

2005 Budget Summit

February 11, 2005



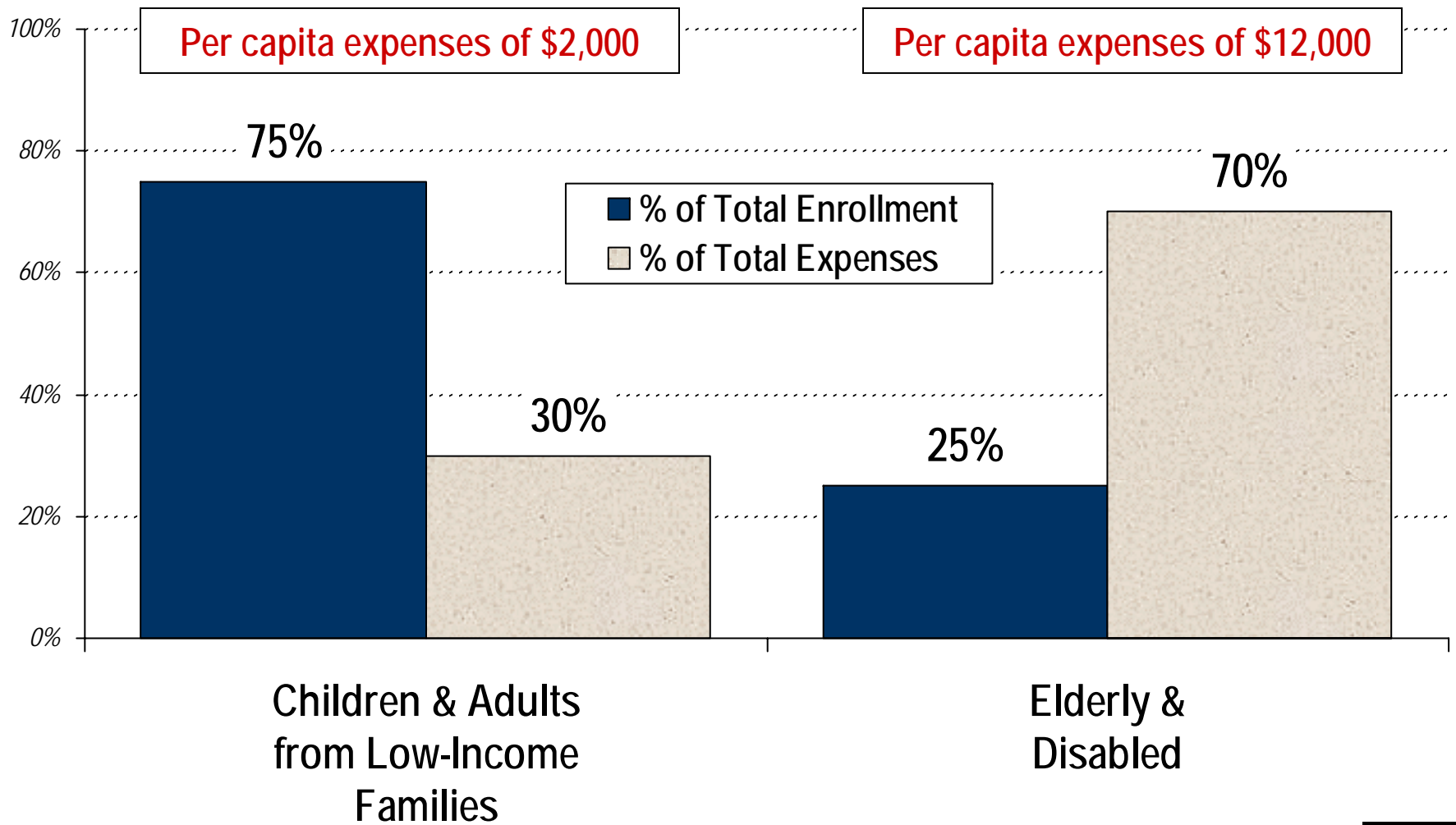
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