

Principles for Addressing Medicaid Funding Challenges through the Recession and Beyond



Background

Already compromised by deep cuts in 2008 and 2009, Utah's Medicaid program once again faces the prospect of serious and harmful cuts. With 20% enrollment growth over the last year, Medicaid costs have increased greatly, while at the same time the State budget faces another serious \$850 million shortfall. Difficult decisions must be made to bring the budget into balance. Because Medicaid consumes 18% of the state budget, it is an enticing target for cuts. However, the Legislature should take great care as they look to shave dollars from Utah's Medicaid program. Utah has one of the leanest and best managed Medicaid programs in the country. While Utah ranks 49th in the country in per-capita Medicaid spending, it still delivers high quality coverage to those in need. Further cuts to provider rates and eligibility criteria will result in large cost shifts to private payers associated with the growing burdens of uncompensated care. As Utah works to make health coverage more affordable for the state's small businesses and individuals, this is exactly the type of hidden tax increase we cannot afford.

The state's menu of options to budget for this increased enrollment is very limited. Having already cut most of the 'optional' services (physical therapy, occupational therapy, vision care, audiology, and dental care) over the last two years, Utah has one of the leanest Medicaid programs in the country. To trim costs even further, the state has reduced most provider and hospital reimbursement rates to levels not seen since the 1980s. Further reductions could easily violate federal Medicaid "equal access" requirements and lead to lawsuits. Lastly, the American Recovery and Reinvestment Act (ARRA) requirement that states maintain Medicaid eligibility levels and standards prevents Utah from limiting new enrollment in Medicaid. National health reform legislation will very likely continue this maintenance of effort requirement.

Further, the benefits of Utah Medicaid are much broader than just providing access to cost-effective care to Utah's low-income children, working parents, people with disabilities, and the elderly. Medicaid spending has an enormous benefit on Utah's economy: For every dollar Utah spends on Medicaid the Federal government contributes \$3 more. This money creates or supports thousands of quality, good paying jobs. Economists have long recognized the beneficial impact Medicaid spending has on the economy, particularly in hard times. Their wisdom is reflected in both President Bush's and President Obama's decision to make Medicaid fiscal relief a cornerstone of their respective economic recovery plans in 2002 and 2009. In a recession, Utah simply cannot afford *not* to maximize these incoming federal resources. Against this background, the Utah Medicaid Partnership offers the following principles to guide decisions on the Medicaid budget during the 2010 General Legislative Session.

THE PRINCIPLES

1. Maximize cost containment within Medicaid.

There are several ways that Utah Medicaid can contain costs and become more efficient. Before the state explores *any* cuts to services, eligibility, or provider reimbursement rates, Utah Medicaid should strengthen the Preferred Drug List, for example, introduce so called "never payment" policies that prevent Medicaid paying for preventable health care delivery mistakes, and make sure the state's Medicaid fraud prevention programs are as strong as possible. These steps will not only help Medicaid weather the recession, but also make it a more cost effective program in better times.

2. Minimize cost-shifting to small business by funding Medicaid with rainy day funds and a tobacco tax increase.

Prevent expensive cost-shifting by keeping Medicaid whole. All Utahns need access to health care to stay on the path to self sufficiency. The payer of last resort, Medicaid, is designed to provide cost-effective health care to low-income individuals who would otherwise go uninsured. However, to balance the budget solely through Medicaid cuts will

result in kicking thousands of seniors, people with disabilities, and enrollees with serious illness or chronic conditions off the program. These are the most expensive beneficiaries and the least likely beneficiaries to be able find private coverage on their own. Pushing them into the ranks of the uninsured will greatly increase the amount of uncompensated care delivered by our state's emergency room and other providers, and will further add to the hidden uncompensated care tax placed on small business and other purchasers of private coverage.

To prevent this cost-shift, Utah should increase the tobacco tax rate by \$2 and use the state's \$414 million rainy day fund to maintain current Medicaid eligibility and provider reimbursement rates.

3. Reform the health care payment and delivery system, including Medicaid.

Like all other payers, Medicaid suffers from waste and fragmentation caused by the current fee-for-service payment system, which the Institute of Medicine calls "toxic." Convene the leading stakeholders through the [Utah Partnership for Value-Driven Health Care](#), Utah's Chartered Value Exchange, to create a new payment system demonstration pilot that aligns incentives for providers, payers, and the public to promote value.

To make Medicaid truly sustainable, we must have comprehensive, financially sustainable health system reforms that address access, cost and quality. Health system reforms should begin with a coordinated, systematic effort to align all treatment and financing decisions with evidence-based medicine.

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