Maryland Policy Reports

Analysis from the Maryland Budget and Tax Policy Institute

Bad Medicine?

Balancing Maryland's Budget by Cutting Medicaid

Summary

Maryland is facing a $311 million revenue shortfall in FY 2006. In two years the shortfall is projected to reach $1.5 billion--an amount equal to $1 out of every $8 in General Fund spending.

Medicaid is Maryland's second largest General Fund expenditure, accounting for 16 percent of total General Fund spending. The combination of Maryland's ongoing revenue shortfall and the amount of spending that is directed to Medicaid could make this program vulnerable to further service cuts.

However, compared to other states, Maryland's Medicaid program is relatively lean--it serves relatively fewer residents and has been growing at a slower rate than the national averages.

Most (68 percent) of Medicaid costs pay for health services for people who are aged or have severe disabilities. Therefore, balancing the budget by cutting Medicaid would mean reducing health services for people with the greatest health needs.

Maryland's income eligibility levels for low-income parents are among the lowest in the U.S. Here, a parent who earns a little more than $500 in a month makes too much to qualify; in contrast, half of states have income eligibility levels for working parents that are at least twice as high as those in Maryland.

Additional cuts in health services would come with significant consequences. In addition to the loss in health services for those with the greatest health needs, the elderly and people with disabilities, cutting Medicaid could lead to higher long-term costs for all Marylanders.

Maryland Policy Reports
Vol. 5, No. 3
January 2005

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Introduction

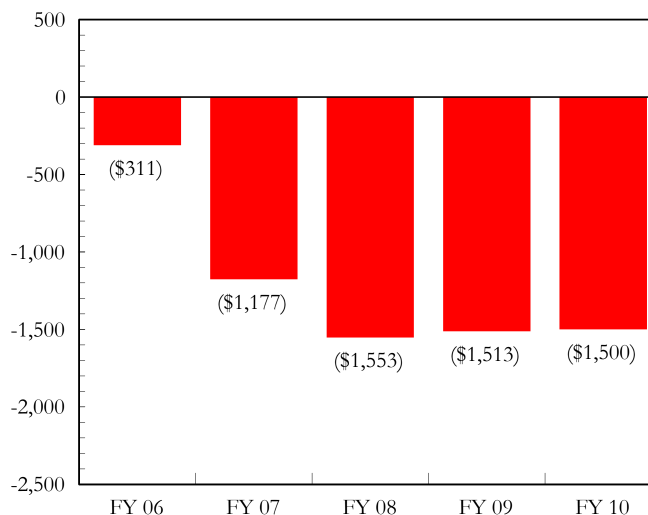
Medicaid accounts for 16 percent of Maryland's General Fund spending and is the second largest expenditure (behind k-12 education). More than 600,000 people receive health care either entirely or in part through Maryland's Medicaid program. In FY 2005, Medicaid appropriations reached $4 billion and are expected to increase in the coming year.

In FY2006, Maryland is facing a $311 million revenue shortfall. The Maryland Department of Legislative Services projects that in two years (FY 2008) the shortfall will grow to $1.5 billion--an amount equal to one out of eight dollars of General Fund spending.

The ongoing revenue shortfall and the size and growth of Medicaid spending in Maryland may lead policymakers to reduce health care services as part of a plan to balance Maryland's budget. However, Maryland's Medicaid program is relatively lean when compared to other states, already has been cut by $250 million in the last two years, and has several areas where funding *increases* are warranted.

> This Maryland Policy Report explains the current status of Maryland's Medicaid program. It presents recent trends in enrollment and spending growth, and discusses current programs needs. Finally, it discusses some of the potential consequences of balancing the budget by cutting health services.

Chart 1 **Forecasted General Fund Deficit FY 06 Through FY 10 ($ in Millions)**



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Source: Maryland Department of Legislative Services, November 2004

Medicaid in Maryland

Medicaid is a safety net program that provides health care services for certain low-income individuals. Approximately one in ten Marylanders receive their health care through this program.

