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TEMPORARY MEDICAID IMPROVEMENTS AS PART OF A STIMULUS PACKAGE

Two key principles are central to an economic stimulus package: 1) that it be temporary, with all measures terminating as the economy recovers and with permanent tax cuts and spending increases rejected; and 2) that it be effective and efficient as a stimulus. The second principle suggests that any stimulus package include a focus on low- and moderate-income households that are at risk during an economic downturn, since these households will consume (rather than save) a larger share of any new funds they receive than affluent households will. These principles also suggest that serious consideration be given to providing fiscal relief to states, which are suffering fiscal stress and many of which will be required to cut programs or raise taxes in coming months to comply with state statutory or constitutional requirements to keep their budgets in balance. State actions to cut programs or raise taxes would have a contractionary effect and work at cross-purposes to federal efforts to stimulate the economy.

Some policymakers have expressed interest in including temporary measures in the stimulus package that would help unemployed workers maintain health insurance through COBRA. Through COBRA, unemployed workers can keep their employer-based health insurance coverage if they pay full cost premiums. Such proposals merit serious consideration. By themselves, however, COBRA proposals have significant weaknesses. These weaknesses can be addressed, the stimulus package can be focused to a more appropriate degree on the low- and moderate-income unemployed, and some relief can be provided to states if two related Medicaid proposals are included alongside a COBRA subsidy. These two proposals would:

- **Establish a temporary Medicaid state option for states to extend coverage to low-income unemployed workers who will not benefit from a COBRA subsidy; and**

- **Increase temporarily the federal Medicaid matching rate.**

Establishing a Temporary Medicaid Option Would Fill Gaps in COBRA Subsidy

Under COBRA, unemployed workers and their families generally are eligible to maintain health insurance through their former employer for up to 18 months, so long as they pay the full cost of the premiums. Average annual premiums for family coverage, however, exceed $7,000. As a result, only 20 percent of those eligible for COBRA make use of it during their period of unemployment. To help unemployed workers afford to maintain their health insurance coverage during the economic downturn now underway, policymakers have expressed interest in subsidizing a percentage of workers' COBRA premiums, say 50 percent. One preferred

approach would be to provide government subsidies to health insurers and issuers to reduce the COBRA premiums charged to unemployed workers.

Any such COBRA subsidy would, however, leave significant gaps, as it would fail to assist many displaced workers who are at risk of losing their health insurance. Substantial numbers of workers who had health insurance while on the job are *not* eligible for COBRA. Workers laid-off from small firms — those with fewer than 20 workers — are not eligible for COBRA coverage regardless of whether they had health insurance through their jobs. In addition, displaced workers whose former employer goes out of business because of the economic downturn or decides to drop health insurance for its remaining employees lose eligibility for COBRA.

Furthermore, many low-wage individuals who are laid off and become eligible for COBRA would not be helped, because they would not be able to afford the premiums even with a significant federal subsidy, such as a subsidy that covers 50 percent of the premium costs. As noted, the average annual cost of family coverage exceeds $7,000. If 50 percent of COBRA premium costs were subsidized, the average annual premium would be about $3,500. This still would be prohibitive for an unemployed person who formerly lived paycheck to paycheck. Fifty percent of an average COBRA family premium would consume about one-third of the national average monthly unemployment insurance benefit.

A COBRA subsidy also would be of no help to laid-off workers who lacked job-based health insurance prior to becoming unemployed. Many such individuals were previously employed by firms — usually small employers — that did not offer health insurance coverage. Only 58 percent of firms with 3-9 workers offer health insurance to their employees. The low-income unemployed also include substantial numbers of people who were offered coverage through their employer while on the job but could not afford the employee contributions. Some 20 percent of workers with incomes below the poverty line who have access to employer-based coverage are uninsured; three-quarters cite cost as the principal reason for declining coverage. If these workers cannot afford subsidized premiums when they are receiving paychecks, they surely will not be able to afford the premiums for individual health insurance when they lose their jobs.

