



# UTAH MEDICAID AND THE RECESSION

## Overview and Recommendations

A Utah Health Policy Project Issue Brief

January 2009

### BACKGROUND

Utah's Medicaid program provides cost-effective health care coverage to nearly 180,000 Utah children, pregnant women, seniors, and people with disabilities. Today, as the economy continues to slide and more families join the ranks of the uninsured, the Utah Legislature must decide how to pay for Medicaid while simultaneously meeting constitutional requirements to balance the state budget. Because of its counter-cyclical function, a recession means double trouble for Medicaid. Utah finds itself with less money to spend on critical safety-net programs, just as more people lose their jobs and thus qualify for Medicaid coverage. Much as it strains state budgets, *this is Medicaid doing its job.*

Given the climate, there are a number of questions policymakers must consider when addressing Medicaid during the 2009 Legislative Session. What happens to coverage when workers lose their jobs? What is the impact on Medicaid? What Medicaid-related actions can Utah take to deal with budgetary constraints? How can the state use Medicaid to aid economic recovery? What steps is the Federal government taking to help states maintain their Medicaid program?

### MEDICAID CUTS AND HEALTH SYSTEM REFORM

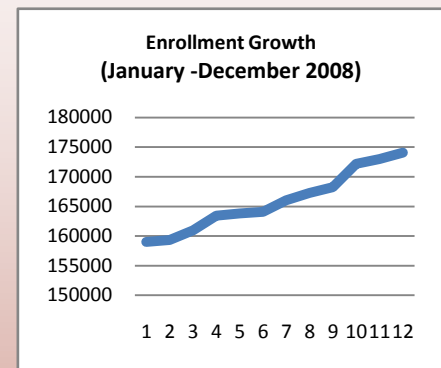
For the last several years Utah policymakers have been working to reform Utah's health care system in ways that will increase access, contain costs, and improve the quality of care.

Medicaid is the most cost effective way to provide quality, comprehensive care for our state's low-income population. Ranking 49<sup>th</sup> in the nation in per-capita spending on Medicaid, Utah has one of the leanest and best managed Medicaid programs in the country.<sup>ii</sup> However, given the bare-bones nature of Utah's Medicaid program, any cuts would only add to the problems the state is working to tackle through health system reforms. Last fall's elimination of physical therapy, occupational therapy, audiology, and eyewear along with the cuts to Medicaid eligibility currently under consideration are destroying the integrity and viability of the program. Cuts this deep will undermine health reform efforts by increasing the number of

### The State of Utah Medicaid

#### Enrollment

Utah Medicaid has seen 8% growth over the last year, adding nearly 18,000 individuals to its rolls. In December alone, enrollment increased by over 3,000 individuals. Today over 177,000 Utahns rely on Medicaid for their health care coverage.<sup>i</sup>



#### Financing

Medicaid is a state-federal partnership. For Utah's Medicaid program, the Federal Government generally matches state dollars 3 to 1.

#### The Federal Medical Assistance Percentage (FMAP) for Utah

| FY2009 | FY2010 |
|--------|--------|
| 70.71% | 71.68% |

The Federal economic Recovery will *increase* the Federal Government's contribution by 8%, but only if states maintain **current eligibility standards.**

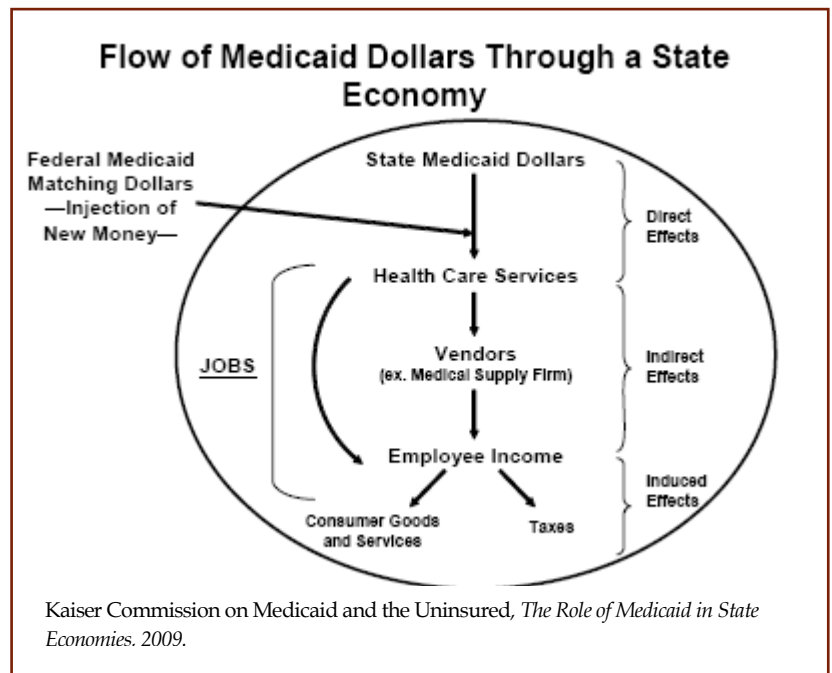
uninsured and further shifting costs to hospitals and, ultimately, everyone else in the form of higher premiums.