Federal law requires that state Medicaid programs serve poor children (and parents if they qualify), pregnant women, and low-income individuals who are aged, blind, or have a severe disability. More than 80 percent of the state's Medicaid spending provides health care for these groups.[1]

States also have the option of extending Medicaid coverage to other individuals whose incomes are too high to otherwise qualify or

who are low-income and have specific health needs. The Maryland Children's Health Insurance Program (MCHP) is the state's largest optional program, providing health care services to more than 100,000 children. Other optional programs include services for people with developmental disabilities, prescription drug assistance for low-income seniors, psychiatric treatment for people with mental disabilities, home and community-based care services, adult day care for elderly individuals and hospice.

Paying for these optional services through the Medicaid program has two significant benefits. First, the federal government pays half or more of all Medicaid costs, thus lowering the cost of these services for Maryland taxpayers. Second, many of these services result in long-term savings for Maryland, because the health services offered through these programs prevent the onset of more serious illnesses (e.g., through prescription drugs) or are a source of less costly care (e.g., adult day care versus nursing home services).[2]

Medicaid Growth in Maryland

The economic downturn triggered growth in the Medicaid program between FY 2001 and FY 2003. Historically, during economic recession, Medicaid enrollment increases due to higher rates of unemployment and poverty. More families qualify for coverage due to job losses, and Medicaid ensures continued access to health services. In the past few years, Maryland's Medicaid program has grown in both enrollment and spending.

Table 1.

Percent Change
Medicaid Enrollment Growth
Maryland vs. United States, 2001-2005

(%) Change	Maryland	U.S.
2001-2002	8%	10%
2002-2003	5%	6%
2003-2004	1%	5%
2004-2005*	3%	5%

Source: Department of Legislative Services and KCMU.
* Projected data

Enrollment

Despite concerns about enrollment and growth, Maryland's Medicaid program serves relatively fewer people and has been growing more slowly than programs in other states.

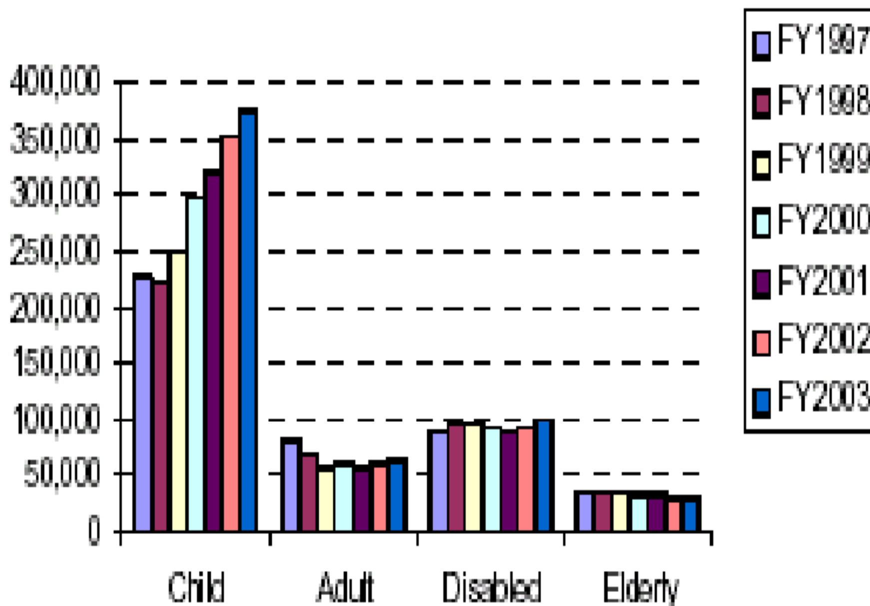
In federal fiscal year 2000 Maryland ranked 29th among states in total Medicaid enrollment.[3] By comparison, Maryland ranked 18th among states in total population.

