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CONGRESSIONAL TESTIMONY

Making Medicaid Work for the Most Vulnerable

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My name is Nina Owcharenko. I am the Director for the Center for Health Policy Studies at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

Making Medicaid Work for the Most Vulnerable

The challenges facing the Medicaid program are not new. These challenges—demographic, structural, and fiscal—are unavoidable and raise serious concerns about whether Medicaid will be unable to meet the needs of those who are enrolled in the program, especially the most vulnerable.

The program serves a very diverse group of low-income people: children, pregnant women, disabled, and elderly. In some states, Medicaid has expanded beyond these traditional groups to include others, such as parents and, in a few cases, even childless adults. The traditional program and incremental changes have resulted in Medicaid serving on average over 57 million people (and over 70 million at some point) in 2012 at a combined federal–state cost that was expected to reach over $430 billion.

The Affordable Care Act (ACA) did not address the long-term challenges facing the Medicaid program. The ACA adds to this growing government health program by expanding eligibility to all individuals with incomes below 138 percent of the Federal Poverty Level (FPL). This is a significant change. Unlike traditional Medicaid, with income *and* categorical eligibility requirements such as disability, eligibility for the expansion population is based solely on income.

Medicaid at Risk

- **Demographic Challenges.** With the addition of the new Medicaid expansion, the Centers for Medicare and Medicaid Services' *2011 Actuarial Report on the Financial Outlook for Medicaid* projects that nearly 80 million people (one in four) will be on Medicaid by 2021.[1] Of this increase, the *Actuarial Report* projects that just over 30 million enrollees will be children, followed by 28.5 million adults, 10.2 million disabled, and 6.5 million aged. By enrollment alone, children remain the largest and primary category of Medicaid enrollees, although

[1] Centers for Medicare and Medicaid Services, *2011 Actuarial Report on the Financial Outlook for Medicaid*, March 16, 2012, p. 22, http://www.cms.gov/Research-Statistics-Data-and-Systems/Research/ActuarialStudies/Downloads/MedicaidReport2011.pdf. It is also worth noting that this estimate is based on the assumption that not all states will choose to accept the ACA Medicaid expansion. The Actuaries estimate that if all states expanded, the number of enrollees by 2021 would reach 85 million and that, even without expansion, enrollment would reach close to 60 million due to the ACA's other interactive effects. See ibid., pp. 40, 41.

it is worth noting that as a result of the ACA expansion, able-bodied, non-elderly adults are now a very close second.

In 2011, the aged and disabled accounted for over 64 percent of spending but only 16 percent of total enrollment. Setting aside enrollment growth due to the new expansion, the *Actuarial Report* points out that "growth in aged adults is expected to be faster than the other categories of enrollment."[2] The report also notes that "Per enrollee costs for the disabled have been increasing at a faster pace than for aged beneficiaries."[3]

The further expansion of the Medicaid program alongside the aging populations makes Medicaid more diverse and more complex.

- **Structural Challenges.** In its annual report to Congress, the Medicaid and CHIP Payment and Access Commission (MACPAC) notes that while varying by state, Medicaid Fee for Service (FFS) payments to physicians are, on average, two-thirds those of Medicare and even worse for primary care services.[4]

  Payment rates are a key indicator for physician participation in Medicaid. A 2006 published survey found that 21 percent of physicians reported that they were not accepting new Medicaid patients, while only 4 percent reported not taking new privately insured patients and 3 percent reported not taking new Medicare patients.[5] A survey of the peer-reviewed academic literature illustrates that access and quality are problems for children as well as for adults in Medicaid.[6]

  While the ACA did provide federal funding to boost Medicaid payments for primary care physicians, that federal funding is temporary, which means that states will either return to previously set levels or face new costs. As noted in the MACPAC report, several states have indicated that it is "unlikely" they will be able to maintain the new rates.[7]

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[2] *Ibid,*, p. 30.
[3] *Ibid.*, p. 27.
[4] Medicaid and CHIP Payment and Access Commission, *Report to the Congress on Medicaid and CHIP*, June 2013, p. 50, http://www.macpac.gov/reports.
[5] Peter Cunningham and Jessica May, "Medicaid Patients Increasingly Concentrated Among Physicians," Center for Studying Health System Change, *Tracking Report* No. 16, August 2006, http://www.hschange.com/CONTENT/866/866.pdf.
[6] Kevin D. Dayaratna, "Studies Show Medicaid Patients Have Worse Access and Outcomes than the Privately Insured," Heritage Foundation *Backgrounder* No. 2740, November 7, 2012, http://www.heritage.org/research/reports/2012/11/studies-show-medicaid-patients-have-worse-access-and-outcomes-than-the-privately-insured.
[7] MACPAC, *Report to the Congress on Medicaid and CHIP*, p. 55.

Therefore, access and quality issues will remain a challenge for Medicaid beneficiaries in the future.

- **Fiscal Challenges.** Entitlements, including Social Security, Medicare, *and* Medicaid, are fueling the country's spending crisis. These three programs represented 62 percent of the federal budget in 2012 and will absorb all tax revenue by 2048.[8] By 2021, total federal and state spending on Medicaid alone is projected to reach $795 billion ($478 billion in federal spending and $314 billion in state spending) and 3.2 percent of GDP by 2021.[9]

  For states, which have to operate under a real budget, the fiscal situation is no better. In its recent *State and Local Government' Fiscal Outlook* report, the Government Accountability Office warned that "absent any intervention or policy changes, state and local governments would face an increasing gap between receipts and expenditures in the coming years" due in large part to the rising health-related costs of Medicaid and health care benefits for government employee and retirees.[10] When the federal contributions are included, Medicaid is the largest budget item for state budgets, representing 24 percent.

  Although these fiscal challenges are well-established, the lack of action only makes the future outlook worse for Medicaid and its beneficiaries.

Guiding Principles

Four fundamental principles should guide efforts to address the key challenges facing Medicaid.

- **Meet current obligations.** Rather than expanding to new populations, attention should be given to ensuring that Medicaid is meeting the needs of existing Medicaid beneficiaries. Moreover, populations should be prioritized based on need.

- **Return Medicaid to a true safety net.** Medicaid should not be the first option for coverage but a safety net for those who cannot obtain coverage on their own. For those who can afford their own coverage, careful attention should be given to transitioning them into the private market.

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[8] Alison Acosta Fraser, ed., "Federal Spending by the Numbers 2012," Heritage Foundation *Special Report* No. 121, October 16, 2012, http://www.heritage.org/research/reports/2012/10/federal-spending-by-the-numbers-2012.

[9] Centers for Medicare and Medicaid Services, *2011 Actuarial Report on the Financial Outlook for Medicaid*, p. 50.

[10] U.S Government Accountability Office, *State and Local Governments' Fiscal Outlook: April 2013 Update*, GAO-13-546SP, April 30, 2013, http://www.gao.gov/assets/660/654255.pdf.

- **Integrate patient-centered, market-based reforms.** Efforts to shift from traditional fee for service to managed care have accelerated, but more should be done. Empowering patients with choice and spurring competition will help to deliver better quality at lower cost.

- **Ensure fiscal sustainability.** Similar to other entitlement reform efforts, the open-ended federal financing model in Medicaid needs reform. Budgeting at the federal and state levels will provide a predictable and sustainable path.

Conclusion

It is encouraging to see efforts in the House and Senate that are aimed at addressing the serious challenges facing Medicaid’s future. With federal and state policymakers working together, meaningful change in Medicaid will ensure that the most vulnerable are not left behind.

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