Right now approximately 14% of private health plan premiums reflect the costs of caring for the uninsured, however inefficiently. Cutting Medicaid will only add to that cost, making it difficult for hospitals to serve as the ultimate safety net for the community. The state can stay on the road to health reform now by protecting Utah’s current investment in cost-effective programs like Medicaid.

## MEDICAID AND UTAH’S ECONOMY

Economists have long recognized the tremendous impact of Medicaid spending on state economies.<sup>iii</sup> Unlike many other forms of government spending, Medicaid dollars are injected into the economy very quickly. Monies spent on Medicaid provide medically necessary health care to an otherwise uninsured population, thus reducing costs in the long term. In addition, these monies support good health sector jobs and incomes for Utah workers. This income, in turn, generates economic activity along with tax revenue for state government.

All told, the recent HHS Appropriation budget recommendations to cut \$54 million from Utah's Medicaid program would translate to a loss of \$54 million in Federal Medicaid funding for fiscal year 2010. This level of funding supports approximately 1,699 Utah jobs that would generate economic activity to the tune of roughly \$174 million.<sup>iv</sup>



Congressional economic recovery plans devote \$88 billion to the states for their Medicaid programs.<sup>v</sup> Utah can expect to receive at least \$300 million over the next two years in additional federal money, but only if the state maintains current eligibility levels. However, if the Utah Legislature moves forward with the proposed cuts, Utah would forfeit this money along with the economic impact associated with this spending. It's a hefty price to pay for failing to meet the economic recovery plan's minimal maintenance of effort requirements.

## COST CONTAINMENT OPPORTUNITIES

Fortunately, Utah still has a few cost containment strategies it could implement to help stave off cuts to eligibility.

### 1. Strengthen Utah’s PDL (\$1.5 million in savings)

Utah’s Medicaid Preferred Drug List (PDL) program is expected to save the state nearly \$1.5 million in FY2009. Unfortunately, Utah’s PDL compliance rate (the percentage of prescriptions written for the preferred drug) hovers around 60%.<sup>vi</sup> This rate is much lower than most other state Medicaid PDLs and private health plan formularies and PDLs, where compliance is in excess of 90%.<sup>vii</sup> The reason? Most other PDL programs have strong enforcement through the use of a prior authorization requirement before a non-

preferred drug can be prescribed. By strengthening compliance through the prior authorization process, Utah can see an additional \$1.5 million in savings per year.

## 2. **Capitated Contract with Medicaid HMOs (\$4.4 million in additional money + long term savings)**

A change in the state's Medicaid reimbursement contracts with Utah Medicaid managed care organizations (Molina Healthcare and Healthy U) to a per-capita, risk basis will allow the state to receive a higher federal match rate for administrative costs. For a one-time upfront cost of \$10 million, the state can bring in \$4.4 million in additional money per year.<sup>viii</sup> Also, this type of contract arrangement can improve health outcomes by creating financial incentives for Medicaid managed care to keep beneficiaries healthy, for example using proven approaches like disease management and medical homes.

## **FINANCING MEDICAID IN HARD TIMES**

In these times of economic distress, cost containment alone cannot solve all the challenges in managing Medicaid costs. Like most states, Utah has actually run out of tools for managing cost growth.<sup>ix</sup> As Congress finalizes its economic stimulus package, new sources of revenue must be tapped so that Medicaid can play the role it was meant to play: 1) prevent any further cost shifting and 2) keep thousands of Utahns from joining the ranks of the uninsured. Fortunately, the state has several options at its disposal:

### 1. **Federal economic recovery money**

The economic recovery package under consideration by Congress will include at least \$88 billion in temporary (October 1, 2008 through December 31, 2010) fiscal relief for state Medicaid budgets. For Utah this will mean the state's Federal Medical Assistance Percentage (FMAP) rate will increase from 71.2% to nearly 80%. This equates to over \$300 million in additional federal funds over the life of the economic recovery plan. This additional money *is contingent* on Utah *maintaining* its current *eligibility and eligibility standards* for its Medicaid program.

