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PROPOSED STATE MEDICAID CUTS WOULD JEOPARDIZE HEALTH INSURANCE COVERAGE FOR 1.7 MILLION PEOPLE: AN UPDATE

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Executive Summary

In January we reported that one million people were at risk of losing their health insurance coverage under budget cuts that had been approved or proposed in 11 state Medicaid programs.² Since that time, more state budget proposals have been unveiled. This update of that report finds that budget reductions adopted or proposed in 22 states would lead to the elimination of Medicaid, SCHIP, or related public health insurance coverage for 1.7 million people, if all the proposals are adopted. To be included in this analysis, a proposed budget cut must have been either proposed by a governor in recent weeks or passed in recent weeks by one or more committees of jurisdiction in a state legislature.³

The Medicaid budget cuts adopted or under consideration in many states also would curtail various health benefits — such as prescription drugs and dental, vision, home health care or mental health services — for substantial numbers of people who would continue to be insured. In addition, a number of states are proposing to shift some costs to beneficiaries by raising co-payments, even though many of the affected beneficiaries have incomes below the poverty line.

Finally, a number of states are proposing to reduce or freeze payment rates for health care providers, including hospitals, physicians, and nursing homes. Some of the proposed cuts in reimbursement rates are exceptionally deep and may affect quality of care or cause some

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² Leighton Ku, Melanie Nathanson, Edwin Park, Laura Cox and Matthew Broaddus. *Proposed State Medicaid Cuts Would Jeopardize Health Insurance Coverage For One Million People*, Center on Budget and Policy Priorities, Revised Jan. 6, 2003.

³ The estimate of about 1.7 million is the sum of the projected number of people who would be dropped from coverage in 22 states, based on a combination of policy changes that have been approved recently, proposed by governors or recently passed by one or more committee of jurisdiction of a state legislature. These projections come from official state estimates and state-based analysts. Some of the reductions that have been proposed may not be enacted by state legislatures, and some of the cuts already approved could be delayed or rescinded. On the other hand, Medicaid cuts may become deeper in some states, as the states struggle to close widening deficits for 2003 and 2004. These estimates do not include the number of individuals impacted by enacted policies and proposals that reduce services and benefits in states' Medicaid programs.

providers to cease accepting Medicaid patients. In a majority of states, the cuts now being proposed are on top of substantial Medicaid budget reductions enacted last year.

States are facing their most severe budget shortfalls since World War II. After closing \$50 billion in budget deficits in state fiscal year 2003, they now confront additional deficits of at least \$26 billion for the current fiscal year, according to the National Conference of State Legislatures,⁴ which have emerged since their 2003 budgets were originally approved. States also face a projected \$70 billion to \$85 billion in deficits for fiscal year 2004.⁵

Most states have responded with significant program cuts, sometimes coupled with tax increases. Although the size and scope of proposed spending cuts vary from state to state, reductions in state Medicaid appear to be a common denominator in nearly all governors' budgets for the coming fiscal year.

The approved and proposed cuts in health insurance coverage affect a broad cross-section of the low-income population, including low-income children, working parents, childless adults, seniors, people with disabilities, and legal immigrants. The cuts under consideration include:

- *California.* Governor Davis has proposed to eliminate Medicaid coverage for more than half a million people, primarily working-age parents with incomes below the poverty line (\$15,140 for a family of three) but also including low-income seniors and people with disabilities. In addition, payment rates to most health care providers would be cut by 15 percent.
- *Colorado.* Governor Owens recently signed legislation to end Medicaid coverage for about 3,500 legal immigrants, including children, seniors and people with disabilities.
- *Connecticut.* About 23,000 adults and up to 7,000 children will lose Medicaid and SCHIP coverage beginning in April, under actions announced by Governor Rowland. The governor has proposed additional cuts for the coming year, including imposing a freeze on the number of children enrolled in the state's SCHIP program, with the result that no more eligible-but-uninsured children would receive coverage.
- *Florida.* Governor Bush is proposing to drop health care and long-term care coverage for about 26,000 seniors and people with disabilities, although they would retain prescription drug coverage. The governor also is proposing steep increases in co-payments for prescription drugs, which likely would make it harder for some poor patients to afford their medications. The state already

⁴ National Conference of State Legislatures, *State Budget Update: February 2003*, February 4, 2003.

⁵ Iris Lav, *The State Fiscal Crisis is Impeding Economic Growth; Federal Aid to States Would be the Most Effective Stimulus*, Center on Budget and Policy Priorities, February 18, 2003.

implemented modest cuts in the Medicaid eligibility of elderly and disabled people last year.

