

## **IS MISSOURI'S MEDICAID PROGRAM OUT-OF-STEP AND INEFFICIENT?**

by Leighton Ku and Judith Solomon

Governor Matt Blunt has proposed substantial cuts in Missouri's Medicaid program. Consideration of these proposals has begun in the legislature, and most of the proposals have now been approved by the Missouri Senate.<sup>1</sup> According to estimates by the Missouri Department of Social Services, the Medicaid cuts the Governor has proposed would end health insurance coverage for about 125,000 Missourians, including:

- 61,000 low-income parents — mostly working mothers — with incomes between 30 percent and 75 percent of the poverty line (between \$4,800 and \$12,100 per year for a family of three), after certain deductions;<sup>2</sup>
- 14,600 senior citizens and people with permanent disabilities with incomes from \$6,900 per year (for an individual) to \$9,600;
- 9,500 low-income workers who have disabilities;
- 3,000 working people with temporary disabilities (receiving medical assistance under General Relief);
- 1,150 people who recently left welfare for work;
- 13,600 children and adults who would lose coverage because of stricter application requirements and increased paperwork; and
- 24,000 children who would lose Medicaid (MC+) coverage because their families are unable to pay increased premiums.

The Governor has also proposed to reduce significantly the health benefits covered by Medicaid, eliminating items such as crutches, wheelchairs and dental care for adults. He also has proposed to increase the amount that the poor must pay for medical care services by raising copayments.<sup>3</sup>

Even deeper cuts have been placed on the table since the Governor first presented these proposals in January. On March 24, the Governor proposed further reductions in Medicaid. These reductions, which are now under consideration in the Missouri House, would reduce the Medicaid income eligibility limit for parents even further to the minimum level permitted under federal law. The new income level would equal 22 percent of the poverty line for a family of three, \$3,500 a year after deductions and would end coverage for an additional 7,500 extremely poor parents. (While the Governor's office stated the new income level would equal 23 percent of the poverty line, examination of the proposal shows that the new income level for a family of three would be 22 percent of the poverty line.<sup>4</sup>)

Furthermore, the Missouri Senate added a provision to the bill *terminating* the Medicaid program after June 2008, and that provision is included in the bill now moving through the Missouri House. Under the provision, a commission would be charged with producing a design by January 1, 2006 for a replacement program. The termination of Medicaid after June 2008 would not, however, be conditional upon enactment of a replacement program.

The proposed Medicaid cuts under consideration in Missouri are among the most extreme in the nation. Missouri's income limit for working parents is now in the middle tier of the nation. If this income limit is dropped to 30 percent of the poverty line, it will fall to the 45<sup>th</sup> lowest in the nation.<sup>5</sup> A mother with two children who earns more than \$4,800 per year, after deductions, will make too much to qualify for Medicaid. If a further reduction in the income limit for parents to 22 percent of the poverty line is made, this income limit will be the 47<sup>th</sup> lowest in the nation.

The reasons offered by Governor Blunt for these deep cuts are that Missouri's Medicaid program is too expensive — he has said it is the second costliest program in the nation — and is inefficient.<sup>6</sup> Are these claims valid? This brief analysis reviews evidence about Missouri's Medicaid program and the potential impact of these deep cuts on health insurance coverage, employment and economic activity in Missouri.

### **Is Missouri's Medicaid Program Among the Most Expensive in the Country?**

Governor Blunt claims that cutting Medicaid expenditures is necessary, because spending on Medicaid is affecting the state's ability to fund education and other state priorities. Governor Blunt claims that Missouri's Medicaid costs are higher than those of all states but one. However, the Governor uses a misleading measure of where the state stands relative to other states. When more appropriate measures of Medicaid costs are used, Missouri is found to spend *less on Medicaid than the majority of states*.

In claiming that Missouri's Medicaid expenditures are the second highest in the nation, the Governor relies on a comparison of total Medicaid expenditures, including expenditures financed by federal funds, to total state budget expenditures.<sup>7</sup> To determine the effects of Medicaid on the state budget, however, it is *not* appropriate to include federal Medicaid funds. To examine how Medicaid spending affects the state's ability to fund other priorities such as education or transportation, one must focus on state general fund expenditures, which are paid out of general state taxes and revenue. *Federal* funds spent on Medicaid are not drawn from state taxes and do not compete with services like education for state funding.<sup>8</sup> This is of particular significance since the federal government pays for more than 60 percent of all Medicaid expenditures in Missouri.