### 2. **Tobacco Tax Legislation (SB 114)**

Senator Allen Christensen is sponsoring legislation this year that would raise Utah's tobacco tax from \$0.69 to \$2 per pack. This increase would raise \$50 million a year to help preserve critical health and human service programs and provide funding for cancer research and smoking cessation programs. Some of these revenues could be used to keep Medicaid whole through the recession or until Federal fiscal relief becomes available.

### 3. **Bonding for State Construction**

Governor Huntsman has proposed bonding for nearly \$2.5 billion in road projects to help free up desperately needed funds for education and health and human service needs. Bonding at this conservative level will preserve Utah's AAA bond rating and leave sufficient room within statutory and constitutional constraints to bond for future projects.

Some combination of these revenue options should be used to protect the health of Utah citizens, ensure Utah's health system reforms remain on track, and to maximize the impact of Medicaid spending on Utah's economy.

## CONCLUSION

Thousands of otherwise uninsured or uninsurable Utah families look to Medicaid to meet their health care needs. Utah businesses need Medicaid to remain strong to keep their premiums affordable. All of Utah is looking to Medicaid to help jump start our economy. Protecting and investing in Utah’s Medicaid program just makes sense during these difficult times.

- <sup>i</sup> Utah Department of Health, *Utah Cases Served Report*, January 2009
- <sup>ii</sup> Urban Institute and Kaiser Commission on Medicaid and the Uninsured estimates based on data from Centers for Medicare and Medicaid Services-64 reports, July 2007, <http://www.statehealthfacts.org/profileglance.jsp?rgn=46>
- <sup>iii</sup> Kaiser Commission on Medicaid and the Uninsured, *The Role of Medicaid in State Economies: A Look at the Research*, January, 2009, [http://www.kff.org/medicaid/upload/7075\\_02.pdf](http://www.kff.org/medicaid/upload/7075_02.pdf) .
- <sup>iv</sup> Data based on a Families USA analysis using an economic model from the U.S. Department of Commerce, April 2008, <http://www.familiesusa.org/assets/pdfs/medicaid-multiplier-methodology-4-08.pdf>.
- <sup>v</sup> Lav, Iris , et. al., *Preliminary Analysis of Medicaid Assistance for States in House Economic Recovery Package*, Center on Budget and Policy Priorities, January 22, 2009, <http://www.cbpp.org/1-22-09sfp.htm>; Senate Finance Committee, Staff Summary of Senate Finance Tax Provisions for the American Recovery and Investment Act of 2009, January 23, 2009,
- <sup>vi</sup> Cost saving data provided by Utah Department of Health, 2008.
- <sup>vii</sup> Cauchi, Richards, *Pharmaceutical Preferred Drug Lists (PDLs) - State Medicaid and Beyond*, National Conference of State Legislators, March 30, 2007, <http://www.colorado2.com/health/PDL-programs.pdf>
- <sup>viii</sup> Cost saving data provided by Utah Department of Health
- <sup>ix</sup> Kaiser Commission of Medicaid and the Uninsured, *Medicaid in a Crunch: A Mid-FY 2009 Update on State Medicaid Issues in a Recession*, January 2009, <http://www.kff.org/uninsured/upload/7848.pdf> .

## Who’s on Medicaid?

**Children** make up over 60% of the Medicaid caseload. These children did not ask to be born into uninsured or poor families, nor can they get coverage on their own. If we want our children to be healthy, educated, and prepared for the workforce, they must have timely access to care.

**Parents** are covered up to 50% of the poverty level. All are in some phase of transition to the workforce. About 70% of individuals leaving welfare have experienced physical or sexual abuse and are in need of mental health care. Unfortunately, employers are least likely to offer coverage to low-income workers.

**People with disabilities** makeup the largest cost center within Medicaid. Most enrollees in this category are able to work with proper accommodations and work supports. Medicaid also enables an individual to access attendant care and other services needed to live independently. The Medicaid Work Incentive Program allows people with a disability to earn a decent living while maintaining access to critical services typically unavailable elsewhere.

**Low-income seniors** are the fastest growing group of Medicaid enrollees. They live on a fixed income and therefore cannot afford care out of pocket. Consequently, Medicaid pays for 60% of nursing home costs and for care that is not covered by Medicare. It also pays for home and community-based alternatives which are often 2-3 times less expensive than institution-based care.

| Category            | Percent of Caseload |
|---------------------|---------------------|
| Children            | 63%                 |
| Aged/Blind/Disabled | 14%                 |
| Working parents     | 11%                 |
| Senior citizens     | 5%                  |
| Pregnant women      | 6%                  |