- *Georgia.* Governor Perdue has proposed cutting Medicaid payment rates to most health care providers by 10 percent.
- *Louisiana.* Governor Foster has proposed reducing state funding for the state's Medicaid program by about one-third. This would be accomplished primarily by drastic reductions in funding for hospitals, nursing homes, and other health care providers. Implementation of these cuts would likely result in the closure of some safety-net health care facilities.
- *Missouri.* The state's House Appropriations Committee has passed legislation that would eliminate the state's SCHIP program, ending coverage for 81,000 children, and also end Medicaid coverage for more than 25,000 low-income parents by reducing the income eligibility limit for this group from 77 percent of the poverty line to 24 percent. These cutbacks are in addition to deep cuts in Medicaid eligibility for parents that began being instituted last summer.
- *New Jersey.* Last year, the state stopped enrolling new parents in its NJ FamilyCare program, reducing the maximum income limit for parents not already enrolled in the program from 200 percent of the poverty line to between 25 percent and 37 percent of the poverty line. For 2004, Governor McGreevey has proposed terminating coverage for about 62,000 parents and other low-income individuals whose coverage was "grandfathered" when the current policies were phased in.
- *Ohio.* Governor Taft has proposed scaling back Medicaid eligibility for parents from 100 percent of the poverty line to 80 percent, thereby eliminating coverage for about 50,000 working parents.
- *Oklahoma.* Medicaid coverage was terminated on March 1, 2003 for 8,300 seniors and people with disabilities whose gross incomes exceed the Medicaid income limit but who incur high medical expenses that reduce their disposable income below the applicable income limit. The state Medicaid agency had been poised to approve much deeper cuts in eligibility, but Governor Henry has acted to avert or at least to postpone the most severe cutbacks.
- *Tennessee.* The state has implemented changes in TennCare, the state's Medicaid program, which eliminated coverage for an estimated 200,000 people and trimmed services for a much larger number. The program still has a substantial budget shortfall, however, and further cuts may be proposed. A major reason for the new budget crisis is that the funding cap the federal government has imposed on TennCare as a part of a waiver agreement negotiated with the state has proved too tight. The cap did not adequately anticipate increases in the need for program

services resulting from such factors as the economic slump or the greater-than-expected increases in health care costs that have occurred nationally.

- *Texas.* Governor Perry did not submit a budget proposal to the legislature. Instead, he ordered the Health and Human Services Commission to prepare budget recommendations for the 2004-2005 biennium for programs under the agency's jurisdiction, including Medicaid and SCHIP, that are 12.5 percent below the levels appropriated for 2002-2003. To implement such deep reductions, the Commission has recommended changes that would end coverage by 2005 for an estimated 400,000 children in Medicaid and SCHIP and 69,000 adults in Medicaid. The adults who could lose coverage are primarily working-poor parents and include low-income women with breast cancer and cervical cancer who gained eligibility for coverage under a Medicaid option that the state recently adopted. The Commission's budget recommendations also would cut payment rates for most health care providers by a striking 33 percent and terminate prescription drug coverage for most Medicaid beneficiaries.

These and other cuts proposed in these and other states will increase the number of uninsured Americans. The full report provides more detailed information about the Medicaid reductions adopted or proposed in the 12 states discussed here, as well as in ten additional states.⁶

The weak economy and escalating health care costs already have reduced the number of people covered by private health insurance.⁷ Additional cuts in Medicaid and SCHIP coverage will exacerbate the problem. These cuts also will increase the uncompensated-care costs that emergency rooms, public hospitals, and community clinics are shouldering.

The federal government can take action to help states avoid these cutbacks by providing substantial fiscal relief, such as by temporarily increasing the federal matching rate for Medicaid and providing broad aid to yawning gaps in state budgets. Congress could include funding for state relief as it considers budget resolutions in the House of Representatives and the Senate and subsequently write stimulus legislation. Providing substantial, temporary fiscal relief to states would not only help to avert sharp cuts in basic health care services for low- and moderate-income families but also would be one of the most effective steps the federal government could take to boost a still-weak economy.

⁶ The ten additional states covered in the full report are Kentucky, Massachusetts, Michigan, Minnesota, Montana, Nebraska, New York, Oregon, Vermont, and Washington.

⁷ Leighton Ku, *The Number Of Americans Without Health Insurance Rose In 2001 And Appears To Be Continuing To Rise In 2002*, Center on Budget and Policy Priorities, Revised Oct. 7, 2002.

States' Continuing Budget Problems

State fiscal conditions have gone from bad to worse in the current budget cycle. Unlike the federal government, which can run budget deficits, 49 of 50 states are required by law to balance their budgets. Facing significant revenue shortfalls, many states struggled last spring and summer to balance their budgets for the current state fiscal year (which runs from July 2002 to June 2003 in most states). A large number of states will have to institute additional, mid-year budget reductions in the months ahead. The outlook for state fiscal year 2004, which generally begins in July 2003, also is bleak. States are now facing their most severe budget crises since World War II.

Last year, many states eased their budget problems through one-time measures such as drawing down rainy day funds or tapping tobacco settlements, thereby avoiding structural tax changes or particularly harsh budget cuts. This year is proving to be much tougher, since many states have depleted these one-time options and now must take more drastic steps to close their budget shortfalls.

Examples of Recent Policies and Proposals to Scale Back Medicaid

The following discussion summarizes recent budget actions that 22 states have adopted or are considering for the current (2003) or coming (2004) state fiscal year. This is not an exhaustive list of all Medicaid cuts adopted or being considered across the 50 states; we provide information only on those states for which we could obtain clear information about the nature of the actions taken or being considered. Some states simply provide estimates of total Medicaid funding that will be appropriated and do not detail the types of policies the Medicaid agency will have to implement to live within that budget. In such cases, we were unable to secure firm information on the types of changes that will be considered. (In some other states, the budgets appear to include relatively few significant Medicaid or SCHIP cuts. For example, Governors Huckabee of Arkansas, Minner of Delaware, Kempthorne of Idaho, and Guinn of Nevada have not proposed substantial cutbacks in Medicaid and are proposing modest increases in state revenues to help protect vital services.)

