What Has Caused the Growth in Medicaid Spending in Recent Years?

A briefing by the Kaiser Commission on Medicaid and the Uninsured

Barbara Jordan Conference Center
Washington, DC

January 26, 2005
Medicaid’s Role Today

Diane Rowland, Sc.D.
Kaiser Commission on Medicaid and the Uninsured
Figure 1

Medicaid Overview

- 75% of Medicaid enrollees are children or adults from low-income families, but they account for only 30% of program spending.

- Although only 1 in 4 Medicaid enrollees are elderly or disabled, the health and long term care services they use constitute 70% of program expenditures.

- On a per capita basis, expenses for the elderly and disabled ($12,000) are six times that of children and adults ($2,000) in low-income families.

Figure 2

Medicaid’s Role in the Health System, 2003

Medicaid as a share of national personal health care spending:

<table>
<thead>
<tr>
<th>Service</th>
<th>Medicaid Share</th>
<th>Total National Spending (billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Personal Health Care</td>
<td>17%</td>
<td>$1,441</td>
</tr>
<tr>
<td>Hospital Care</td>
<td>17%</td>
<td>$516</td>
</tr>
<tr>
<td>Professional Services</td>
<td>12%</td>
<td>$542</td>
</tr>
<tr>
<td>Nursing Home Care</td>
<td>46%</td>
<td>$111</td>
</tr>
<tr>
<td>Prescription Drugs</td>
<td>19%</td>
<td>$179</td>
</tr>
</tbody>
</table>

Figure 3

Low-Income Children
33 million

- Uninsured: 20%
- Medicaid/Other Public: 52%
- Employer/Other Private: 28%

Low-Income Parents
21 million

- Uninsured: 37%
- Medicaid/Other Public: 25%
- Employer/Other Private: 38%

Note: Medicaid also includes SCHIP and other state programs. Low-income is defined as 200% of poverty or less ($29,360 for a family of three in 2003).

Figure 4
Medicaid and State Budgets

<table>
<thead>
<tr>
<th>Share of Total State Spending for:</th>
<th>Medicaid</th>
<th>Elementary &amp; Secondary Education</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Funds</td>
<td>21.9%</td>
<td>21.5%</td>
</tr>
<tr>
<td>Federal Funds</td>
<td>43.1%</td>
<td>11.2%</td>
</tr>
<tr>
<td>State General Fund</td>
<td>16.5%</td>
<td>35.2%</td>
</tr>
</tbody>
</table>

Understanding the Recent Growth in Medicaid Spending: 2000-2003

John Holahan and Arunabh Ghosh
The Urban Institute
Figure 5

Study Overview

- Medicaid expenditures grew from $205.7 billion in 2000 to $275.5 billion in 2003
- Paper addresses why this has occurred
  - The growth in enrollment and in spending per enrollee
  - The growth in spending on acute care vs. long term care services
  - The growth in spending on families vs. the aged and disabled
  - The changes in spending through DSH and UPL programs
- Paper relies on enrollment data collected by KCMU and CMS-64 and MMIS expenditure data

Figure 6

Average Annual Growth in Medicaid Expenditures, 1995-2003

<table>
<thead>
<tr>
<th>Years</th>
<th>All Spending</th>
<th>Medical Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>'95-'98</td>
<td>3.6%</td>
<td>5.1%</td>
</tr>
<tr>
<td>'98-'00</td>
<td>7.8%</td>
<td>8.8%</td>
</tr>
<tr>
<td>'00-'02</td>
<td>11.8%</td>
<td>12.9%</td>
</tr>
<tr>
<td>'02-'03</td>
<td>7.1%</td>
<td>8.2%</td>
</tr>
</tbody>
</table>

SOURCE: Urban Institute, 2004; estimates based on data from HCFA Financial Management Reports, 2004 (HCFA-64/CMS-64).
Figure 7

Spending Growth Slows in 2003

- Slowdown in recession-induced enrollment growth
- State actions in response to fiscal situation:
  - Reimbursement rate reductions
  - Benefit reductions
  - Eligibility cuts; enrollment barriers
- Federal actions to limit upper payment limit (UPL) programs and DSH spending

Figure 8

Medicaid Spending Growth
Average Annual Growth Rates, 2000-2003

Average Annual Growth Rates

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All Spending</td>
<td>11.8%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Acute Care</td>
<td>14.5%</td>
<td>11.2%</td>
</tr>
<tr>
<td>Long Term Care</td>
<td>10.7%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Payments to Medicare</td>
<td>9.5%</td>
<td>10.4%</td>
</tr>
<tr>
<td>DSH</td>
<td></td>
<td>1.1%</td>
</tr>
</tbody>
</table>

SOURCE: Urban Institute, 2004; estimates based on data from HCFA Financial Management Reports, 2004 (HCFA-64/CMS-64).
Figure 9
Medicaid Enrollment Growth
Average Annual Growth Rates, 2000-2003

<table>
<thead>
<tr>
<th>Aged/Disabled</th>
<th>Families</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.0%</td>
<td>11.6%</td>
</tr>
<tr>
<td>2.6%</td>
<td>7.1%</td>
</tr>
</tbody>
</table>


Figure 10
Contributors to Change in Medicaid Enrollment*, 2000-2003

Total Enrollment Growth = 8.4 Million

- Families 90% (7.5 million)
- Aged and Disabled 10% (0.9 million)

* Monthly enrollment for June of each year.