When comparing the percentage of state general fund expenditures that are spent on Medicaid, Missouri ranks 11<sup>th</sup> in the nation.<sup>9</sup> This measure itself has limitations, however, as it does not account for the overall low level of revenue and expenditures in the state. In 2002, the most recent year for which these data are available, Missouri ranked 46<sup>th</sup> in the nation in state and local revenue measured as a percentage of personal income and 45<sup>th</sup> in state revenue per capita.<sup>10</sup> Because Missouri has unusually low revenue and an unusually small budget, even a relatively moderate level of Medicaid expenditures can claim a larger percentage of the state

budget than Medicaid expenditures in other states.

A fairer comparison of the cost of Medicaid in Missouri to the cost of the program in other states is made by analyzing state general fund Medicaid expenditures on a per capita basis or as a share of total personal income in the state. By these measures, Missouri's Medicaid expenditures are well *below* the national norm:

- In terms of state general fund Medicaid expenditures per state resident, Missouri ranked 34<sup>th</sup> in the nation in 2003.<sup>11</sup>
- In terms of state general fund Medicaid expenditures as a share of state personal income, Missouri ranked 38<sup>th</sup> in the nation in 2003.<sup>12</sup>

### **Is Missouri's Medicaid Program Inefficient?**

There is no question that Missouri's Medicaid expenditures are rising. But cost increases are hardly unique to Missouri or to Medicaid. Health care costs are rising for private health insurance and Medicare as well. Health costs across the nation are rising due to advances in medical technology and increases in health care utilization, which improve health and prolong lives but add to costs.<sup>13</sup> Missouri's increased Medicaid costs also reflect the effect of increased enrollment that has occurred as employer-based coverage has contracted and more low-income people have lost private insurance. These rising costs are caused not by defects in Missouri's Medicaid program but by broader economic and demographic forces.

In fact, national studies demonstrate that Medicaid is less expensive than private health insurance and that Medicaid costs have been growing less rapidly in recent years than private health insurance.

- A study by Urban Institute economists Jack Hadley and John Holahan found that the average amount Medicaid spends on medical costs for adults is 30 percent less than the amount that would be spent if the same people were instead covered by private health insurance.<sup>14</sup>
- Another Urban Institute study conducted by Holahan found that per-person Medicaid expenditures for health care services rose 6.9 percent per year from 2000 to 2003, about *half* the 12.6 percent annual growth in premiums for employer-sponsored health insurance.<sup>15</sup>

In addition, Missouri's Medicaid program appears to be somewhat less costly than that of other states. The average amount spent on health care per Medicaid beneficiary in Missouri was \$3,941 in 2002, compared to the national average of \$4,141. Missouri ranks 34<sup>th</sup> in the nation in Medicaid expenditures per enrollee.<sup>16</sup> Missouri also has lower-than-average Medicaid administrative expenditures: 3.9 percent of total program expenditures are for administration in Missouri, compared to a national average of 4.9 percent.

Contrary to the Governor's claims, Missouri's Medicaid program is a relatively efficient and modest-cost approach to providing health care, when compared both to private health

insurance and to other states' Medicaid programs.

### Health Coverage in Missouri Will Erode Further if the Proposed Cuts are Made

Historically, Missouri has had fewer uninsured people than most other states. Over the 2000-2001 time period, for example, 9.9 percent of Missourians were uninsured, compared to a national average of 14.4 percent.

Since 2001, however, insurance coverage in Missouri has been eroding, in part due to cutbacks in the state's Medicaid program. By 2002-2003, the percentage of Missourians lacking insurance had risen to 11.3 percent, a steeper rise than that experienced across the country.

The erosion in health insurance coverage in Missouri was caused in part by the loss of Medicaid coverage for low-income parents. In 2002, Missouri cut the Medicaid income eligibility limit for parents from 100 percent of the poverty line to 77 percent of the poverty line. In 2004, eligibility was lowered further to 75 percent of the poverty line.

Census data reveal that while 32 percent of Missouri's low-income parents (those with incomes below 200 percent of the poverty line) were covered by Medicaid in 2000, only 23 percent were covered by 2003. During this period, employer-sponsored insurance coverage also declined. As a result, the percentage of low-income Missouri parents who are uninsured surged from 19 percent in 2000 to 30 percent in 2003, a stunning increase in just a three-year period. Most of the increase appears to be due to the cutback in Medicaid coverage.