Pooling the data from these 22 states, we find that Medicaid coverage, SCHIP coverage, or state-funded health coverage will be eliminated for at least 1.7 million people if all of the proposals are adopted. All types of beneficiaries will be affected, including children, parents, seniors, people with disabilities, and legal immigrants.

The estimate that 1.7 million people will lose coverage is conservative. It is based primarily on estimates provided by state officials as part of their budget estimates. Some states have proposed changes in procedural requirements or other measures that will make it more difficult for eligible families and individuals to enroll or remain enrolled, but the state has not provided estimates of the number of people who are expected to lose coverage as a consequence. As a result, these people are not included in the 1.7 million estimate. In other cases, there are

alternative estimates of the number of people who will lose coverage that are larger than the official estimates that the state has provided and we use here.⁸

In addition to those who would lose coverage altogether, many other beneficiaries would retain insurance, but for fewer health benefits and services. Benefits such as prescription drugs, or dental, vision, mental health, substance abuse, or home health care services would be eliminated for several million beneficiaries under the proposals that have been adopted or are under consideration. A number of states also are proposing to shift some of the costs of care to beneficiaries by raising the co-payments that beneficiaries must make to receive various services. Most of those who would be affected by the increased charges have incomes below the poverty line. Finally, some states are proposing cuts in payments to health care providers, such as hospitals, nursing homes, and doctors. Some of the proposed cuts are unusually deep.

California. Governor Gray Davis has proposed deep cutbacks in Medi-Cal, the state's Medicaid program, that would eliminate coverage for more than half a million people and reduce payments to most health care providers by 15 percent. The eligibility reductions would primarily affect working parents with incomes below the poverty line (\$15,140 for a family of three) but would also affect some low-income seniors and people with disabilities.

The budget proposals would eliminate Medicaid coverage for an estimated 488,000 low-income parents by:

- reducing the income eligibility limit for parents from 100 percent of the poverty line to 61 percent (affecting an estimated 293,000 low-income parents);
- increasing paperwork requirements on families with even lower incomes (which the state projects will result in an additional 193,000 children and parents losing coverage for failure to fulfill the new requirements);⁹ and
- ending the second year of transitional Medi-Cal coverage for parents that have become ineligible for welfare because they succeeded in increasing their earnings or securing more child support. This would eliminate coverage for about 1,800 parents.

Coverage also would be eliminated for 26,000 elderly or disabled individuals by reducing the income limit for these groups from 133 percent of the poverty line to 100 percent. Some individuals with incomes in this range might still qualify for coverage, but they would first have to incur out-of-pocket medical costs that reduced their disposable incomes below the state's applicable Medicaid income limit.

⁸ Some states are postponing planned expansions in Medicaid or SCHIP coverage. Our estimates of the number of people who would lose coverage do not include these postponements.

⁹ Governor Davis has proposed reinstating Quarterly Status Reporting (QSR). Under QSR, families participating in Medi-Cal would be required to submit paperwork four times a year to retain health care coverage. Quarterly status reporting would be used in Medi-Cal, but the state eliminated it in 2001 in favor of a less burdensome system that requires families to submit reports only when their circumstances have changed. The state eliminated quarterly status reporting because it reduced enrollment for a large number of eligible families.

In addition, the Governor's budget would institute reductions in coverage for various services that Medi-Cal provides, such as dental care, vision care, psychological care, hospice care, and occupational therapy. These reductions would affect millions of beneficiaries.

Finally, the budget proposes cutting payments to most health care providers by 10 percent beginning in fiscal year 2003, and an additional 5 percent in 2004.

The state legislature considered some of these proposals last summer and rejected them, but the continued hemorrhaging of California's budget has resurrected the proposals. The state's severe budget problems also have caused a planned increase in the Medicaid income limit for parents to 200 percent of the poverty line, which would extend eligibility to an estimated 300,000 parents, to be delayed indefinitely.

Although the proposed eligibility cuts would primarily affect parents, many analysts believe that a substantial number of children also could lose coverage. Research shows a link between coverage for low-income parents in Medicaid and the enrollment of their children. When parents are covered, their children, even if otherwise eligible, are more likely to be enrolled.

Colorado. In February, Governor Bill Owens signed legislation that eliminates Medicaid coverage for all legal immigrants whom federal law does not require the state to cover. This includes many immigrants who arrived in the United States before 1996 (a group whom the state has the option to cover but is not required to.) Approximately 3,500 legal immigrants will lose coverage. One-fourth are children. About half are elderly individuals or people with disabilities.

Connecticut. In April 2003, more than 23,000 parents and up to 7,000 children will lose coverage due to eligibility changes that Governor John Rowland has instituted in HUSKY A and B, the state's Medicaid and SCHIP programs. Parents' eligibility will be reduced from 150 percent of the poverty line to 100 percent. The cuts also include retracting a state option to provide 12-month continuous Medicaid eligibility for children. The families of some 7,000 children now eligible because of continuous eligibility will be notified that their coverage is ending. Many of these children may still be eligible but will have to reapply. Families that do not complete and submit the forms will lose coverage. Some children who remain eligible are likely to "fall through the cracks" and be terminated from the program. In addition, co-payments will be instituted for outpatient care outside of managed care settings and for prescription drugs.