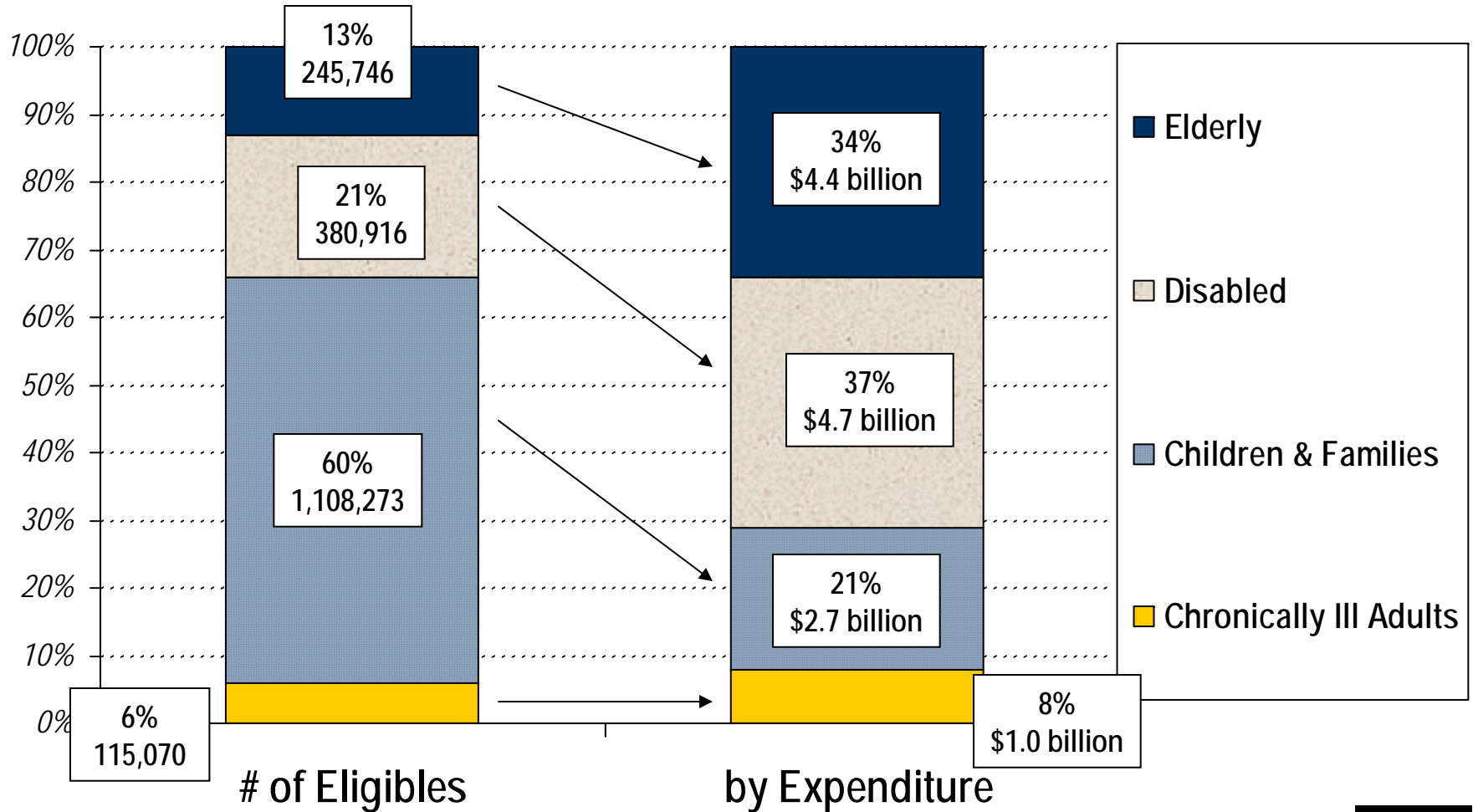
Medicaid Enrollment & Expenditures Nationwide