Since that time, the rate of growth in Medicaid enrollment has been slower here than for the nation as a whole. For example, as shown in Table 1, from 2003 to 2004, Medicaid enrollment in Maryland grew by one percent, compared to five percent growth in the nationally. For 2004 to 2005 the number of Medicaid recipients in Maryland is projected to grow by three percent compared to five percent growth nationally.[4]

Children accounted for virtually all of the growth in Medicaid enrollment in Maryland in recent years. The number of adult enrollees declined, while the numbers of participants

Chart 2

Maryland Medicaid Enrollment Growth by Population Group, FY 1997 to FY 2003



Source: Maryland Department of Health and Mental Hygiene, 2004

who were aged or had disabilities remained steady. (see Chart 2)

The growth in the number of children resulted from federal incentives to encourage states to increase eligibility levels for kids. Maryland took advantage of the federal incentives--the federal government pays nearly two-thirds of the cost--and now extends access to health insurance for kids in families with incomes up to 300 percent of the federal poverty level ($47,010 for a family of three in 2004).[5]

In Maryland, the number of non-elderly, non-disabled adults enrolled in the Medicaid program has declined since the mid-1990s. Much of this decline is due to changes to the federal and state welfare systems beginning in 1996.

Medicaid enrollment among the elderly and people with disabilities has been steady, although the costs for providing health care for these groups increased markedly in recent years.

Spending

Medicaid is the second largest expenditure in Maryland's General Fund budget (behind K-12 education). One out of every six dollars from the General Fund is for Medicaid services.

Further, over the next four years, Medicaid spending is projected to grow twice as fast as state revenues. State revenues are expected to grow by 4 percent annually while Medicaid's annual growth is projected at 8 percent.

Nonetheless, spending and growth here are not out of line with the experiences of other states.

Federal spending data indicate that Maryland ranks 22nd in total (state and federal) Medicaid spending, with $4 billion.[6] By comparison, Maryland ranks 18th in total population. Because Maryland is a high-income state, we would rank low among states in total Medicaid spending as a share of personal income.

In recent years, Medicaid spending growth in Maryland has reflected national growth trends.

In the 10 years from federal fiscal years 1991 to 2001, Medicaid spending in the U.S. grew by an average of 11 percent, compared to Maryland's 10 percent growth.[7]

More recently, from FY2001 to FY2005, Medicaid spending in Maryland increased

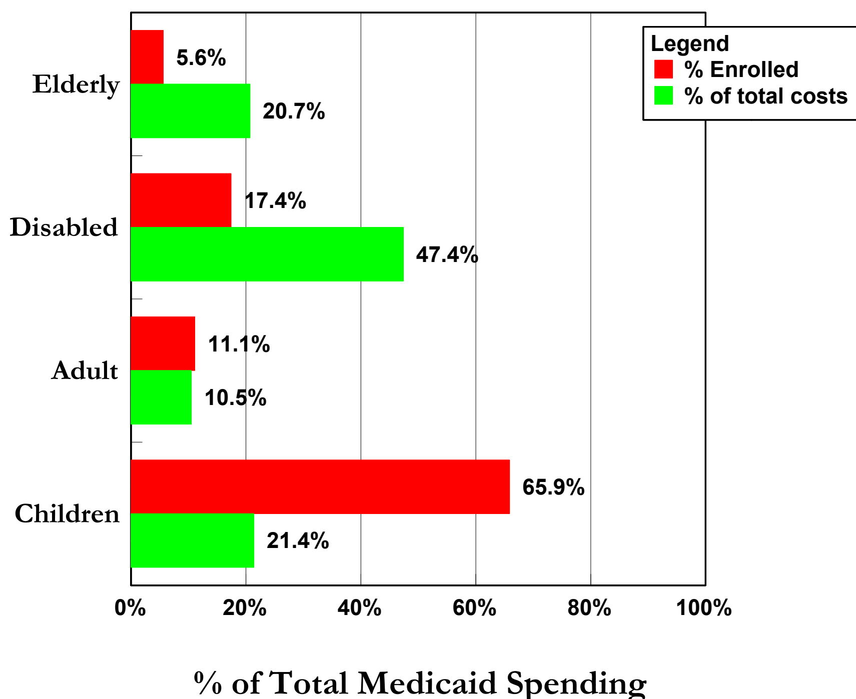
annually by approximately 9 percent, from $2.7 billion in FY2001 to $3.9 billion in FY2005.[8] Nationally, Medicaid spending increased 11.9 percent from 2000-2002, 9.4 percent in 2003, and 9.5 percent in 2004.[9]

