those enrolled in private health care insurance programs. One would expect the costs to be higher under these circumstances. However, when adjusted for increases in enrollment, Medicaid costs on a per capita basis have risen at a slower rate than private insurance products in Florida. *In 2003, private insurance cost nationally increased by just under 14 percent, while Florida's Medicaid per capita cost increase was just under five percent.*<sup>3</sup> Children covered under Medicaid are significantly less costly than those covered in the private sector even when children with disabilities are included.<sup>4</sup> The track record of private insurers and managed care organizations in containing costs should be considered before involving them in Medicaid reform efforts. Administrative costs incurred by these organizations further reduce Medicaid dollars available to meet the health care needs of enrollees.

The Medicaid program provides an important and cost-effective source of funding care for uninsured Floridians. Nearly 1 in 5 residents under age 65 is uninsured. Medicaid covers about 14% of all Floridians. The state provides this coverage with significant assistance from the federal government. For every state dollar spent on the Medicaid program, Florida receives \$1.44 in federal funding.

Cuts in state funding will reduce the availability of federal support for the program. Reductions in state Medicaid expenditures, however, will not reduce health care costs. Since the need for care remains, the **full cost** of care will be shifted to local government, hospitals, doctors and the privately-insured.<sup>5,6,7</sup> For many covered groups, including uninsured pregnant women, benefit cuts are likely to reduce access to prenatal care and other services, resulting in increased state costs as their risks for poor birth outcomes increase. An increase in low or very low birthweight babies will result in an increased population *dependent on Medicaid* for lifelong medical care and related services.<sup>8</sup>

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<sup>1</sup> Florida's Medicaid Budget: Why are Costs Going Up? Policy Brief, July 2004. Winter Park Health Foundation.

<sup>2</sup> Reframing the National Health Care Discussion. Position Paper, Brian Klepper and Jeannette Corbett

<sup>3</sup> Hadley, J, Holahan K. "Is Health Care Spending Higher under Medicaid or Private Insurance?" Inquiry Winter 2003-2004 (40); 323:342 as quoted in Florida's Medicaid Budget: Why are Costs Going Up? Policy Brief, Winter Park Health Foundation, July 2004.

<sup>4</sup> Florida's Medicaid Budget: Why are Costs Going Up? Policy Brief, Winter Park Health Foundation, July 2004.

<sup>5</sup> Ellen O'Brien and Cindy Mann. Maintaining the Gains: The Importance of Preserving Coverage in Medicaid and SCHIP. Georgetown University. June 2003.

<sup>6</sup> Joan Alker and Lisa Portelli. What Could A Waiver to Restructure Medicaid Mean for Florida? Winter Park Health Foundation, April 2004.

<sup>7</sup> Joan Alker, Georgetown University Health Policy Institute. Presentation at Medicaid Reform Symposium: The Future of Florida Medicaid, July 12, 2004, Orlando.

<sup>8</sup> Cut Costs--Not Prenatal Care. The Lawton & Rhea Chiles Center for Healthy Mothers & Babies, 2004.

### **Medicaid Coverage and Impact on Costs**

While children constitute the largest group of Medicaid eligibles, they account for the smallest proportion (<30%) of costs. Expenditures associated with pregnancy are less than 5% of the Medicaid budget.<sup>9</sup> Nearly three-quarters (70%) of program costs are attributable to services for the elderly and people with disabilities.<sup>10</sup> Similarly, the bulk of Medicaid expenditures are for acute, chronic and long-term—rather than primary and preventive—services. Prescription drugs, nursing home care and inpatient hospital services account for more than 45% of all program costs.<sup>11</sup>

When it was enacted in 1965, Medicaid was primarily intended to serve women and children, creating a safety net for poor and vulnerable families. Shifts in demographics, changes in the health care system and increases in health care costs, however, produced pressure on states to use the program to address gaps in coverage, particularly for the elderly covered by Medicare. This situation has a particular impact in Florida where the number of seniors, who currently make up 17% of the population, is significant and growing.

Increases in Medicaid enrollment and utilization are cyclical. History shows that when Florida's economy and tax revenues slow, more people qualify for coverage.<sup>12</sup> Additionally, recently enacted federal reforms, including new prescription drug coverage under Medicare, are likely to have a favorable impact on the costliest component of the state program.

Under Medicaid guidelines, states are required to cover certain groups and may choose to cover additional groups. The same is true of services. About 41% of the Florida Medicaid budget is spent on mandatory categories, while 59% is spent on optional groups and services.<sup>13</sup> Among the services and groups considered optional are prescription drugs and expanded coverage for pregnant women and uninsured children. Florida chose to meet the need for these services through Medicaid due in large part to the federal match associated with the program.

