Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

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RECESSION THREATENS STATE HEALTH CARE PROGRAMS

Extension of Recovery Act Relief Needed to Avert More Drastic Cuts that Would Swell the Ranks of the Uninsured and Weaken the Economy

By January Angeles and Judith Solomon

In considering "jobs legislation" in the weeks ahead, Congress will decide whether to extend the temporary increase in federal support for state Medicaid programs that last year's economic recovery legislation provided. Failure to do so would lead to deeper state budget cuts that cost substantial numbers of jobs, as well as to what the evidence increasingly suggests would be severe cuts in the Medicaid program in many states that would cast hundreds of thousands, and perhaps millions, of low-income Americans into the ranks of the uninsured.

The next state fiscal year starts July 1, 2010 in most states, and governors are now submitting their budgets. About half of the governors who have submitted budget proposals to their legislatures in recent weeks have assumed a continuation of federal fiscal relief through the coming state fiscal year; the other half of governors who have issued budget proposals have not assumed its continuation. Proposals from governors who have not assumed a continuation of fiscal relief indicate what lies ahead if Congress fails to act.

The governor of Arizona, for example, has proposed cutting more than 310,000 low-income people off that state's Medicaid program, including several thousand poor people with severe mental illness. California's governor has proposed cutting a quarter million people off that state's program. Both governors also propose completely terminating their state's children's health insurance programs and, between them, withdrawing coverage for over 1 million low-income children.

In addition, many governors are proposing deep cuts in Medicaid benefits and provider reimbursement rates on top of substantial cuts made in these areas last year. For example, Tennessee's governor has proposed cutting off Medicaid reimbursement for hospitalized beneficiaries when the cost of an individual's hospital bill reaches $10,000.

Adding to these concerns, many mainstream economists have warned that the deep state budget cuts which governors and state legislatures will have to institute if Congress does not act will place a major drag on, and weaken, the already-struggling economy. Goldman-Sachs and Moody's Economy.com are among those who have sounded such warnings. Extending federal fiscal relief to

states would both bolster the economy and lessen or avert what otherwise may be the most draconian cuts in the history of the Medicaid and CHIP programs.

Medicaid and Recessions

During a recession, the number of people qualifying for Medicaid services increases as people lose their jobs, income, and health coverage. At the same time, rising unemployment and declines in economic activity shrink state tax revenues, limiting a state's fiscal ability to meet the increased need for Medicaid. Urban Institute researchers estimate that with every percentage-point increase in the national unemployment rate, an estimated 1 million more people enroll in Medicaid and CHIP (and another 1.1 million people become uninsured), while state revenues fall by 3 to 4 percent.[1]

Two recent reports show that enrollment increases during this recession are consistent with the Urban Institute estimates.

- The Office of the Actuary at the Centers for Medicare and Medicaid Services reports that the number of children and working-age parents enrolled in Medicaid increased by 6.5 percent, or 3.2 million people, in 2009. The Office of the Actuary projects that Medicaid enrollment will grow by another 5.6 percent in 2010, which translates into another 2.8 million beneficiaries, as unemployment remains at high levels and more people exhaust their unemployment benefits and fall into poverty.

- State Medicaid enrollment reports compiled by the Kaiser Commission on Medicaid and the Uninsured show that between June 2008 and June 2009, when the unemployment rate jumped from 5.5 percent to 9.5 percent, Medicaid enrollment grew faster than in any period since the program was created in the 1960s. Some 3.3 million more people, or 7.5 percent more, were enrolled in Medicaid in June 2009 than a year earlier.[2]

The sharp increase in Medicaid enrollment over the last year and a half shows that Medicaid is doing what it is meant to do in a recession — fulfilling a countercyclical role (i.e., expanding to meet rising needs and thereby pumping more demand into a contracting economy) by extending coverage to individuals and families when they lose their jobs and health coverage. But at the very time when Medicaid is needed most, it is also a target for substantial cuts, because nearly all states are required to balance their budgets even as state revenues plummet.

Nearly all states faced budget deficits for the current state fiscal year (which runs from July 1, 2009 to June 30, 2010 in most states). States have cut programs and, in many cases, have also raised taxes to close these shortfalls. But because state revenues are coming in below projections due to the weak economy, budget shortfalls for the current fiscal year have reopened in the majority of states, and states must close new shortfalls of $35 billion (which bring the total shortfall that states will have had to close in 2010 to over $190 billion, the largest amount ever). The fiscal year ahead will be worse. States face *new* shortfalls estimated to reach $180 billion for the fiscal year that starts July

[1] Kaiser Commission on Medicaid and the Uninsured, "Medicaid, SCHIP and Economic Downturn: Policy Challenges and Policy Responses," April 2008.