Additional eligibility cuts are included in Governor Rowland's budget proposal for the upcoming biennium (or two-year period). Under the budget, the state would freeze enrollment in its state-funded program for legal immigrants, which serves a large number of children and other legal immigrants who are not eligible for Medicaid as a result of federal eligibility restrictions enacted in 1996.¹⁰ Further enrollment of children in SCHIP (HUSKY B) also would be

¹⁰ For example, the state-funded program covers low-income immigrant children who arrived in the United States on or after August 22, 1996 (the date the welfare law was signed) and are in their first five years in the country. Such children are ineligible for Medicaid as a result of provisions included in the 1996 federal welfare law.

suspended, as would enrollment in the HUSKY Plus program, which serves chronically ill children with special health needs.

In addition, the governor has proposed eliminating certain procedures instituted to increase enrollment among low-income working parents and their children. For example, a procedure known as presumptive eligibility for children, which expedites the enrollment of children at venues outside the welfare office, would be eliminated in Medicaid. Some eligible children would not be enrolled in Medicaid as promptly (or might not be enrolled at all) as a result.

Finally, the governor has proposed reducing the scope of benefits offered under Medicaid and SCHIP and increasing the amounts that beneficiaries must pay to access certain health care services.

Florida. Governor Jeb Bush's budget proposes largely to end Florida's "medically needy" program for the aged and disabled, which covers individuals whose overall incomes exceed the federal income limits for the Supplemental Security Income program (which is about 75 percent of the poverty line for single elderly and disabled individuals), but who have high medical expenses that significantly reduce their disposable incomes. All medical and long-term care services would be eliminated for these seniors and people with disabilities, except for prescription drug coverage. About 26,000 people would be affected.

The governor's budget also proposes to eliminate coverage for eyeglasses, hearing aids and emergency dental services for aged and disabled Medicaid beneficiaries and parents. This would affect more than 500,000 people.

Finally, the state plans to impose steep increases in co-payments for prescription drugs and emergency room use. This would affect close to one million people, half of whom are elderly or disabled.

Georgia. Governor Sonny Perdue has proposed scaling back Medicaid payments to most health care providers by 10 percent.

Kentucky. Governor Paul Patton recently announced a series of Medicaid cuts for the coming year. The new policies would reduce long-term care costs by making it more difficult for seniors and people with disabilities to qualify for nursing home care or for comparable care that they may receive in a home or community-based setting. For example, the level of functional disability needed to qualify for help in meeting the costs of nursing home care will be increased. In addition, income eligibility for Medicaid coverage for nursing home care or home and community based services will be tightened. These changes will eliminate coverage for more than 2,000 seniors and disabled people, including many currently residing in nursing homes.

In addition, adult day care services for those below the age of 21 will be eliminated, and the scope of services provided will be reduced for those who continue to qualify.

Finally, the governor proposes to increase co-payments for certain Medicaid services, including dental, vision, hearing, chiropractic and podiatric services.

Louisiana. Governor Mike Foster, Jr., has proposed to reduce the budget for the state's Medicaid program by about one-third. This would be accomplished largely through substantial reductions in DSH (disproportionate share hospital) payments to a number of safety-net hospitals, including rural, charity, public and psychiatric hospitals. These and other payment reductions are likely to force the closure of a number of state-owned psychiatric hospitals and institutional facilities for the mentally retarded and would sharply lower funding for a number of other health care providers, including nursing homes and hospitals.

Massachusetts. In April 2003, Massachusetts will eliminate Medicaid coverage for about 50,000 unemployed adults with very low incomes. In January, the governor also took administrative action to eliminate coverage for health services such as dentures and prosthetic devices for about 600,000 low-income beneficiaries.

Governor Mitt Romney's proposed budget for 2004 would further reduce caseloads. It would eliminate coverage for an estimated 6,400 legal immigrants in a state-funded health insurance program, freeze enrollment of other children and adults — including many with disabilities — in the CommonHealth program (affecting 3,000 people), and keep an estimated 13,000 people off of the MassHealth program, the state's main Medicaid program, by imposing new eligibility restrictions. In addition, the state anticipates eliminating its Prescription Advantage program, a state program that provides assistance with prescription drug costs to low-income seniors and people with disabilities, unless the state is able to obtain federal matching funds for the program.

Michigan. Before he left office, former Governor John Engler ordered the elimination of "medically needy" coverage for parents and other caretaker relatives under the state's Medicaid program. This action would eliminate coverage for about 38,000 people whose overall income exceeds the state's Medicaid income limit but who incur high out-of-pocket costs for medical care that lowers their disposable income below the applicable income limit. This cut has been delayed by an injunction.

Minnesota. In February, Governor Tim Pawlenty released a budget proposing major changes in the state's publicly-funded health care system:

- Medicaid eligibility levels would be reduced from 170 percent of the poverty line to 150 percent for children and from 275 percent of the poverty line to 200 percent for pregnant women. Individuals made ineligible for Medicaid by these changes would have the option of applying for coverage under a waiver program known as MinnesotaCare, but that program has more limited benefits and higher cost-sharing than Medicaid.
- Working parents with incomes between 200 percent and 275 percent of the poverty line already enrolled in MinnesotaCare would lose their publicly-funded coverage. They could stay enrolled only if they paid the entire cost of the insurance.