Sources of Enrollment Growth

Families and Children
- The Recession and Rising Health Care Costs
- State Expansions in the Late 1990’s

Aged and Disabled
- Increased Participation in Medicaid, Likely Due to Rising Health Care Costs, e.g. Prescription Drugs
- Aging of the Baby Boomers Affecting Disability Rates
- Medical Technology
- Increased Participation in Home- and Community-based Waiver Programs

Figure 12
Changes in Health Insurance Coverage for Low-Income Children and Adults, 2000-2003
Percentage Point Changes

Children
- 7.5%
- 5.2%
- 1.6%

Adults
- 3.2%
- 1.2%
- 4.0%

Employer  Medicaid  Uninsured

Change in Population
- 2.0 Million
- 5.7 Million

Change in Uninsured
- -0.1 Million
- 3.9 Million

Note: Low-income is defined as less than 200% of poverty ($29,360 for a family of three)
SOURCE: Urban Institute for the Kaiser Commission on Medicaid and the Uninsured, 2004
Figure 13

Growth in Medicaid Spending Per Enrollee 2000-2003

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>7.1%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Acute Care</td>
<td>4.2%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Long Term Care</td>
<td>1.0%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

SOURCE: Urban Institute, 2004; estimates based on data the Medicaid Statistical Information System (MSIS), HCFA Financial Management Reports (HCFA-64/CMS-64), and KCMU/HMA enrollment data.

Figure 14

Average Annual Percentage Change in Spending Per Enrollee by Service, 2000-2003

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acute Care</td>
<td>6.9%</td>
</tr>
<tr>
<td>Prescribed Drugs</td>
<td>12.6%</td>
</tr>
<tr>
<td>Other Services</td>
<td>6.9%</td>
</tr>
<tr>
<td>Prepaid/Managed Care</td>
<td>7.9%</td>
</tr>
<tr>
<td>Outpatient/Clinic</td>
<td>3.8%</td>
</tr>
<tr>
<td>Physician/Lab/X-Ray</td>
<td>4.5%</td>
</tr>
<tr>
<td>Inpatient Hospital</td>
<td>3.4%</td>
</tr>
<tr>
<td>Long Term Care</td>
<td>5.1%</td>
</tr>
<tr>
<td>Home/Personal Care</td>
<td>12.1%</td>
</tr>
<tr>
<td>Nursing Facility</td>
<td>1.1%</td>
</tr>
<tr>
<td>Mental Health Institutions</td>
<td>6.9%</td>
</tr>
<tr>
<td>ICFMR</td>
<td>2.0%</td>
</tr>
<tr>
<td>Total</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

SOURCE: Urban Institute, 2004; estimates based on data the Medicaid Statistical Information System (MSIS), HCFA Financial Management Reports (HCFA-64/CMS-64), and KCMU/HMA enrollment data.
**Figure 15**

Average Annual Medicaid Spending Growth Compared to Growth in Private Health Spending, 2000-2003

- Medicaid Acute Care Spending Per Enrollee: 6.9%
- Health Care Spending Per Person with Private Coverage\(^1\): 9.0%
- Monthly Premiums For Employer-Sponsored Insurance\(^2\): 12.6%


**Figure 16**

Growth in Enrollment, Spending Per Enrollee, and Total Spending, 2000-2003

- Enrollment: Aged and Disabled: 2.9%, Families: 9.0%, All Enrollees: 3.1%
- Spending Per Enrollee: Aged and Disabled: 6.5%, Families: 10.1%, All Enrollees: 8.0%
- Total Spending: Aged and Disabled: 9.0%, Families: 17.3%, All Enrollees: 11.4%

SOURCE: Urban Institute, 2004; estimates based on data the Medicaid Statistical Information System (MSIS), HCFA Financial Management Reports (HCFA-64/CMS-64), and KCMU/HMA enrollment data.
Figure 17
Share of Medicaid Spending Growth Attributable to Acute and Long Term Care between 2000 and 2003

- Acute Care: 68%
- Long Term Care: 30%
- Payments to Medicare: 2%

SOURCE: Urban Institute, 2004; estimates based on data from HCFA Financial Management Reports, 2004 (HCFA-64/CMS-64).

Figure 18
Share of Medicaid Spending Growth Attributable to Aged/Disabled and Families between 2000 and 2003

- Aged and Disabled: 56%
- Families (Adults and Children): 44%

SOURCE: Urban Institute, 2004; estimates based on data from HCFA Financial Management Reports, 2004 (HCFA-64/CMS-64), MSIS and KCMU.
Conclusion

• Medicaid spending growth has predominantly been driven by enrollment growth.

• Without this enrollment growth, the number of uninsured would have been substantially higher.

• Tight caps on Medicaid spending growth would not have allowed this enrollment growth.

Conclusion (cont.)

• Medicaid was more successful in controlling spending per person than the private sector.

• Much of Medicaid’s spending growth between 2000 and 2003 reflects a shift from private to public spending, and not additional dollars being spent on health care overall.