To deal with the large gaps that would remain even with a substantial COBRA subsidy, any such subsidy should be designed in tandem with a state Medicaid option that addresses the needs of workers who would not be able to benefit from a COBRA subsidy. States could be given a temporary option to provide Medicaid coverage to low-income, recently unemployed families and individuals. To encourage states to use this option, states should be eligible to receive federal matching funds for the coverage provided under this option at the enhanced matching rate the State Children's Health Insurance Program provides. Under SCHIP, the share of the costs a state pays is 30 percent less than the share the state pays under Medicaid; for example, a state paying half of Medicaid costs pays 35 percent of SCHIP costs.

Under such a Medicaid option, states would have flexibility to set income and resource eligibility limits as they saw fit. For those low-income individuals eligible for the general

COBRA subsidy, states also would have the flexibility to use these Medicaid funds to pay the remainder of the COBRA premium not covered by the federal COBRA subsidy. Providing health insurance to unemployed workers through the combination of a COBRA subsidy and this new Medicaid option would not only help more unemployed workers maintain insurance but also would free up other consumer spending by low- and moderate-income households to help spur economic recovery.

Temporarily Lifting Medicaid Matching Rates Would Help States Respond to Fiscal Stress and Greater Medicaid Needs During a Downturn

Evidence shows that when unemployment rises during an economic downturn, the percentage of people with job-based health insurance coverage declines. Medicaid partially compensates, as a greater number of low-income workers become eligible for it. The Kaiser Commission on Medicaid and the Uninsured informally projects that if the national unemployment rate rises by two percentage points to 6.5 percent, Medicaid enrollment could increase by 2.5 million people. As a result, the economic downturn will cause state Medicaid expenditures to increase significantly.

Even before the downturn, growth in Medicaid spending posed a significant fiscal problem for states. Congressional Budget Office estimates, made at a time when CBO forecast continued moderate economic growth and no recession, assume that Medicaid spending will rise 9 percent in 2002. By comparison, states on average expected their revenues to increase by 2.4 percent in 2002, an August estimate using similar economic assumptions. (CBO's projected increase in Medicaid costs reflects the impact of health care inflation, rapidly increasing prescription drug costs, and increasing costs for services to the elderly and disabled populations. CBO projected that increases in enrollment by families and children would contribute relatively little to the increase in Medicaid costs.) Thus, even before a recession was anticipated, Medicaid expenditure growth was expected to place some strain on state budgets.

Now, states are suffering substantial fiscal stress. States such as Mississippi, Ohio and South Carolina already have enacted across-the-board spending cuts. In addition, eight states were forced to raises taxes in their FY 2002 budgets. Because 49 states are required by their constitutions or state law to balance their budgets and Medicaid constitutes such a large portion of state spending — and also because Medicaid costs are rising over the levels that states budgeted for them — Medicaid is widely expected to be a prime candidate for budget cuts in coming months for many financially strapped states.

These problems are beginning to manifest themselves in various ways. Indiana and Kentucky appropriated less money for their Medicaid programs this year than they were projected to require even before a recession was forecast which is likely to set the stage for cuts later in the year. Several other states — New Mexico, Oregon, Utah, and Washington — have expressed interest in pursuing Medicaid waivers that would enable them to reduce benefits and increase cost-sharing for current beneficiaries.

A number of states experiencing serious fiscal stress are likely to conclude they have no choice but to make their Medicaid eligibility criteria more restrictive, and/or reduce benefits, for current low-income beneficiaries. They will be in no position to shoulder the costs of the expected increase in Medicaid enrollment that will occur as unemployment mounts.

Adding to these problems, federal Medicaid matching rates are based on a state's per capita income relative to the nation, as determined by census data from the most recently available three calendar years. Because the economy was especially strong from 1997-1999, as noted in Table 1 below, *more than half of the states will see their federal matching rates reduced in FY 2002* — three by more than two percentage points — even as their Medicaid needs increase.