Under any federal waiver, the state will be prohibited from reducing coverage for mandatory groups. Instead, cuts will focus on program administration, optional categories, services, or provider reimbursement.

### **Reforming Medicaid: Unanticipated Consequences**

Changes to Medicaid can produce significant unintended impacts. For example, changes to eligibility for pregnant women may result in high health care costs for their newborn infants born too soon or with adverse conditions due to inadequate pre-natal care of the mother. Incorrect estimates of expenditures can lead to deficits. Should projected expenditure estimates made by the state in negotiating a federal waiver be incorrect, even by a single percentage point, Florida would be responsible for any additional costs above the agreed-upon cap.<sup>14</sup>

In fact, a process already exists in which changes to Medicaid are made that accomplish the goals of customizing the program for patient needs, improving cost effectiveness, reducing bureaucracy and promoting innovations. Florida has utilized this process to create 13 “waiver” programs. Medicaid waivers allow the State to propose needed program changes through the federal Center for Medicaid and Medicare Services (CMMS).

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<sup>9</sup> Ibid.

<sup>10</sup> A Snapshot of Florida Medicaid. Florida Agency for Healthcare Administration, November 30, 2004.

<sup>11</sup> Ibid.

<sup>12</sup> Joan Alker and Lisa Portelli. *Florida's Medicaid Program: Why Costs are Going Up*. Winter Park Health Foundation, July 2004.

<sup>13</sup> Florida Medicaid: A Case for Modernization. Florida Agency for Health Care Administration, Presentation by Thomas Arnold, Deputy Director for Medicaid, November 4, 2004.

<sup>14</sup> Joan Alker. Presentation “Florida's Medicaid Program: What Could a Waiver Mean?” August 11, 2004.

Thoughtful, incremental changes to the system have been made to Medicaid, although constant improvement is always needed.

### **The Reform Process**

Floridians have expressed their concern over broad, sweeping changes to the Health Care system including Medicaid. A recent survey by Mason-Dixon Polling & Research found:

- When compared with other responsibilities, including education, environment, law enforcement and economic development, more Floridians indicated health care was the most important function of Florida state government. 63% of Florida voters named health care as one of the top three most important functions of state government—28% said it was “the most important function.”
- When asked specifically about Medicaid, 82% of Florida voters feel it is important for Florida state government to provide health care coverage to uninsured children and uninsured low-income working adults, with 58% feeling it is “very important.”
- When advised that Florida’s Medicaid program accounts for one quarter of the state budget and knowing that will increase due to population growth among those who qualify, 73% of Florida voters still feel that the state of Florida has a “responsibility to assist in providing health coverage for uninsured children and uninsured working low-income families.”
- Only 33% of Florida voters are aware that Florida is considering changes to its Medicaid program.<sup>15</sup>

Members of Congress have also been critical of attempts to use the Waiver process to make fundamental changes to the financing of Medicaid that circumvent the basic tenets of the program.

Changes to Medicaid must not be reckless or effected without broad public input. They must not endanger the health of patients and must not place the citizens of Florida at risk of absorbing higher health care costs through shifting care to other parts of the health care system. Reforms to the Medicaid program, which provides the only source of health care for 1 in 5 Floridians under age 65 should be the result of an open and inclusive public policy discussion.

### **Proposed Principles for Reforming Medicaid**

Based on these considerations, the Florida Association of Healthy Start Coalitions supports the following principles for Medicaid reform:

1. “Baby Steps” should be taken in Florida’s Medicaid reform process. A thoughtful, systematic review process is necessary. Comprehensive consideration of the issues, careful planning and broad citizen and provider input are critical to the development of sound solutions. To this end, the Association supports the establishment of a statewide Medicaid Reform Commission, appointed by the Legislature, to craft a comprehensive package of program reforms.
2. Medicaid reforms should focus on the costliest users and services. Targeted cost containment strategies will be more effective than across-the-board cuts or caps on eligibility, provider fees or services.
3. Medicaid reforms should maximize dollars available for health care. Third party administrative costs reduce enrollee benefits and provider payments.
4. Medicaid reforms should balance cuts with increased investment in primary and preventive health care for Florida’s most vulnerable families. Preventive and primary health care is less expensive and reduces the need for costly chronic, acute and long-term care services. Increased support for preventive and primary care, particularly for those who do not currently have access to this care, represents Florida’s most significant opportunity for controlling Medicaid costs in the future.

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<sup>15</sup> Florida Health/Medicaid Survey. Mason-Dixon Polling & Research, Inc. December, 2004.