Source: Kaiser Commission on Medicaid & The Uninsured

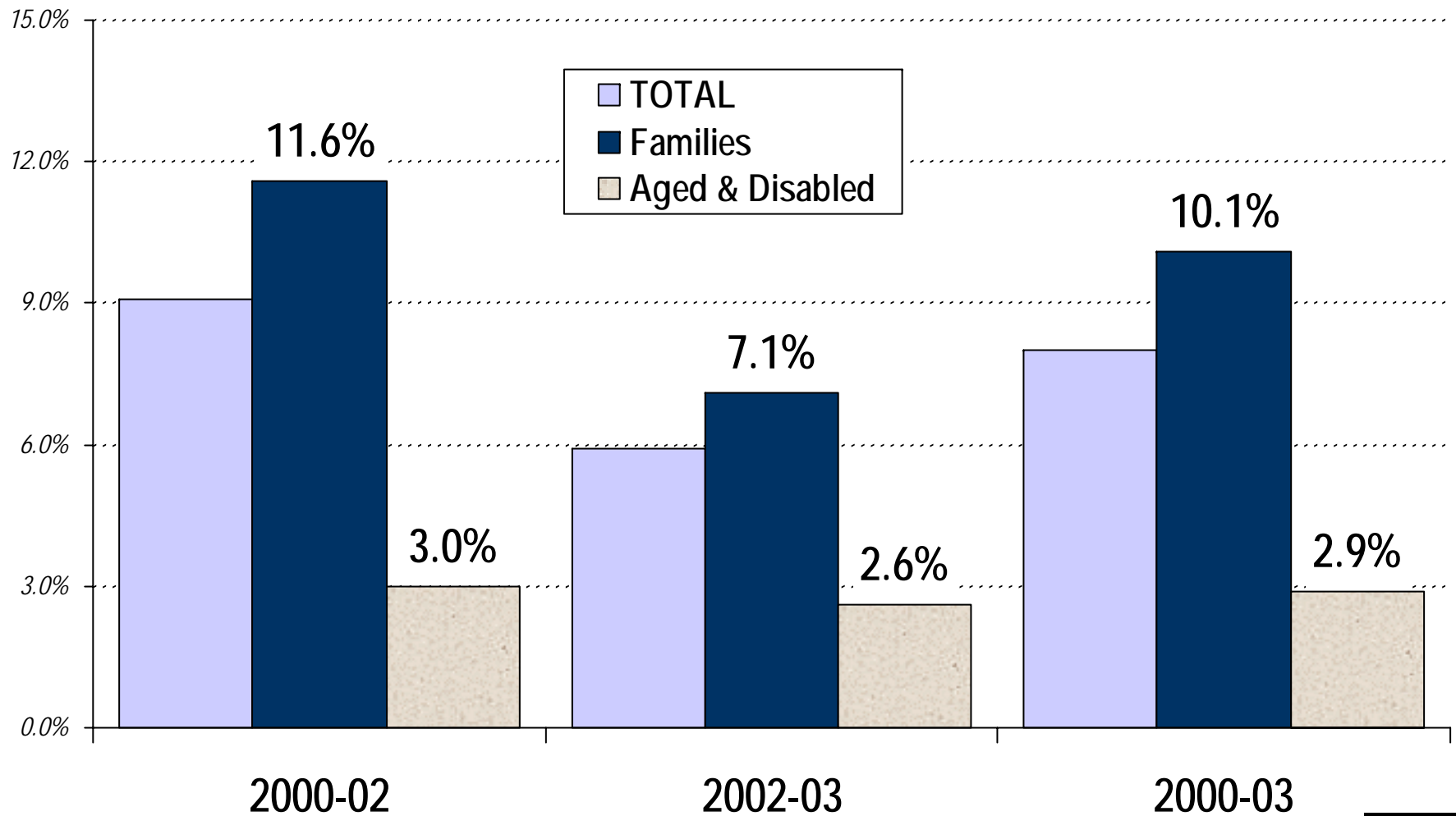


Elderly & disabled use the greatest share of Medicaid resources in Pennsylvania



U.S. Medicaid Enrollment

Average Annual Growth Rate

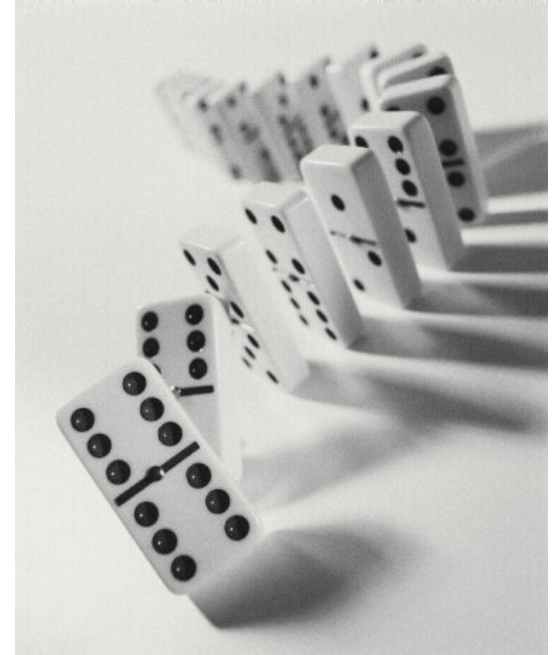


Source: Health Affairs, *Understanding the Growth in Recent Medicaid Spending, 2000-2003*, 1-26-05



Medicaid Spending Growth – Cause & Effect

- Medicaid spending growth placed heavy burdens on state budgets and has contributed to the federal budget deficit.
- Early indications are that the President and the 109th Congress will seriously consider reining in Medicaid spending growth. It is important to recognize that tight caps on Medicaid spending growth would not have allowed the enrollment increases from 2000 to 2003.
- Without these enrollment increases in Medicaid, the number of uninsured Americans would have grown much more than it did, and **there would have been strong pressure on local hospitals and clinics to increase the amount of free care provided.**
- **Cities, counties, and states would have had to finance this care with no federal matching payments.**