Generally, growth in Medicaid spending in Maryland is attributed to two factors. First, although children are much less costly to serve than other income groups and the federal government pays two-thirds of the cost, the growth in the number of children enrolled in the program does result in increased state costs. Second, there has been growth in the cost of serving enrollees who are aged or have serious disabilities.

While participants who are aged or have disabilities comprise a small share of program enrollees they account for a majority of program costs. As shown in Chart 3, combined, the elderly and people with disabilities make up 23 percent of program participants but account for 68 percent of program costs. By comparison, children make up the largest portion of Maryland's Medicaid participants (65 percent) but account for only 20 percent of spending.

This trend is expected to continue as the cost of health services for people who are aged or have disabilities is expected to grow faster than the cost of services for younger, healthier populations. For example, from 2001 to 2002 the largest increases in Medicaid health spending were in home health care (60%), nursing home care (55%), and prescription drugs (14%). In Maryland, Medicaid is the state's largest payer of nursing home services and home health care. Medicaid pays for 50% of the state's nursing home costs and 48% of home health services.[10]

Chart 3



In addition to these trends, the increasing cost of health care is a phenomenon that confronts both Medicaid and the private sectors. The sources of increasing medical expenses are similar for the private market and Medicaid, and include:

Growth in drug costs
Expensive new technologies
Aging of the population
Increase in consumer demand
Broader managed care networks
Provider consolidation
Health care labor pressures.

These and other factors will continue to put upward pressure on Medicaid program costs.

Medicaid Growth & The Budget

As noted, Medicaid is the second largest spending area in the General Fund budget, and is projected to grow much faster than revenues. Therefore, Medicaid may continue to be a target for service cuts in the wake of Maryland's ongoing revenue shortfalls

In FY 2004 and FY 2005 more than $250 million was cut from the Medicaid program. These cuts include:

- Reducing payments to health care providers
- Restrictions on length of stay in hospitals
- Cuts in drug assistance programs for the elderly and non-Medicaid groups
- Greater cost sharing for enrollees (i.e., increased premiums and co-payments)
- Tighter controls on disease management
- Switching long term care support and services from fee-based to managed care.

In addition to these cuts, limiting program costs has taken a greater priority over addressing some major problem areas in Maryland's Medicaid program. These problem areas include:

Low eligibility levels At 40 percent of the federal poverty level (a little more than $500 in a month for a single parent with two kids), Maryland's Medicaid's eligibility level for working parents is among the lowest in the nation. *By contrast, 25 states have income eligibility standards that are at least twice as high as Maryland's*; Minnesota has the highest eligibility level for working parents at 275 percent of poverty ($3,591 per month for a family of three).[11]

Further, Maryland eliminated its health insurance program for working-age adults who do not have dependent children due to revenue shortfalls in the early 1990s. That program was never restored, meaning that there is no publicly supported health insurance program for this population.

Low reimbursement rates Maryland has not increased the amount that it pays doctors and other health providers in many service areas in more than a decade. As a result, many Medicaid recipients have difficulty finding doctors who will treat them.