- A state-funded health insurance program that serves significant numbers of low-income childless adults and some institutionalized people would be phased out. Some current recipients would continue to be eligible for MinnesotaCare (with fewer benefits and higher cost-sharing), but those with incomes above 75 percent of the poverty line would lose publicly-funded coverage. They could remain enrolled only if they paid the full premium costs.
- The amounts that beneficiaries must pay out-of-pocket for eyeglasses, prescription drugs and emergency room use would be increased.
- Enrollment in a home- and community-based care waiver program for the mentally disabled would be frozen.
- Reimbursement rates for hospitals and nursing care facilities serving Medicaid beneficiaries would be reduced.
- The period of time for which an infant is enrolled in Medicaid or MinnesotaCare without having to reestablish eligibility would be reduced from two years to one.

Missouri. Last summer, Missouri enacted a large package of Medicaid cuts, which reduced income eligibility for low-income parents from 100 percent of the poverty line to 77 percent (a reduction from \$15,020 to \$11,565 for a family of three), eliminated all coverage for low-income noncustodial parents, reduced coverage under the state's extended transitional Medicaid program from two years to one, and eliminated dental and vision coverage for about 350,000 people. This package of cuts also reduced from two years to one the period during which new mothers with low incomes receive family planning and certain other health services under the Extended Women's Health program, which is a part of the state's Medicaid program.

More than 32,000 parents have been affected by the reduction in the Medicaid income limits. Although the state originally planned to terminate health coverage for all 32,000 at once, a temporary injunction has enabled 17,000 of these individuals to remain eligible for temporary, transitional Medicaid coverage. Once this coverage ends, these 17,000 people as well will lose Medicaid coverage. A temporary injunction also has delayed the elimination of dental coverage, while a separate injunction has resulted in the temporary reinstatement of vision coverage.

While Governor Bob Holden's proposed budget for the coming year does not include additional Medicaid eligibility cutbacks, preliminary decisions by the state legislature have been harsh. The Missouri House Appropriations Committee has approved additional Medicaid reductions that include the elimination of the state's SCHIP program, MC+ for Kids. This would eliminate health insurance coverage for an estimated 81,000 children, primarily from low-income working families. The Appropriations Committee also approved drastically lowering the Medicaid eligibility limit for low-income parents from 77 percent of the poverty line (\$11,600 for a family of three) to 24 percent (\$3,500). These proposed changes would cause about 25,400 working parents to lose coverage at once; an additional 51,600 would lose coverage over the next year when their transitional Medicaid coverage expired.

In addition, the House Appropriations Committee has approved a measure that would reduce transitional Medicaid coverage to federal minimum levels and eliminate the Extended Women's Health program. These measures would affect an estimated 18,000 parents.

Montana. Earlier this year, the state took administrative action to shift a significant share of Medicaid costs to poor beneficiaries by raising cost-sharing levels to the highest levels in the nation. More recently, Governor Judy Martz has issued a number of proposals to scale back Medicaid expenditures further. She has proposed limiting Medicaid eligibility for elderly people, particularly those who need nursing home care; estimates indicate that about 500 elderly individuals a month would lose coverage. In addition, poor elderly and disabled adults who receive assistance from TANF or SSI would be able to see a physician only ten times a year unless they receive special permission from the state. This number could prove insufficient for senior citizens or disabled people with chronic health conditions. Finally, several Medicaid services would be eliminated, including home health services and hospice care.

Nebraska. On November 1, 2002, Nebraska implemented Medicaid reductions that will result in an estimated 26,000 Nebraska children and parents losing health care coverage. These measures include significant reductions in health care coverage for families transitioning from welfare to work, as well as changes in the way that income is calculated in determining Medicaid eligibility.

Governor Mike Johanns has recently proposed further cuts, including a reduction in benefits (such as the elimination of dental care), as well as a lowering of eligibility limits that will cause 3,100 young adults in low-income families to lose coverage. The state also would reduce hospital reimbursements and assisted living reimbursements by 6.3 percent and 2 percent, respectively, in FY 2003-2004 and by an additional 3.8 percent and 3 percent, respectively, in FY 2004-2005.

New Jersey. Last summer, the state began implementing a series of changes in its joint Medicaid-SCHIP program, NJ Family Care. For example, the state stopped accepting new applications from low-income working parents unless their incomes were below the state's income limit for welfare benefits. This effectively reduced the income limit for health care coverage for parents from 200 percent of the poverty line to about 25 percent to 37 percent of the poverty line (about \$3,800 to \$5,600 for a family of three).

In his budget for fiscal year 2004, Governor Jim McGreevey has proposed further cuts in NJ Family Care, such as ending coverage for many parents who were "grandfathered" into the program when last year's cuts were instituted as a result of their already being enrolled. Working parents with incomes between 133 percent and 200 percent of the poverty line who were enrolled when the earlier cutback was implemented would now be terminated. These changes would eliminate coverage for an estimated 40,000 working parents. Related cuts included in the governor's budget would eliminate coverage for 8,000 legal immigrants and 15,000 childless adults.