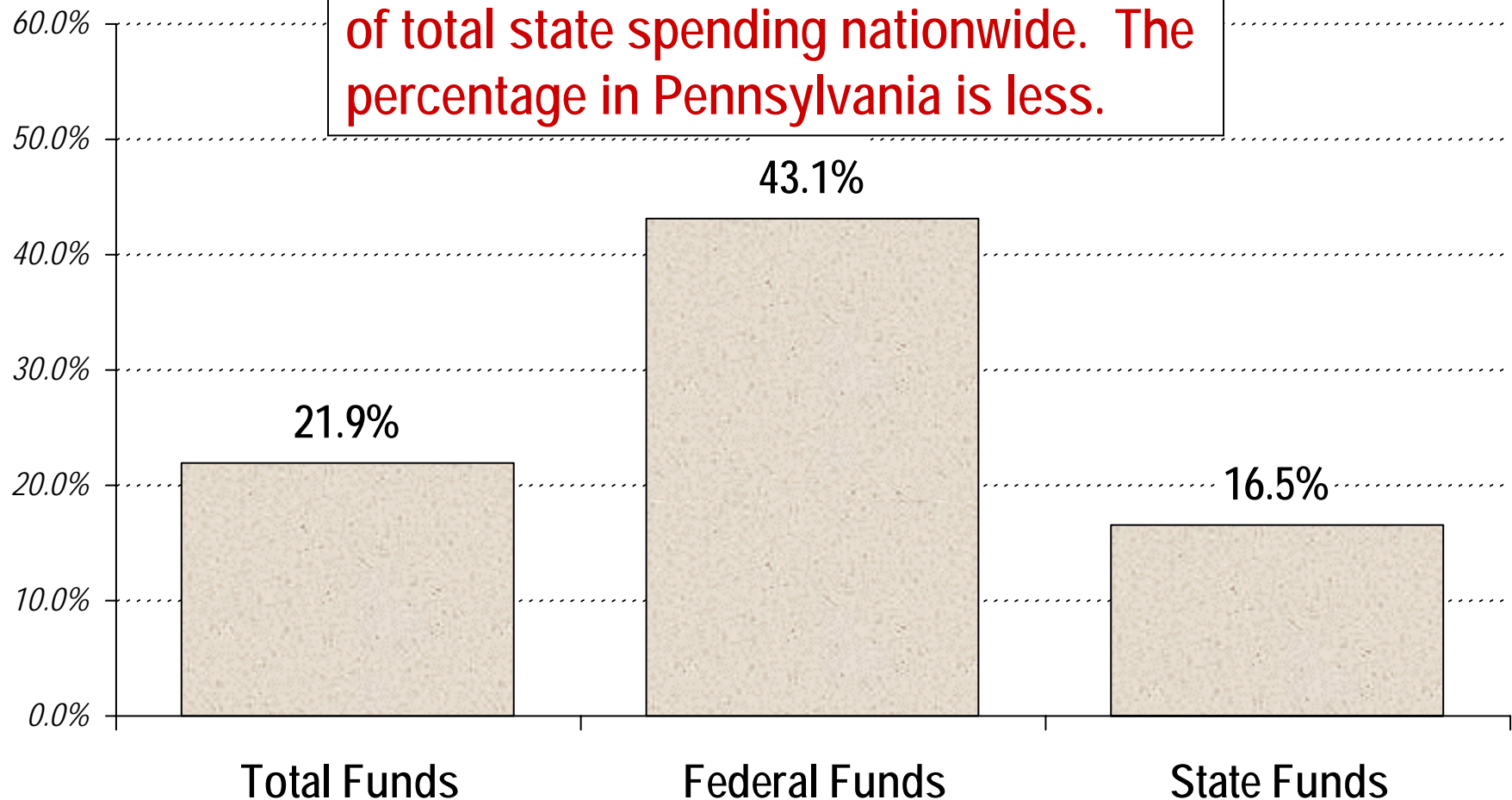


Medicaid Cost Containment Actions

- States are faced with the same cost pressures that affect private insurance, such as double-digit increases in prescription drug costs and expanding medical services. Enrollment increases also have played a major role in the rise of Medicaid spending
- By undertaking a variety of cost containment actions, states have maintained a growth rate below private insurance levels. Over the past three years the number of states that have implemented policies to control Medicaid costs between fiscal years 2002 and 2004 are as follows:
 - ✓ 50 states reduced or froze provider payments;
 - ✓ 50 states implemented policies to control prescription drug costs, such as prior authorization and preferred drug lists;
 - ✓ 34 states reduced or restricted eligibility;
 - ✓ 35 states reduced benefits; and
 - ✓ 32 states increased co-payments.