For example, Maryland pays $80 for a heart catheterization under Medicaid, compared to Medicare's rate of $1,721 and a regional average of $1,049. Maryland pays providers $25 for a new patient office visit, compared to $35 paid by Medicare and a regional average of $32.13. Reimbursement for a hospital visit is $21 under Maryland's program, compared to $71 in the Medicare program, and $47 in the region.[12]

Mental health services Substantial numbers of Maryland's youth do not receive needed care for mental health services. A Maryland survey of families whose children were hospitalized in the last two years found that 25 percent families were advised to relinquish custody of their child as a means to access intensive residential treatment services they were unable to afford.[13] In addition, 53 percent of youth in Maryland's juvenile justice system have a diagnosed mental health problem but are not receiving adequate treatment.[14] Youth psychiatric services are another areas that many private insurers do not provide coverage, which forces families to rely more heavily on the public mental health system to receive needed services.

Medicaid Update: Fully Funded but Still Lacking?

In the wake of unexpected increases in General Fund revenues, it is unlikely that large significant cuts will be made to the Medicaid program in the current legislative session. This turn of events is a far cry from earlier reports that agencies were asked to create plans to decrease their budgets by 12 percent. Had these plans materialized, Maryland's Department of Health and Mental Hygiene would have experienced a cut in funding of $370 million.

The recent veto override of medical liability legislation ensures that physicians will get a $12 million increase in Medicaid reimbursement in FY2005 and $66 million in FY2006. Although which services will receive the increases and the exact amount of the increases is unknown at this time, the increases strengthen Medicaid's foundation—physicians and other health providers. Increasing Medicaid's reimbursement rates is a starting point in reaffirming the state's commitment to ensuring that low-income Marylanders have access to health care services.

Despite speculation that the Governor's FY2006 budget may fully fund the Medicaid program, it is important to note that in recent years Maryland has cut state-funded health programs and services, leaving large numbers of individuals without access to health services. As a result, the state would be "fully funding" a program that falls fall short of meeting the health care needs of low-income Maryland families and individuals who are aged or have severe disabilities.

Looking ahead to FY2007, Maryland will be facing a projected revenue shortfall in the area of $1.5 billion. In the absence of new revenues, how will the state close this funding gap? Medicaid has sustained significant spending cuts in the past two years (FY2004 and FY2005). It is likely that these cuts will not be restored in the FY2006 budget. Maryland's public health financing system is under considerable financial strain. Given this fact and that virtually every extraneous cut to the Medicaid program has already been made, there are very few health services that could be cut without serious detriment to groups across the state.

Below is a sample of *potential* areas to cut along with *potential* savings in ( ). These items are from a list of potential cuts prepared by the Department of Health and Mental Hygiene. The entire list is available online at www.marylandpolicy.org, under the heading "Cuts that Hurt."

- Close four mental health clinics around the state ($26 million)
- Other mental health service cuts ($43 million)
- Eliminate support services for 5,312 people with developmental disabilities (6.9 million)
- Reduce wages of developmental disabilities direct care workers by 12 percent ($6.7 million)
  Direct care aids earn less than $10 an hour and their wages are well below that of their counterparts who work in state institutions.
- Eliminate the health insurance program for children in families with incomes between 200 percent and 300 percent of the federal poverty level ($2.8 million, with a loss of $5 million in federal funds)
- Eliminate the Maryland Child Health Insurance Program for all children ($47 million, with a loss of $87 million in federal funds, leaving 100,000 kids without access to health care.
- Reduce breast and cervical cancer diagnosis and treatment for women with incomes between 150 percent and 250 percent of the poverty guidelines ($2.5 million)

Medicaid Losses: Short-run Savings with Long-term Consequences

Cutting services and payments to providers, and under-funding programs relative to existing health care needs may provide short-term fiscal relief for the state. However, there are several immediate and long-term consequences to cutting Maryland's Medicaid program.

Continuing on the current path will result in four direct consequences: losses in federal dollars, declines in economic activity, a reduction in access to health care services for low-income Marylanders, and higher rates of uncompensated care.

Losses in federal dollars

In cutting its own Medicaid funding, the state loses federal matching funds. For every $1 the state cuts in Medicaid funding, the state forfeits at least $1 in federal matching funds. The presence of federal funds makes providing health services through the Medicaid program an efficient use of state tax dollars. For every dollar spent, the state is able to provide two dollar or more in health services.