To help states meet the temporary rise in Medicaid costs that will result from the downturn, the federal Medicaid matching rate could be temporarily increased. States could use the additional funds to help cover the costs of the increased enrollment and to avert program cutbacks. These funds would not only assist Medicaid beneficiaries but also would maintain spending in the health care sector for hospitals, clinics, nursing homes and other health care providers. There are various ways to increase temporarily the federal Medicaid matching rates:

- *Across-the-board increase.* The federal Medicaid matching rate for each state could be raised by one or more percentage points in 2002. If the increase were two percentage points, then in a state where the federal government pays 60 percent of Medicaid costs, the federal government would pay 62 percent instead. This approach would disburse the added federal funds relatively evenly across states.

- *Targeted increase to states with high unemployment.* This alternative would provide a general increase in the federal Medicaid matching rate but target larger increases to states with higher unemployment rates. For example, all states could receive a one percentage point increase, and those with unemployment rates exceeding the national average by some amount could get an additional two percentage point increase (for a total increase of three percentage points). This approach would use current economic data to target support to states with serious economic problems. A determination of which states have high unemployment rates could be made using the most recent three months of data from the Bureau of Labor Statistics. States meeting this standard during any quarter in FY 2002 would be eligible for the increased match for the remainder of the fiscal year.

- *Targeted increase to non-elderly, non-disabled adults and children.* Another approach would target higher matching rate percentages to non-elderly, non-

Table 1 States with Federal Medicaid Matching Rate Reductions in FY 2002			
State	**FY 2001 Matching Rate**	**FY 2002 Matching Rate**	**Differential FY 01 - FY 02**
Alaska	60.13	57.38	-2.75
Arizona	65.77	64.98	-0.79
Arkansas	73.02	72.64	-0.38
Florida	56.62	56.43	-0.19
Georgia	59.67	59.00	-0.67
Kentucky	70.39	69.94	-0.45
Louisiana	70.53	70.30	-0.23
Minnesota	51.11	50.00	-1.11
Mississippi	76.82	76.09	-0.74
Montana	73.04	72.83	-0.21
Nebraska	60.38	59.55	-0.83
Nevada	50.36	50.00	-0.36
New Mexico	73.80	73.04	-0.76
North Carolina	62.47	61.46	-1.01
North Dakota	69.99	69.87	-0.12
Ohio	59.03	58.78	-0.25
Oklahoma	71.24	70.43	-0.81
Oregon	60.00	59.20	-0.80
Rhode Island	53.79	52.45	-1.34
South Carolina	70.44	69.34	-1.10
South Dakota	68.31	65.93	-2.38
Tennessee	63.79	63.64	-0.15
Texas	60.57	60.17	-0.40
Utah	71.44	70.00	-1.44
Virginia	51.85	51.45	-0.40
Washington	50.70	50.37	-0.33
West Virginia	75.34	75.27	-0.07
Wisconsin	59.29	58.57	-0.72
Wyoming	64.60	61.97	-2.63

disabled adults and children, since these are the groups among which enrollment is most likely to increase as a result of higher unemployment. This approach would be somewhat harder to implement because state Medicaid expenditures are not reported by eligibility group, but it probably could be worked out.

The higher matching rates need not be universally applied to all components of Medicaid expenditures. There is less of a rationale for increasing matching rates for Medicaid disproportionate share hospital payments or program administration. Also, to ensure that at least a portion of the funds are used to avoid harmful cuts in state Medicaid programs, the federal government could impose a condition on states receiving a greater Medicaid match not to reduce eligibility or benefits.

A temporary increase in the Medicaid matching rate would be an appropriate measure to include in a stimulus package. It is easy to make a temporary change in the federal matching percentage, and there would be little start-up time needed before the funds began to be expended at the state level since no state legislative action would be necessary. No additional federal bureaucracy or infrastructure would be needed; the funding transfer mechanisms are already established. Such a measure thus could both have a quick stimulative effect and assist low-income unemployed families.

An increased Medicaid matching rate also would free up state funds otherwise needed for Medicaid to help states avoid tax increases or other budget cuts, steps that would impede economic recovery and work at cross-purposes to Congressional and White House efforts to stimulate the economy.