Medicaid & State Budgets

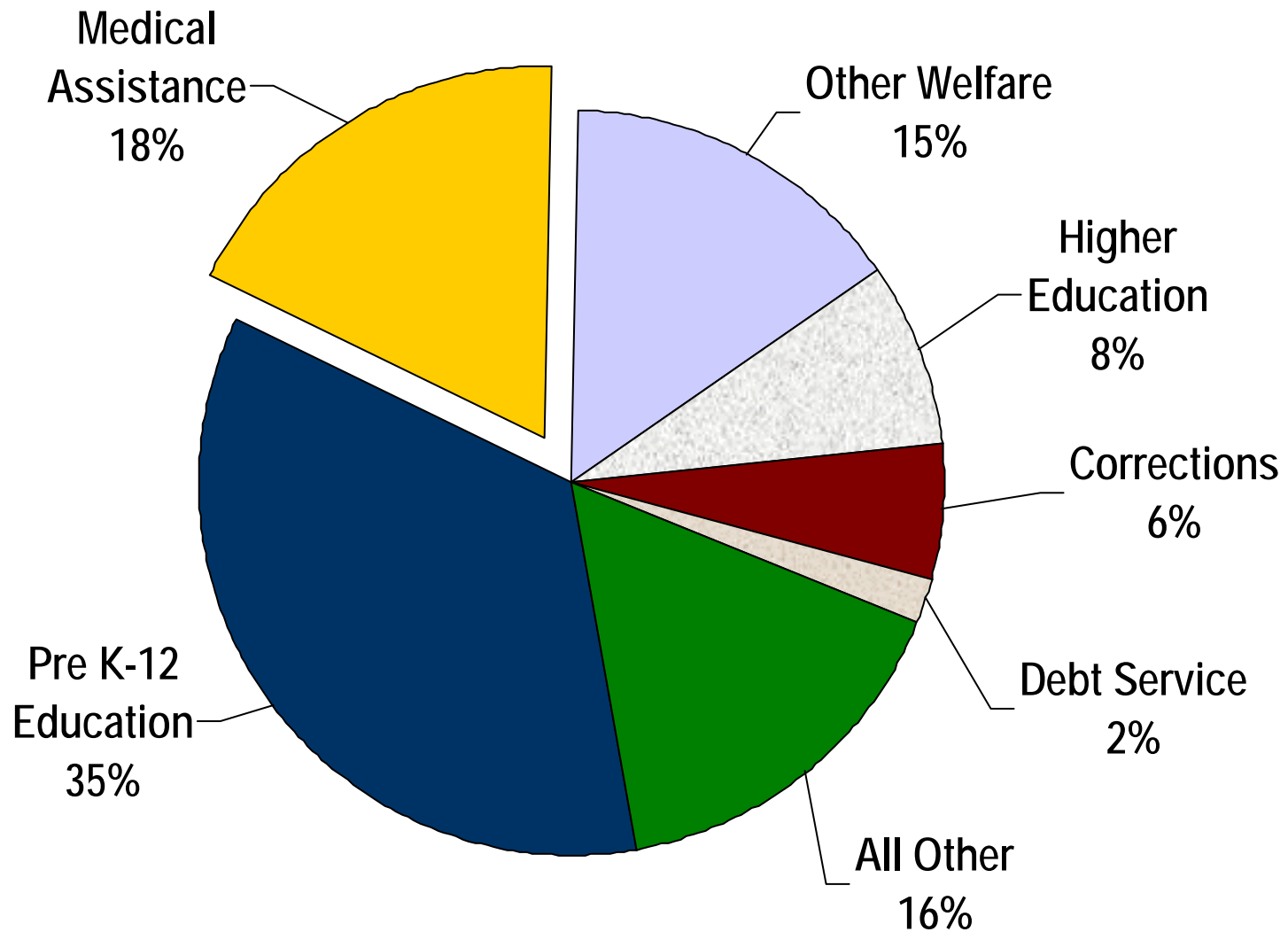
In FY 2003, Medicaid accounted for 21% of total state spending nationwide. The percentage in Pennsylvania is less.