Alternatively, when health services are provided to individuals who do not have health insurance, those costs are passed on to Marylanders through higher payment rates and insurance premiums, and without the benefit of federal matching.

Declines in economic activity

The Medicaid cuts in FY 2004 and FY 2005 saved the state $125 million in General Fund spending. These reductions were compounded by an additional $125 million in lost federal funds. That is, the $125 million cut resulted in $250 million in reduced health services. It is estimated that the lost funds resulted in the loss of 2,500 jobs and nearly $100 million in wages.[15]

Making deeper Medicaid cuts could cost the state millions in lost economic activity. Decreases in federal funding reduce the flow of dollars within Maryland's health care system which affects jobs, income, and state tax revenue. Studies conducted by the University of South Carolina, Oklahoma State University, and the University of North Carolina indicate that federal matching funds support state economies.[16]

Reductions in access to optional services

Maryland provides an assortment of optional services under its Medicaid program. Because these services are not mandated, they are at-risk for future cuts. Maryland's optional services include the Maryland Child Health Program (MCHP), vision and podiatry services, pharmacy, adult day care, medical supplies, and psychiatric treatment for the youth and the mentally disabled. Many of these services are thought to save money in the long term by preventing the onset of more serious illnesses (prescription drugs) or nursing home placements (personal care, medical day care).

Higher rates of uncompensated care and higher private insurance premiums

"Uncompensated care" is health care that is provided to a person who does not pay. A report released in December 2003 by the Bloomberg School of Public Health and the Maryland Department of Health and Mental Hygiene estimated that the costs associated

with uncompensated care ranged from $2 to $4 billion in FY2002. This report states that due to the structure of Maryland's hospital payment system "private insurance companies paid between $95 and $139 million for the uninsured, which is reflected in higher insurance premiums for privately insured individuals."[17]

This trend could increase if Medicaid service cuts continue. A significant portion of this money is concentrated in hospitals (See Table 2). The uninsured and some Medicaid enrollees disproportionately use the hospital as a source of primary care. The state's spending on uncompensated care has grown steadily in recent years. Maryland has an Uncompensated Care Fund, out of which money is distributed to hospitals who spend greater than 8% rate of profits on uncompensated care. In FY2001, the state's appropriation to the fund was $41 million, which increased to $51 million in FY2003, an increase of 10.7%.

Table 2.

The Costs of Uncompensated Care, FY2002

Component	Estimate (low)	% Total Estimate
Hospital Care	$253,900,000	10.5%
Other Public Subsidies		
State Programs	$408,600,000	16.9%
County-level	$42,900,000	1.8%
FQHCs	10,000,000	.4%
School-based	500,000	0%
Physician Services	$210,700,000	8.7%
Charitable spending	12,100,000	.5%
Out-of-pocket	317,700,000	13.1%
Health status losses	1,137,500,000	47%
Losses from risk	28,000,000	1.2%
Total	2,422,000,000	100%

Balancing the Budget by Cutting Medicaid?

In the absence of new revenues, it is difficult to predict the future of Maryland's Medicaid program. While Maryland's Medicaid program is relatively lean compared to other states, has been cut in recent years and has significant spending needs, fiscal pressures and needs in other program areas may lead to additional cuts in state Medicaid spending. Because most of the program costs in Medicaid are for people who are aged or have serious disabilities, balancing the budget by cutting health services will mean reducing services to those who have the greatest health needs.

Or, if service cuts are focused among the optional programs, then short-term savings could be followed by longer term costs, as many optional programs were created as alternatives to more expensive mandatory care (such as community-based care versus nursing home care).