Other Insurance	7.7%	8.1%
Employer Coverage	42.7%	39.4%
Medicaid	30.8%	22.9%
Uninsured	18.8%	29.6%
	<b>2000</b>	<b>2003</b>

Source: CBPP analyses of March 2001 and 2004 Current Population Survey

Governor Blunt has proposed making even deeper cuts in the eligibility of low-income parents, slicing the eligibility limit from 75 percent of the poverty line to 30 percent. *If approved, this will be the deepest cut in Medicaid eligibility for working families instituted by any state.*

Cutting eligibility for working parents to 30 percent of the poverty line will penalize working parents, primarily mothers, who are working in low-wage jobs and struggling to stay off welfare. A mother who heads a family of three who earns over \$4,800, after deductions, would make too much money to qualify for Medicaid under the Governor's proposal. If Missouri reduces the eligibility level even further to 22 percent of the poverty line, that same parent would be ineligible if she earned over \$3,500 per year after deductions.

About 125,000 people — primarily members of low-income working families, retirees and people with disabilities — will lose Medicaid coverage if Governor Blunt's proposals are adopted. This will eliminate Medicaid coverage for about one of every eight Medicaid

### **Ending Medicaid, But Replacing It with What?**

The legislation that the Missouri Senate has approved would eliminate Missouri's Medicaid program on June 30, 2008. The bill moving through the Missouri House also contains this provision. The legislation would establish a commission to make recommendations for a "new, innovative state Medicaid healthcare delivery system" by January 1, 2006. The termination of Medicaid would not be conditional, however, on enactment of some type of replacement program.

A Medicaid reform commission also was created in Ohio, but that commission, and reform efforts in other states, have never operated in the context of a pre-ordained result that the current Medicaid program is to be scrapped. Moreover, the commission in Missouri would be created at the same time that severe cuts were being made in the state's Medicaid program, limiting the commission's flexibility to fashion recommendations that could meet the needs of the elderly, people with disabilities, children and families in Missouri.

The brief description in the legislation of the alternative system that the commission would be charged with designing suggests that the establishment of such a system would necessitate a waiver from the federal Department of Health and Human Services. The new alternative could sharply limit eligibility or benefits, reduce funding for health care providers, cap enrollment, or place a cap on total funding for the program.

beneficiaries. The cuts will fall entirely upon the poorer half of the Missouri population, i.e., those in families with incomes below 300 percent of the poverty line. Most of those who lose coverage will become uninsured.

### **Medicaid Cuts Would Weaken Missouri's Economy and Employment**

Governor Blunt proposed to cut \$626 million in total Medicaid expenditures (including expenditures financed by federal funds) in 2006, as compared to the amount that would be spent without the cuts. The federal matching rate for Missouri's Medicaid program in 2006 will be about 62 percent. This means that while expenditures financed with state funds would be reduced by about \$247 million, expenditures financed by *federal* matching funds would be cut \$379 million. Stated another way, for each dollar by which the state would lower Medicaid expenditures financed by state funds, it would lose \$1.53 in federal matching funds that finance the provision of health care to low-income Missourians and go into the Missouri economy.

The federal Medicaid funds that would be lost as a result of the proposed cuts provide revenue to hospitals, clinics, pharmacies, nursing homes and other health care providers, and thereby contribute to the salaries of physicians, nurses, pharmacists, therapists and other health care personnel across the state. The effect of these federal funds is multiplied through the state economy as health care workers pay mortgages and rent, purchase food and other goods, and contribute to the broader economy.

A recent study, based on analyses by economists at St. Louis University, indicates that this loss of federal funds would have repercussions across the state and lead to the loss of about 10,000 jobs and more than \$700 million in economic activity in Missouri.<sup>17</sup> A Medicaid

reduction of this magnitude thus would adversely affect Missouri's economy.

## Conclusion

In promoting his proposals to cut Medicaid, Governor Blunt has claimed that Missouri's program is inefficient and out-of-step with the rest of the nation with regard to its cost. While Medicaid costs have been rising, however, Missouri's Medicaid expenditures are lower than those of the majority of states, and the program is efficient and low-cost compared to private insurance and the majority of other state Medicaid programs.