Source: National Association of State Budget Officers, 2003 State Expenditure Report, October 2004

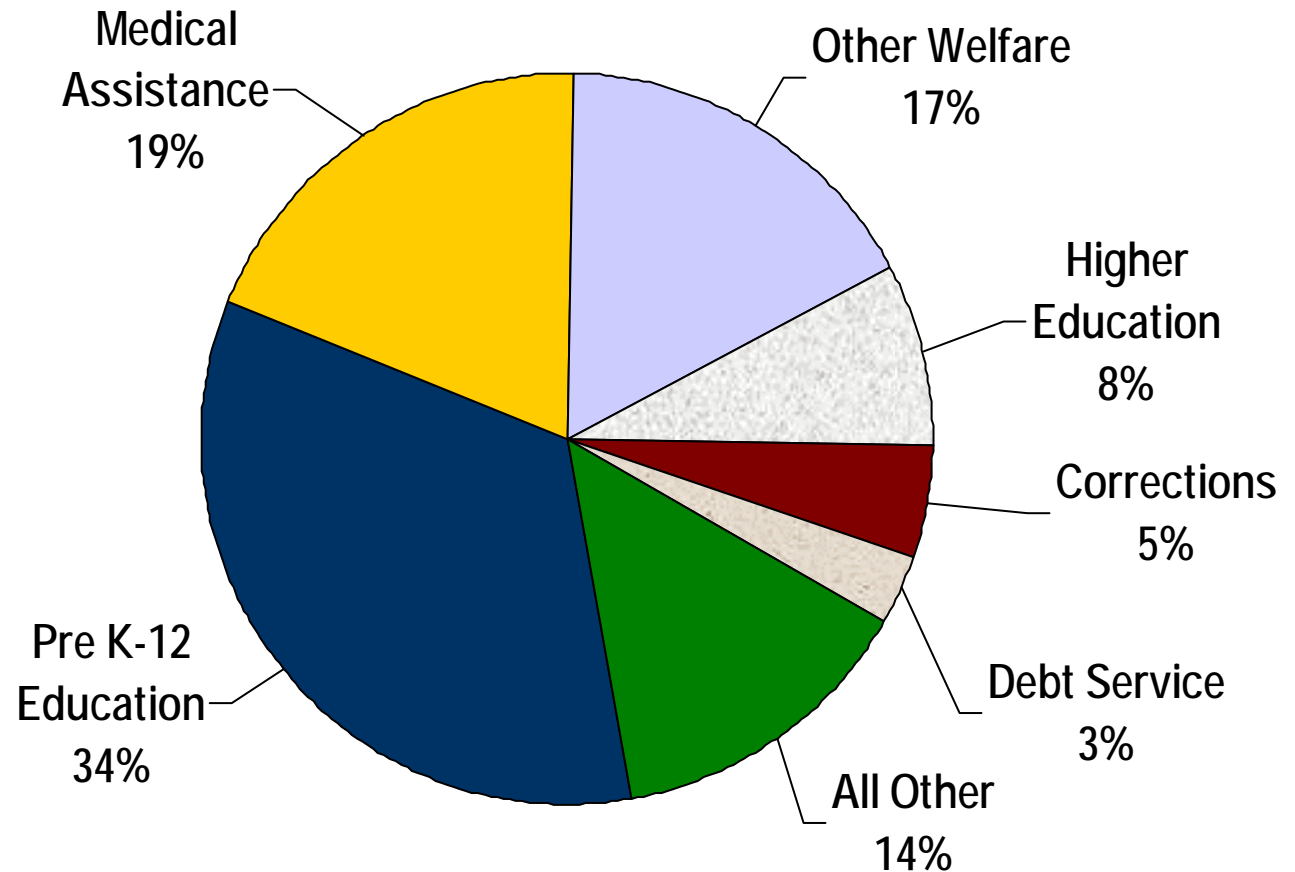


2005 Pennsylvania General Fund Expenditures



2005-06 Pennsylvania General Fund Expenditures

The proposed General Fund budget increases State spending by \$815 million, or 3.5%. Part of this increase replaces \$378 million in non-recurring Federal Fiscal Relief. The net increase of \$437 million is 1.9%. Removing increases for education, welfare, and debt service, the budget proposes a 6.6% net decrease in funding for all other Commonwealth agencies and programs.