Finally, while Medicaid cuts may save General Fund spending, they may lead to higher health costs for Marylanders. Subsequent increases in uncompensated care (the costs of which are passed on to Maryland consumers) and the losses in federal matching funds could make Medicaid cuts and expensive choice for Maryland taxpayers. **MBTPI**

1. Department of Legislative Services (DLS), "Analysis of the FY 2005 Maryland Executive Budget, 2004, Medical Care Programs Administration (MOOQ)," p. 38.
2. Ibid.
3.These data include individuals who receive partial Medicaid benefits (such as mental health care or prescription drugs only)
4. DLS, pg. 22
5. Children under the age of 19 may qualify if their family income is at or below 200 percent of the federal poverty level, or $31,340 for a family of three in 2004. Children under 19 who are in families with income between 200 percent and 300 percent of the federal poverty level ($31,340 to $47,010 for a family of three in 2004) may qualify but there are family premiums. Families with incomes between 200 percent and 250 percent of the federal poverty level must pay a premium of $41/month; families with incomes between 250 percent and 300 percent of the federal poverty level must pay a premium of $52/month.
6. State Health Facts, Maryland, Total (federal and state) Medicaid Spending, FY2002. This is available online at www.statehealthfacts.org.
7. State Health Facts, Maryland, federal fiscal years 1991-2001. This is available online at www.statehealthfacts.org.
8. Operating Budget, Department of Health and Mental Hygiene, fiscal year 2005.
9. Smith, V. et al, "The Continuing Medicaid Budget Challenge: State Medicaid Spending Growth and Cost Containment in Fiscal Years 2004 and 2005," Kaiser Commission on Medicaid and the Uninsured, October 2004.
10. Maryland Health Care Commission, "State Health Care Expenditures: Experience from 2002," January 2004. This is available from www.mhcc.state.md.us.
11. Donna Cohen Ross and Laura Cox, "Beneath the Surface: Barriers Threaten to Slow Progress on Expanding Health Coverage of Children and Families," Kaiser Commission on Medicaid and the Uninsured, October 2004.
12. American Academy of Pediatrics, (Maryland) Medicaid Reimbursement Survey, 2001.
Additional note: The Maryland Patients' Access to Quality Health Care Act of 2004 (the medical malpractice solution enacted in January 2005) raises revenue to increase Medicaid reimbursement rates. By FY 2010, this fund is projected to provide nearly $190 million for increased payment rates to providers. Half of these funds will be state general funds, and half will be matching funds from the federal government.
13. Mental Health Association of Maryland, Policy Recommendations 2004. This is available online at www.mhamd.org.
14. Ibid.
15. Medicaid Cuts Impact Calculator, Families USA. This is available online at www.familiesusa.org.
16. The studies referenced here are as follows: University of South Carolina Moore School of Business, "The Economic Impact of Medicaid," January 2002; Gerald Doeksen and Cheryl St. Clair, "The Economic Impact of the Medicaid Program on Alaska's Economy," Oklahoma State University, March 2002; and Kerry Kilpatrick, et al., "The Economic Impact of Proposed Reductions in Medicaid Spending in North Carolina," Institute of Public Health and Kenan Institute of Private Enterprise at the University of North Carolina, April 11, 2002.
17. Walters, H., et al, "The Cost of Not Having Health Insurance in the State of Maryland," Final Report, Johns Hopkins Bloomberg School of Public Health along with the Maryland Department of Health and Mental Hygiene, December 2003.

About the Maryland Budget and Tax Policy Institute

The Maryland Budget and Tax Policy Institute is a nonpartisan research organization that provides timely, accurate and accessible analysis of state budget and tax issues. In addition to general budget and tax research and analyses, the Institute examines issues affecting vulnerable populations and the important community programs that serve them. For additional information on the Institute or to be added to our email or publications mailing lists, visit our webpage at www.marylandpolicy.org. This analysis was written by Joanna Shoffner.

The Maryland Budget and Tax Policy Institute gratefully acknowledges the Ford Foundation, which provides financial support for the Institute under the foundation's State Fiscal Analysis Initiative. Additional support for the Maryland Budget and Tax Policy Institute is provided by the Aaron Straus and Lillie Straus Foundation, the Open Society Institute-Baltimore, the Public Welfare Foundation, and from generous individual contributors.

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