[2] Kaiser Commission on Medicaid and the Uninsured, "Medicaid Enrollment: June 2009 Data Snapshot," February 2010.

1, 2010 in most states, and states now have largely exhausted their "rainy day" reserves and other sources of "one-time" revenues or savings. Many states will face a need to institute very deep cuts to balance their budgets for the year ahead.[3]

States Have Already Instituted Significant Medicaid Cuts

Many states have already implemented various cost-containment and efficiency measures to trim their Medicaid budgets. These states are finding it increasingly difficult to identify ways to reduce Medicaid expenditures much farther without making cuts that adversely affect low-income beneficiaries, such as by reducing benefits or access to health care providers.

The assistance provided in last year's economic recovery legislation was instrumental in preventing cuts that would have sharply affected beneficiaries. A recent report by the Government Accountability Office (GAO) found that without the additional Medicaid funds provided in the economic recovery legislation, "[states] could not have continued to support the substantial Medicaid enrollment growth they have experienced…[The] funds were integral to maintaining current eligibility levels, benefits, and services and to avoiding further program reductions."[4] It allowed states that were planning to cut back Medicaid eligibility and end health insurance for substantial numbers of low-income people to shelve such plans. Several states that had already instituted such cutbacks were also able to reverse them.[5]

But with state budget gaps so large — the fiscal relief provided in the recovery legislation closed just 30 percent to 40 percent of state budget shortfalls — and Medicaid enrollment and costs rising so swiftly, many states still felt a need to institute Medicaid reductions. To receive the increased federal support for state Medicaid costs that the economic recovery legislation provides, a state must maintain its Medicaid eligibility levels. As a result, the Medicaid cuts that states have adopted over the past year have focused on reducing benefits, cutting payments to providers, and increasing cost-sharing charges for beneficiaries.

For example, a number of states, including Michigan, Nevada, and Utah, have dropped coverage of dental and/or vision services for adult beneficiaries.[6] Some 39 states also have reduced or frozen Medicaid reimbursements to hospitals, nursing homes, or other providers.[7]

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[3] Elizabeth McNichol and Nicholas Johnson, "Recession Continues to Batter State Budgets; State Responses Could Slow Recovery," Center on Budget and Policy Priorities, Revised February 25, 2010.

[4] Government Accountability Office, "Recovery Act: One Year Later, States' and Localities' Uses of Funds and Opportunities to Strengthen Accountability," March 10, 2010.

[5] Government Accountability Office, *op cit.* Laura Parisi, "States in Need: Congress Should Extend Temporary Increase in Medicaid Funding," Families USA, February 2010.

[6] See Nicholas Johnson, Phil Oliff, and Erica Williams, "An Update on State Budget Cuts: Governors Proposing New Round of Cuts for 2011," Center on Budget and Policy Priorities, updated February 25, 2010, and Families USA, "Critical Care: The Economic Recovery Package and Medicaid," January 2009.

[7] Kaiser Family Foundation, "Unites States: Medicaid Cost Containment Actions," accessed February 19, 2010 at http://www.statehealthfacts.org.

CHIP Cutbacks Begin to Spread

As noted in this report, the governors of Arizona and California have proposed to terminate their state CHIP programs. In addition, Nevada's governor has proposed *tripling* the premiums that families must pay to enroll their children in CHIP, which past studies indicate will lead to large numbers of children falling out of the program and becoming uninsured. South Carolina's governor has proposed capping CHIP enrollment; once the cap is reached, eligible children who apply will be placed on waiting lists rather than provided coverage.

State budget gaps are continuing to grow. If federal fiscal relief to states is allowed to run out while unemployment remains at or close to double-digit levels, cuts in CHIP can be expected to spread more widely.