In addition, the state is reducing and restructuring benefits, including certain mental health services as well as occupational and physical therapy for adult beneficiaries. Some of those affected by these changes have serious physical or mental health conditions. Finally, the governor proposes to eliminate dental services for non-disabled adults under 65, except for pregnant women.

New York. Governor George Pataki has proposed reducing the state's Medicaid program by more than \$1 billion in FY 2004. About 22,000 working parents with incomes between 133 percent and 150 percent of the poverty line would lose eligibility. In addition, children with incomes between 100 percent and 133 percent of the poverty line would be shifted from Medicaid (called Child Health Plus A) to the less-generous SCHIP program (Child Health Plus B); this would affect more than 230,000 children. The governor's budget proposal also would shift some costs to low-income Medicaid beneficiaries by increasing co-payments for certain health care services.

In addition, while New York was scheduled to implement presumptive eligibility for children, the governor has proposed to postpone this policy indefinitely, and also to terminate an existing policy under which children applying for SCHIP who appear to be eligible are granted immediate coverage on a temporary basis so that they may be covered during the time their applications are being processed. The governor is also proposing that reimbursement rates for hospitals, nursing homes, and home care facilities no longer be increased automatically on an annual basis.

Finally, the governor's proposal also includes a "swap" of Medicaid financing responsibilities between the state and the counties. (Currently the state and counties share in the financing of Medicaid.) The state would fully assume the costs of providing prescription drug coverage in exchange for an increase in the counties' share of Medicaid hospital costs. The effects of this shift would vary across the state. It is believed that the net impact would be to increase costs in New York City, which has high hospitalization costs, although it might reduce costs in other parts of the state.

Ohio. Governor Bob Taft has proposed reducing the state's Medicaid expenditures by about \$1 billion for the 2004-2005 biennium. The income limit for parents would be reduced from 100 percent of the poverty line to about 80 percent, which would terminate Medicaid coverage for an estimated 50,000 working parents. The governor also proposes eliminating dental, vision, psychological, chiropractic, and podiatric services, affecting about 800,000 beneficiaries. Finally, his budget proposes freezing reimbursement rates for health care providers' at the FY 2003 levels.

In addition, the governor has proposed large cuts in the state-funded Disability Medical Assistance Program, which serves people with disabilities who are not eligible for Medicaid. These cuts would eliminate coverage for about 10,000 individuals and reduce benefits for another 14,500.

Oklahoma. On February 1, the state eliminated its "medically needy" coverage in Medicaid, which provided coverage for low-income individuals whose incomes are above the state's regular Medicaid income limits but who have high medical costs that reduce their

disposable incomes to levels below the Medicaid limits. This change terminated Medicaid coverage for about 8,300 seniors and disabled individuals.

One month earlier, on January 1, the state reduced the health services that Medicaid covers for individuals who receive coverage through the state's Medicaid managed care plans, including some disabled adults and people with AIDS. The new policies instituted in this area limit prescription drug coverage to three prescriptions per month and also limit hospital coverage, physician services, and various other services for 35,000 recipients.

Over the past year, the Oklahoma Health Care Authority has approved and been poised to implement a number of other deep cuts, including elimination of the state's SCHIP program. Newly-elected Governor Brad Henry and the state legislature have been able to identify supplemental budget resources, however, that have averted some of the deepest cuts, at least for now.

Oregon. Governor Ted Kulongoski has proposed to eliminate "medically needy" coverage, which would eliminate coverage for 8,500 people, most of who are elderly or disabled people with high health care expenses. He also has proposed eliminating coverage for a large number of medical services by tightening the state's unique Medicaid rationing system to eliminate treatments for a number of disorders, including certain forms of cancer (such as liver, pancreatic and esophageal cancer) and carpal tunnel syndrome, and curtailing adult dental services except for emergency dental care.

The state is also eliminating a wide range of mental health and chemical dependency treatment services under Medicaid, affecting an estimated 110,000 people.

Tennessee. In July 2002, the state began implementing a complex series of changes to its Medicaid waiver program, TennCare, that reduce eligibility and scale back services. The state recently estimated that about 200,000 people are losing coverage because of the changes.

Despite these changes, TennCare still faces a budget shortfall of \$369 million in the current fiscal year. Almost half of this shortfall is the result of an overly tight cap on TennCare funding that the federal government imposed when the state's TennCare waiver was renegotiated last year. The state is expected to impose additional cuts as a result of the looming budget gap.

Texas. Governor Rick Perry has declined to release a budget proposal for the coming biennium.¹¹ Instead, he asked all government agencies to prepare budget plans that reduce spending by 12.5 percent below the levels appropriated for the prior biennium. (A cut of this magnitude is needed to balance the budget, according to the state comptroller.) To achieve the proposed savings, the Texas Health and Human Services Commission recommended a list of reductions that would eliminate Medicaid and SCHIP coverage by 2005 for an estimated 400,000 children and 69,000 adults and reduce provider payment rates by 33 percent. While this is not the governor's proposal *per se*, the agency's recommendations reflect the scope of the reductions that will need to be made to attain the level of savings the governor is seeking. The Commission's recommendations include:

¹¹ Actually, Gov. Perry did submit a budget, but it contained only zeroes.

