

Fall 2017

MEDICAID PERSPECTIVES

The Importance of Medicaid and Integral Role of Safety Net Providers and Health Plans



MEDICAID OVERVIEW

What is Medicaid?

Medicaid is a federal-state-local partnership that provides health care coverage to low-income children and their families, pregnant women, seniors and people with disabilities. First enacted in 1965 under the Social Security Act, today Medicaid is the largest source of health coverage in the country, covering approximately 75 million individuals.¹ Unlike Medicare, which is solely administered and financed by the federal government, Medicaid is jointly financed by federal and state governments. The federal government provides oversight of Medicaid, while states are responsible for program administration. Medicaid's structure and flexibility has long provided states the opportunity to innovate in the way they deliver coverage. The program is a major payer in the health system and an integral part of local economies.

Medicaid	Medicare
Government-sponsored program designed to help cover individuals' health care costs	
Established by Congress in 1965 and paid for by taxpayers	
Administered by states, with federal oversight	Administered solely by the federal government
Jointly financed by federal and state governments	Financed solely by the federal government
Serves low-income children, pregnant women, parents, seniors, and other adults, as well as disabled individuals	Serves seniors and some people with disabilities
Has income requirements	Does not have income requirements

How Does Medicaid Work?

The federal government sets broad guidelines for the Medicaid program, including minimum eligibility and benefit requirements. States have considerable flexibility within these parameters to administer Medicaid, but states are required to cover specific mandatory populations and a set of mandatory services, while other populations and services are optional. This flexibility allows states to expand eligibility and/or benefits, and create programs that reflect the unique characteristics of their populations and providers. The federal/state structure provides state Medicaid programs with the opportunity to be innovative in the way they deliver coverage, with states using a variety of delivery systems – including managed care, fee-for-service, and primary care case management – to provide care to Medicaid enrollees.¹

Examples of Mandatory Benefits:

- *Inpatient and outpatient hospital services*
- *Nursing facility services*
- *Physical services*
- *FQHC services*
- *Certified Pediatric and Family Nurse Practitioner services*

Examples of Optional Benefits:

- *Adult dental services*
- *Home and community-based services*
- *Physical therapy*
- *Prescription drugs*

¹ To learn more about eligibility and benefits in the Medicaid program, please visit http://www.nhpf.org/library/the-basics/Basics_Medicaid_01-05-16.pdf.

Who Does Medicaid Cover?

Medicaid provides health care and related services to low-income children, parents and pregnant women, the elderly and people with disabilities. The Affordable Care Act (ACA) added an optional population, low-income adults without children, which states may choose to cover. Medicaid eligibility is typically based on family income. For certain populations, eligibility may be based on the individual's assets and medical need. Because eligibility is largely determined by family income, Medicaid is a counter-cyclical program with enrollment increasing during economic downturns.²

How is Medicaid Financed?

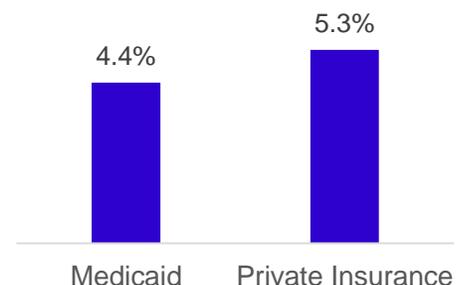
The federal government matches a certain percentage of states' Medicaid expenditures. The federal contribution rate for each state varies and is determined by the Federal Medical Assistance Percentage (FMAP). The FMAP provides higher matching rates to states with lower per capita incomes relative to the national average. The FMAP has historically averaged about 57 percent, with states receiving a minimum of 50 percent federal matching and up to 74 percent for the poorest state.ⁱⁱ There are some exceptions to the FMAP rate for specific services or populations. The state share of Medicaid expenditures is funded through a variety of sources, including state general funds, provider taxes, fees, donations, assessments and tobacco settlement funds. Local governments may contribute up to 60 percent of the non-federal share in each state.

ECONOMIC IMPACT

How Does Medicaid Support Our National Health Care System?

Medicaid plays a crucial role in supporting the nation's health care system -- it accounts for a significant portion of revenues for safety net health care providers such as hospitals, physicians, clinics and nursing centers, as well as home and personal care services. Medicaid is also important for community-based health plans, given that nearly half of Medicaid spending on enrollees occurs through capitated managed care. These safety net providers and plans deliver services and coverage that improve the health in their communities. They are also employers, taxpayers, and consumers themselves. Medicaid funding directly impacts these businesses by supporting jobs, income and capital investments they make in order to provide health care services in local communities.ⁱⁱⁱ

According to the Congressional Budget Office, Medicaid spending growth has been slower than private health insurance.



How Does Medicaid Strengthen State and Local Economies?

Federal spending on the Medicaid program helps to drive state and local economies. Medicaid is the largest source (45 percent) of federal funds to states.^{iv} Numerous studies have demonstrated that federal Medicaid spending positively effects state economies – magnifying the value of this federal investment.^v Medicaid's joint

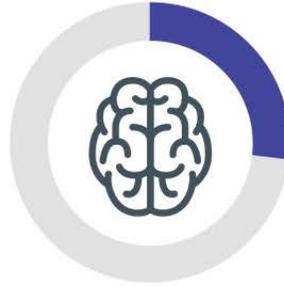
² To learn more about Medicaid eligibility levels, please visit <https://www.medicaid.gov/medicaid/program-information/medicaid-and-chip-eligibility-levels/index.html>.