Impact on Patients

- Barriers to accessing care
- Lack of continuity
- Increased use of emergency rooms



Bottom Line: Benefit redesign is not like working individuals benefits and does improve decision-making – its rationing care

\$91 million in state savings

Impact on Hospitals

- Cuts affect those hospitals who serve the most MA patients
- Increases bad debts and uncompensated care
- Punishes efficient providers
- Limits ability for hospital reinvestment in health technology, workforce, patient safety



Impact on Hospitals – Financial

- Direct cuts - \$53.2 million in state savings - with federal match more than \$100 million in direct cuts
- Cost of benefit redesign – increased bad debt and uncompensated care
- Cuts in payments to hospitals by managed care plans



Impact on Other Providers (*State Savings*)

- Drug policy changes - \$86.1 million
- Cuts in managed care rates - \$57.7 million
- Long-term care - \$62.8 million through nursing home avoidance



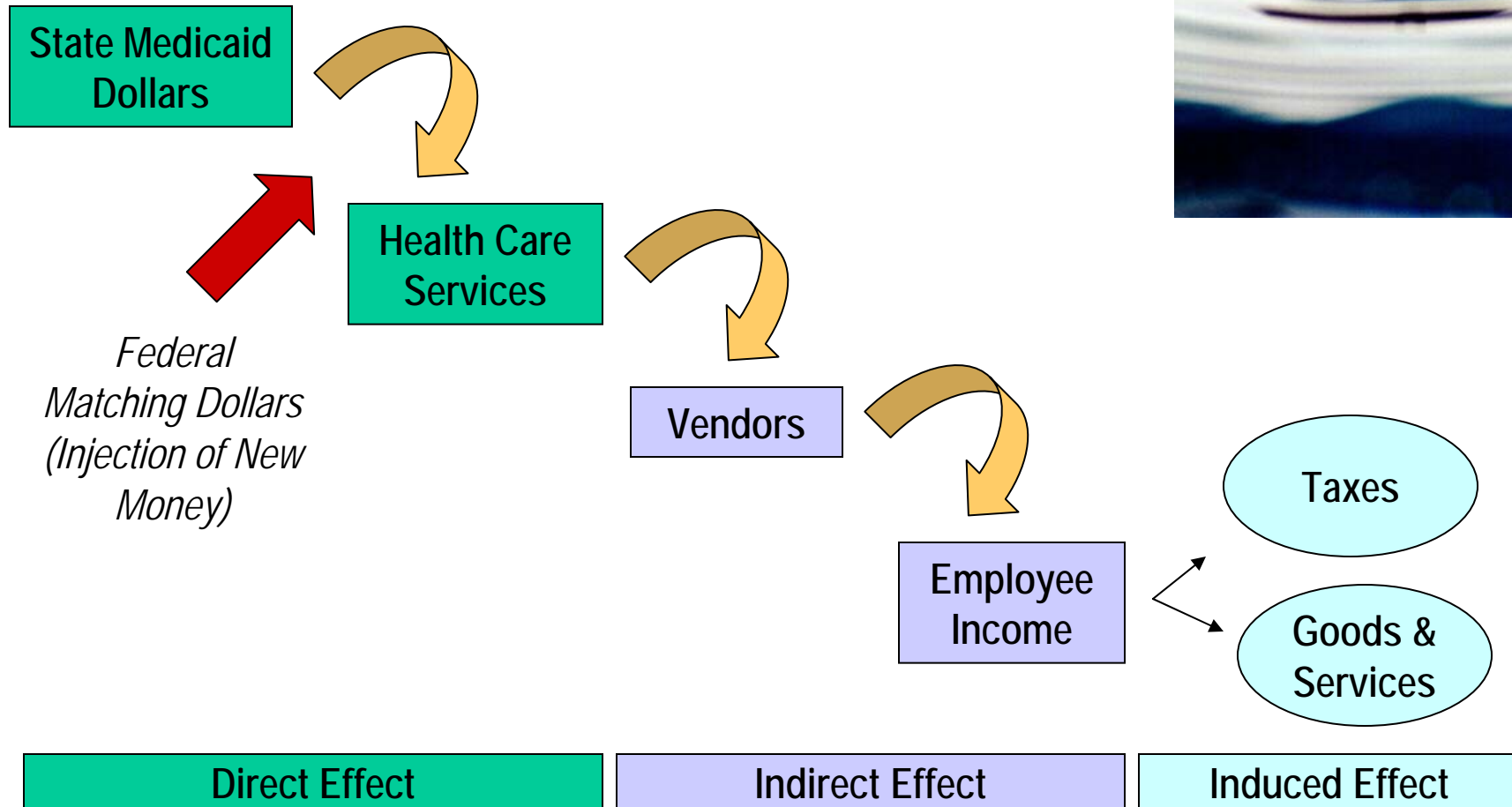
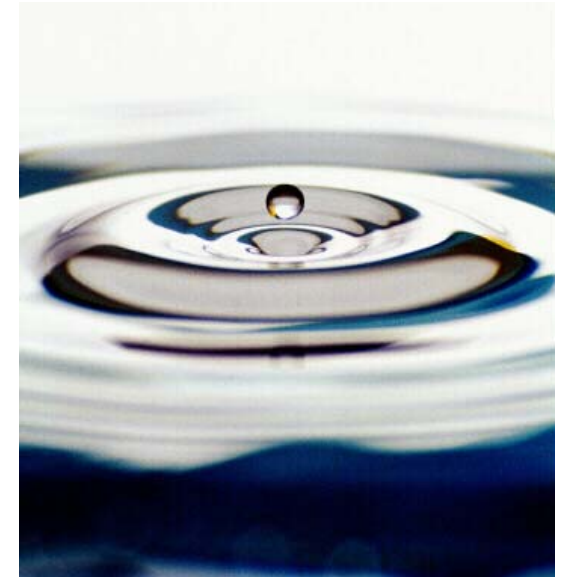
State Economic Realities