The cuts proposed by the Governor and being considered by the legislature are considerably more severe than those being considered in most other states and would significantly increase the number of uninsured Missourians. In particular, the proposal to cut the income limit for parents to 30 percent of the poverty line and the subsequent proposal to lower the level even further to 22 percent of the poverty line appear to be unprecedented and would be the harshest cuts aimed at working parents that any state has ever instituted. The cutbacks also would have a deleterious effect on the state economy, as a result of the loss of hundreds of millions in federal matching funds.

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## Notes

<sup>1</sup> The proposals to lower the income eligibility limit for parents and shorten the transitional eligibility period for low-income workers do not require statutory authorization and will be considered in a separate budget bill.

<sup>2</sup> The current income limit of 75 percent of the poverty line, and the proposed limit of 30 percent of the poverty line, apply to family income after certain deductions (or "disregards") are taken. These disregards are substantial for a parent's first four months on the program, but drop substantially in the fifth month and drop further in the 13<sup>th</sup> month that a parent is on the program. After the first 12 months, the disregards equal \$90 a month — or \$1,080 a year — in earnings.

<sup>3</sup> Joel Ferber, "Reviewing The Impact Of Proposed Medicaid Cuts: A Preliminary Analysis, Legal Services of Eastern Missouri, Feb. 4, 2005; Missouri Legislature, Committee on Legislative Research, Oversight Division, "Fiscal Note for Perfected SB 559," March 16, 2005; Joel Ferber, "The Impact of the SCHIP Cut," Legal Services of Eastern Missouri, March 2005.

<sup>4</sup> The Governor's latest proposal would set the income eligibility limit for parents at the state's AFDC payment levels as of July 16, 1996, the minimum level allowed under federal law. For a family of three in Missouri, this level is \$292 per month or \$3,504 per year, which is just under 22 percent of the poverty line using 2005 federal poverty guidelines.

<sup>5</sup> Rachel Klein and Kim Jones, "Showdown in the Show-Me State", Families USA, March 2005.

<sup>6</sup> Matt Blunt, "2005 State of the State Address," Jan. 26, 2005.

<sup>7</sup> National Association of State Budget Officers (NASBO), *2003 State Expenditure Report*, Oct. 2004.

<sup>8</sup> Cindy Mann and Fouad Pervez, "Medicaid Cost Pressures for States: Looking at the Facts." Georgetown University Health Policy Institute, January 2005.

<sup>9</sup> Analyses of NASBO data for 2003, *op cit*.

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<sup>10</sup> Analysis of Census Bureau data on state and local expenditures and Bureau of Economic Analysis data on personal income for 2002.

<sup>11</sup> Analyses of SFY 2003 Medicaid state general fund expenditures as reported by NASBO and state population data from the Census Bureau.

<sup>12</sup> Analyses of NASBO data on SFY 2003 state general fund Medicaid expenditures and state personal income data from the Bureau of Economic Analysis.

<sup>13</sup> Center on Budget and Policy Priorities, “Future Medicaid Growth Is Not Due to Flaws in the Program’s Design, But to Demographic Trends and General Increases in Health Care Costs”, Feb. 4, 2005.

<sup>14</sup> Jack Hadley and John Holahan, “Is Health Care Spending Higher under Medicaid or Private Insurance?” *Inquiry*, 40:323-42, Winter 2003/2004. Similar findings were reached by federal researchers: see Edward Miller, Jessica Banthin, and John Moeller, “Covering the Uninsured: Estimates of the Impact on Total Health Expenditures for 2002,” Agency for Healthcare Research and Quality Working Paper No. 04407, November 2004.

<sup>15</sup> John Holahan and Arunabh Ghosh, “Understanding the Recent Growth in Medicaid Spending, 2000-2003,” *Health Affairs*, January 26, 2005; Kaiser Family Foundation, news release, “A Sharp Rise in Enrollment During the Economic Downturn Triggered Medicaid Spending to Increase by One-Third from FY 2000-03,” January 26, 2005.

<sup>16</sup> Analyses of data from the FY 2002 Medicaid Statistical Information System; this excludes expenditures for administration, disproportionate share hospital payments, and certain other costs. The average expenditure per enrollee is standardized to adjust for differences in the composition of each state’s Medicaid caseload (i.e., in the proportion of beneficiaries that are children, adults, seniors and people with disabilities). Without standardization, Missouri ranks 38<sup>th</sup> in the nation.

<sup>17</sup> Joel Ferber, Heather Bednarek and Muhammad Islam, “The County Level Impact of Proposed Cuts in Medicaid Spending in Missouri,” St. Louis University, Feb. 25, 2005.