- Reducing eligibility in the state's SCHIP program from 200 percent of the poverty line to 150 percent.
- Reducing Medicaid eligibility for pregnant women from 185 percent of the poverty line to 143 percent.
- Eliminating medically needy coverage would be eliminated for parents, seniors, and people with disabilities.
- Eliminating Medicaid coverage for certain low-income women diagnosed with breast or cervical cancer whose income exceeds the regular Medicaid eligibility limits. Some 370 low-income women with cancer would have their coverage terminated.

The proposal also would eliminate certain procedures that Texas has implemented in recent years to increase the enrollment of eligible low-income children. For example, working families would be required to come to the welfare office to apply for their children and to provide paperwork verifying the family's assets. Currently, families may mail in applications for their children and self-certify their asset levels. Also, current law calls for the institution of 12-month continuous eligibility for children. The new proposals would abandon this scheduled change.

Furthermore, the proposal would eliminate dental coverage for children in SCHIP and increase co-payments in SCHIP to the maximum levels permitted under law, five percent of a family's income. The proposal also would eliminate prescription drug coverage in Medicaid for parents, except for pregnant women and people in nursing homes.

Finally, Medicaid reimbursement rates for most health care providers would be cut 33 percent.

Vermont. Newly-elected Governor James Douglas has proposed measures that would reduce eligibility among children, working parents, and the elderly and disabled in Vermont's Medicaid and prescription drug programs.

Up to 3,000 individuals enrolled in the Vermont Health Access Plan (VHAP) — the state's Medicaid waiver program for uninsured parents and childless adults — or in state prescription drug programs for seniors and the disabled would lose coverage due to the institution of an assets test. In addition, parents and other adults in VHAP who have incomes as low as 50 percent of the poverty line would begin being charged deductibles, a change that would significantly decrease the value of VHAP insurance for these individuals.

Washington. The state has reduced income limits (and benefit levels) for receipt of cash assistance under the state-funded Supplemental Security Income, a supplemental benefits program for the low-income elderly and disabled. This has the effect of causing about 3,000 poor elderly and disabled beneficiaries to lose Medicaid coverage. In most states, Medicaid

eligibility for low-income elderly and disabled people is tied in part to receipt of federal or state SSI benefits). The state also has imposed new cost-sharing and premium requirements on certain Medicaid beneficiaries, including co-payments for emergency room services and premiums for the second six months of transitional Medicaid coverage for those who have left welfare for work.

Governor Gary Locke's proposed budget for the coming fiscal year includes a number of additional reductions in health care coverage, including elimination of state-funded health coverage for 59,000 low-income childless adults under the state's Basic Health Plan. The budget also proposes eliminating adult dental, vision, and hearing services covered under Medicaid and changing Medicaid application and renewal policies that have made it easier for eligible low-income families to obtain and retain coverage. Under the proposal, Medicaid recipients would need to provide verification of income and have their eligibility reviewed every six months instead of annually. Such changes usually result in some eligible families "falling through the cracks" and losing coverage. The budget also proposes to eliminate the Medically Indigent Program, a state-funded program that covers emergency medical services for low-income individuals who are not eligible for Medicaid.

The Role of Medicaid During An Economic Downturn

In the past two years, almost all states have instituted some Medicaid budget reductions. A survey conducted for the Kaiser Commission on Medicaid and the Uninsured found that in state fiscal year 2003, some 49 of the 50 states either have taken or plan to take actions to reduce Medicaid expenditures.¹² This includes 27 states restricting or planning to restrict Medicaid eligibility, 25 reducing or planning to reduce Medicaid benefits, 17 increasing or planning to increase the amount that low-income beneficiaries must pay out-of-pocket, and 37 freezing or reducing provider payment rates or planning to take such action. The Kaiser survey was conducted late in 2002, before most governors had unveiled their Medicaid budget proposals for state fiscal year 2004, and thus does not include a number of proposed cuts described in this report.

Direct eligibility cuts would be particularly harmful during the current period when the economy remains soft and unemployment remains elevated. Medicaid and SCHIP enrollment has risen in the past couple of years in response to the economic downturn and has prevented many families with children from becoming uninsured when they lose their jobs and health insurance. Survey data that the Centers for Disease Control and Prevention issued last year show that if Medicaid and SCHIP had not been able to expand to meet the increase in need during 2001 and early 2002, the number of uninsured children would have been two million higher in the first quarter of 2002, and the number of uninsured working-age adults without health insurance would have been about one million higher.¹³

¹² Vernon Smith, et al. *Medicaid Spending Growth: A 50 State Update for Fiscal Year 2003*, Kaiser Commission on Medicaid and the Uninsured, Jan. 2003.

¹³ Leighton Ku, *op cit*. The newest information released by CDC on March 19, 2003, continues to show trends like these through September 2002. National Center for Health Statistics, CDC, *Early Release of Selected Estimates*

Medicaid eligibility cuts, as well as other cuts such as reductions in covered benefits and in payment rates for providers, also would have the effect of further weakening state economies. Nobel Prize-winning economists Joseph Stiglitz and Robert Solow, Brookings economists William Gale and Peter Orszag, and other economists have warned that balancing state budgets during the current economic slump by substantially reducing government spending on goods and services is likely to dampen economic activity further.¹⁴ This applies to cuts in Medicaid. In addition, several recent studies have shown that substantial Medicaid cuts can have adverse effects on state economies, including reductions in employment.¹⁵