- The economy is improving and has coincided with modest improvement in state fiscal outlook; however, recent economic and state revenue growth is not enough to pull states out of a big slump.
- Even after employment recovers, economic growth will not translate directly and rapidly into state tax revenue growth.
- The loss of one-time measures states have used to balance their budgets will compound this year's problems (Federal fiscal relief expired in June 2004).
- Implementation of the Medicare Prescription Drug Benefit will generate significant fiscal challenges for state Medicaid programs and only 3 states (CA, NY, RI) have reported allocating resources in 2005 to meet these challenges.
- Many states are still facing budget shortfalls and pressure to control Medicaid spending growth will continue.

*Source: "Is the State Fiscal Crisis Over? A 2004 State Budget Update"
Kaiser Commission on Medicaid & The Uninsured, January 2004*



Flow of Medicaid Dollars Through A State Economy



Source: "The Role of Medicaid in State Economies: A Look At The Research"
Kaiser Commission on Medicaid & The Uninsured, April 2004

Medicaid spending generates economic activity, including jobs, income, and state tax revenues.

- Medicaid is the second largest line item in state budgets — money injected into a state from outside the state is critical to generating economic activity.
- Medicaid's economic impact is intensified because of the federal match — state spending pulls federal dollars into the economy.
 - ✓ Medicaid is the largest source of federal funds for states. The amount of federal dollars each state receives depends on the state's Medicaid spending and their FMAP.
 - ✓ Federal Medicaid matching dollars support jobs and generate income within the health care sector and throughout other sectors of the economy due to the multiplier effect.

*Source: "The Role of Medicaid in State Economies: A Look At The Research"
Kaiser Commission on Medicaid & The Uninsured, April 2004*



The economic impact of Medicaid spending varies from state to state.

- Regardless of the economic impact model used, all studies have similar findings — Medicaid spending has a positive impact on state economies.
- In 2001, the rate of return per dollar invested in Medicaid ranged from \$6.34 (MS) to \$1.95 (NV). **In Pennsylvania, the rate of return was \$2.67.**
- In 2001, the value of increased business activity generated from Medicaid spending ranged from \$33.9 billion (NY) to \$298 million (WY). **Pennsylvania ranked among the top 10 states at \$14 billion in increased business activity.**
- In 2001, **Pennsylvania was also among the top 10 states in terms of the number of jobs generated by state Medicaid spending at 143,110. Likewise, Pennsylvania ranked 4th in terms of wages attributable to state Medicaid spending at \$4.9 billion.**

Source: Families USA, “Medicaid: Good Medicine for State Economies”, January 2003



Reductions in Medicaid spending will lead to declines in state economic activity.

- Reductions in state spending automatically reduce the infusion of federal dollars. States lose at least one dollar in federal funds for every dollar of state Medicaid spending cut.
- Decreases in funding reduce the flow of dollars to hospitals, nursing homes, home health agencies and pharmacies, and reduce the amount of money circulating through the economy, affecting employment, income, state tax revenue and economic output.
- It is clear from the studies conducted thus far that in addition to providing valuable health coverage for low-income people, state Medicaid spending also yields significant economic benefits for states, and that, largely as a result of Medicaid's unique matching arrangements, these benefits may be larger than state spending alone.

*Source: "The Role of Medicaid in State Economies: A Look At The Research"
Kaiser Commission on Medicaid & The Uninsured, April 2004*



Impact on Communities

- Access to care
- Quality of care

Not just for the poor, the elderly,
or the disabled – but for all patients