Many states also have cut Medicaid staffing even as applications for Medicaid have increased. For example, according to a recent report, Kansas faces a backlog of 16,000 applications due to a surge in applications and an eligibility staff depleted by budget cuts.[8]

Much Deeper Cuts Lie Ahead

Governors are proposing additional, much deeper cuts in Medicaid benefits, provider payments, and state Medicaid workforces for fiscal year 2011. Tennessee's governor has proposed capping inpatient hospital reimbursements at $10,000 and eliminating coverage of occupational, physical, and speech therapy for adults. Hawaii's governor has proposed cutting the Medicaid staff by 38 percent.[9] Numerous states are proposing to slash reimbursement rates to providers farther, even though Medicaid reimbursement rates already are far below the rates that Medicare and private-sector health care pay, and some physicians and other providers consequently decline to accept Medicaid patients.

Moreover, the proposals to cut Medicaid that governors have put on the table to date represent only the "tip of the iceberg" if federal fiscal relief is not extended. In releasing their budgets, many governors assumed that Congress will extend the increase in federal Medicaid assistance through state fiscal year 2011. If Congress does *not* extend this aid, most of these states will make deeper and broader Medicaid cuts.

State Actions to Terminate Medicaid for Large Numbers of People Lie Ahead if Fiscal Relief Is Not Extended

The deeper state Medicaid cuts that will be instituted if federal fiscal relief is not extended almost certainly will include sharp cutbacks in Medicaid eligibility in a number of states. If Congress fails to extend the increased federal support that the recovery legislation provided for state Medicaid programs beyond its scheduled December 31 expiration date, both the federal support and the requirement that states maintain their current eligibility criteria will lapse. Sweeping cutbacks in Medicaid eligibility — and the wholesale movement of hundreds of thousands of impoverished

[8] Jim McLean, "Unemployment and health programs battered by recession," KHI News Service, January 26, 2010.

[9] Nicholas Johnson, Phil Oliff, and Erica Williams, *op cit.*

Americans from Medicaid coverage to the ranks of the uninsured — likely will take effect on January 1, 2011.

This can be seen in the proposals that governors are beginning to put on the table. In Arizona, the governor has proposed terminating Medicaid coverage in 2011 for over 310,000 low-income adults, including 3,000 with serious mental illness. In California, the governor has proposed terminating Medicaid for every beneficiary except those whom the state is required to serve under the minimum eligibility criteria set by federal law. This would cast approximately 250,000 low-income people into the ranks of the uninsured.

Moreover, states already are cutting eligibility for CHIP and state-funded health insurance programs; such programs not protected by the recovery legislation's "maintenance-of-eligibility" requirement. For example, both the Arizona and California governors have proposed terminating their entire state CHIP programs. In Arizona, this would cut off 47,000 children. In California, the proposed termination of the state's CHIP program would end coverage for nearly 1 million children.

Other examples come from Minnesota and Washington, which are among the states that provide health coverage to some low-income adults under age 65 who cannot qualify for Medicaid because they do not have dependent children or a disability. Minnesota acted earlier last year to eliminate its General Assistance Medical Care program, which was providing health care to nearly 30,000 low-income adults. Washington slashed its Basic Health program in another way: it increased the premiums that it charges enrollees by an average of 70 percent and doubled the premiums for the poorest plan members — those earning less than 125 percent of the poverty line. The premiums now exceed what many of these people can afford, so program enrollment is expected to fall sharply.[10]

These cuts are a harbinger of what is likely happen in 2011 on a broad scale if states do not receive continued federal fiscal relief. In the absence of such relief, state cuts in Medicaid, CHIP, and other state health programs are likely to add several million poor and near-poor adults and children to the ranks of the uninsured.

Conclusion

The fiscal relief that ARRA provided has averted cuts in Medicaid eligibility and also moderated cuts in Medicaid benefits and provider reimbursements. That relief is scheduled to expire, however, well before the need for it will end.[11]

Even with this help, states have struggled mightily to close budget gaps and have cut Medicaid, CHIP, and other health programs. If the ARRA assistance terminates in December, states will resort to more drastic cuts.

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[10] Leighton Ku and Teresa Coughlin, "Sliding-Scale Premium Health Insurance Programs: Four States' Experiences," *Inquiry* 36: 471-480 (Winter 1999-2000).

[11] Phil Oliff, Jon Shure and Nicholas Johnson, "Federal Fiscal Relief Is Working As Intended," Center on Budget and Policy Priorities, June 29, 2009.

By extending fiscal relief, Congress can help the fragile economy recover and preserve needed jobs, while ensuring that low-income people who have lost their jobs and are struggling to make ends meet can continue to rely on Medicaid and other basic health programs rather than having their coverage withdrawn.