The Federal Government Should Provide State Fiscal Relief

Robert M. Solow, winner of the 1987 Nobel Prize for Economics, recently wrote, “There is an urgent need for substantial revenue-sharing from the federal government to the states, cities, and counties. The recession and slow recovery have gutted state and local revenues. Since they operate under constitutional balanced budget constraints, governors and mayors are being forced to make drastic cuts in basic and necessary public services. This weakens the economy — states and cities spend twice as much as the federal government — and could spell disaster for many low-income people who are the main beneficiaries.”¹⁶ Similarly, Brookings Institution economist William Gale recently counseled that: “the best way to boost the economy right now would be to increase federal aid to the states, which are facing their worst financial crisis in decades.”¹⁷

The federal government could help avert or lessen the depth of damaging cuts in Medicaid and other state programs targeted to lower-income individuals. One effective means would be a temporary increase in the federal Medicaid matching rate so that states do not have to

Based on Data from the January-September 2003 National Health Interview Survey, available at www.cdc.gov/nchs/about/major/nhis/released200303.htm#1.

¹⁴ See, for example, Peter Orszag and Joseph Stiglitz, *Budget Cuts vs. Tax Increases at the State Level: Is One More Counter-Productive than the Other During a Recession?*, Center on Budget and Policy Priorities, revised November 6, 2001. This paper finds that while any spending cuts or tax increases are counterproductive during a recession, tax increases — especially those targeted to higher-income individuals, who tend to save (rather than spend) a larger share of their income than people of lesser means — tend to have a less adverse effect than spending cuts, especially cuts targeted on low-income people. Also see Robert Solow, *Los Angeles Times*, Part M, Page 1, December 29, 2002 and William G. Gale, “Now Is the Time for All Good Feds to Come to the Aid of States,” *Los Angeles Times*, December 20, 2002.

¹⁵ See Kerrey E. Kilpatrick et. al. *The Economic Impact of Proposed Reductions in Medicaid Spending in North Carolina* University of North Carolina Institute for Public Health, April 11, 2002; Moore Business School of the University of South Carolina: *Economic Impact of Medicaid on South Carolina*, January, 2002 and Gerald A. Doekson and Cheryl St. Clair, *The Economic Impact of the Medicaid Program on Alaska’s Economy*, Oklahoma State University, March, 20002. See also Families USA, *Medicaid: Good Medicine for State Economies*, Jan. 2003.

¹⁶ *Los Angeles Times*, Opinion, Part M, Page 1, December 29, 2002.

¹⁷ William G. Gale, “Now Is the Time for All Good Feds to Come to the Aid of States,” *Los Angeles Times*, December 20, 2002.

put up as much state money to support health care services. Such temporary fiscal relief could appreciably lessen the magnitude of Medicaid cuts that states otherwise will implement to balance their budgets in these times of fiscal stress.

Senators Jay Rockefeller (D-WV), Susan Collins (R-ME), Ben Nelson (D-NE), and Gordon Smith (R-OR) have introduced legislation (S. 138) to provide \$20 billion in fiscal relief to states, in part by temporarily increasing Medicaid matching rates¹⁸. A similar proposal passed the Senate by voice vote in July 2002. (It was attached to generic drug legislation that was opposed by the pharmaceutical industry and that died in the House of Representatives.) Similar bipartisan legislation (H.R. 816) has been introduced in the House of Representatives by Representatives Peter King (R-NY) and Sherrod Brown (D-OH). Several other bills also have been introduced in the Senate that would provide temporary fiscal relief to states, including a bipartisan measure (S. 201) sponsored by Senator Charles Schumer (D-NY) and Olympia Snowe (R-ME), which would provide \$40 billion in federal aid to states and localities through a one-time revenue grant.

Congress can consider proposals to raise the federal Medicaid matching rate temporarily and to supplement such a step with measures to provide broad fiscal relief grants to states when Congress considers the budget resolutions for fiscal year 2004, and subsequently considers economic stimulus legislation. In fact, on March 20, as part of its budget resolution, the Senate voted overwhelmingly (80-19) that it was the sense of the Senate that any economic stimulus legislation should include at least \$30 billion in state fiscal relief, of which at least half should be provided through a temporary increase in federal Medicaid matching rates. Relief of adequate size could avert or lessen the magnitude of harsh Medicaid eligibility cuts, as well as cuts in other programs such as education and child care. It also would lessen the extent to which state budget cuts and tax increases undercut federal efforts to stimulate economic recovery.

Conclusion

States are facing budget gaps of historic proportions. With 49 states required by law to balance their budgets, many are instituting substantial cuts in programs such as Medicaid. The impact of such cuts is likely to be severe for many poor and near-poor working families and low-income elderly and disabled people insured through these programs.

By bypassing Administration proposals for costly, permanent new tax cuts and providing states with temporary fiscal relief through an increase in the federal matching rate for Medicaid and other means, the federal government could help ensure that vulnerable children, working families, seniors, and people with disabilities continue to receive health care coverage. Such assistance also would enable doctors, nurses, home health workers, hospitals, nursing homes, and other health care providers to continue to provide the services needed to keep millions of Americans in good health.

¹⁸ \$10 billion would be provided through an increase in the Federal Medical Assistance Percentage (FMAP) and \$10 billion through temporary state fiscal relief grants under Title XX of the Social Security Act.