61 percent of all long-term services and supports spending is from Medicaid.



32 percent of nursing and center care and 56 percent of other health, residential and personal care that includes a variety of home and community-based services is financed by Medicaid.



27 percent of all spending on mental health services and about 21 percent of all spending on substance abuse treatment is from Medicaid.



Around **50 percent** of the patients served by safety net hospitals are uninsured or covered by Medicaid, accounting for approximately 43 percent of revenue at these hospitals.



Medicaid covers **47 percent** of community health centers' patients, representing 42 percent of health centers' total revenue.



Medicaid accounts for around **20 percent** of patient revenue for physicians in rural areas, compared with 17 percent for physicians in urban areas.



Medicaid finances around **48 percent** of births in the U.S

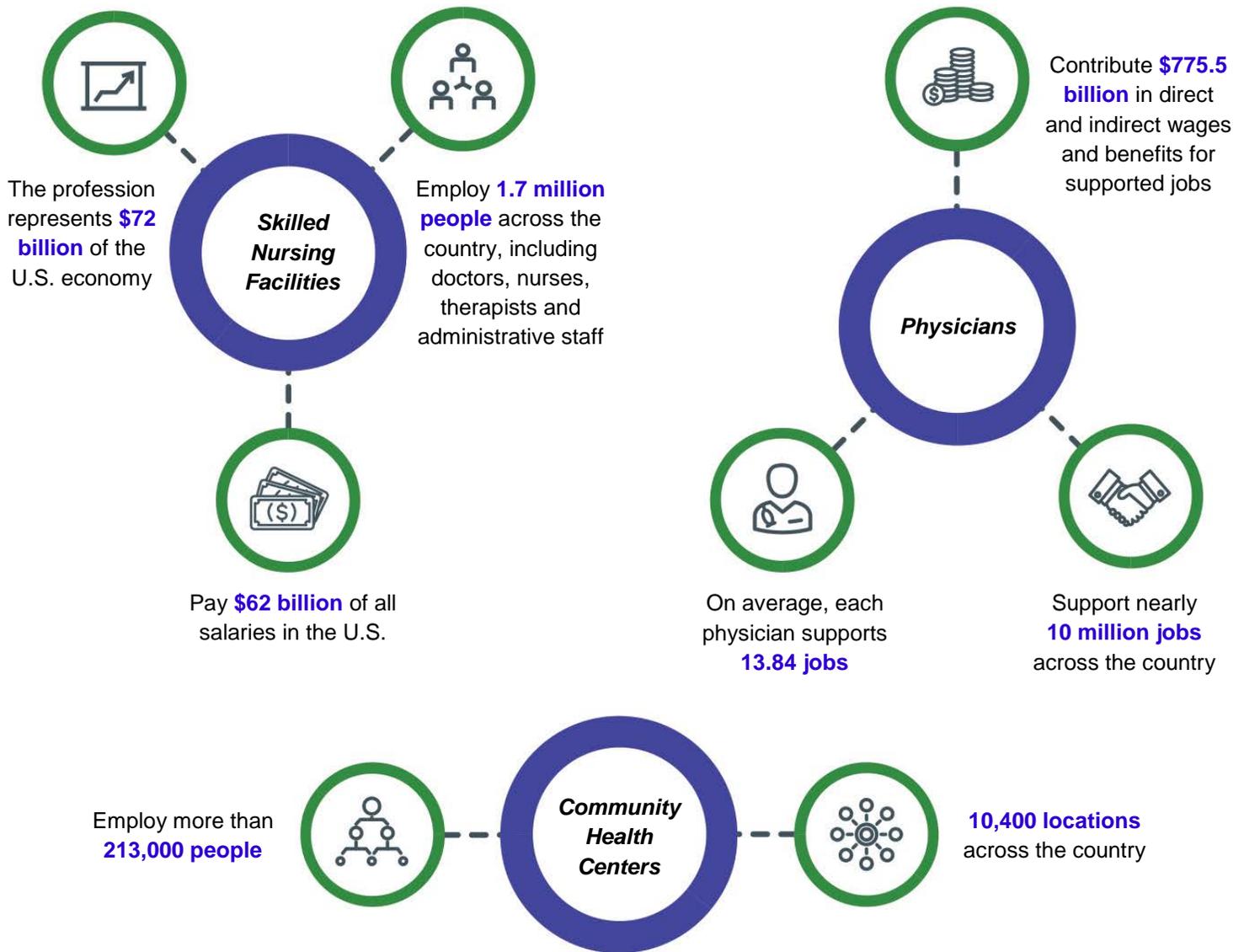
financing structure allows states to use federal funds to support local health services, thus fueling associated economic activity. Federal Medicaid funds help support wages for people providing services to Medicaid enrollees. In turn, these wages support consumers' purchases of goods and services, thus increasing commerce and tax revenue in local areas -- what economists refer to as the "multiplier effect."^{vi}

Because rural areas are disproportionately dependent on Medicaid, the economic effect in rural areas is particularly significant. A study in Idaho found that Medicaid spending in rural counties results in total county health care expenditures five times the original investment.^{vii}

Expansion of the Medicaid program under the ACA has also impacted local economies. In 2015, national health care spending increased 5.8 percent overall. The faster growth in 2014 and 2015 was primarily due to major coverage expansions under the ACA, particularly for Medicaid and private insurance.^{viii} Preliminary studies show that Medicaid expansion states have more jobs in the health care sector and reductions in hospital uncompensated care costs compared with non-expansion states.^{ix}

How Do Safety Net Providers and Plans Strengthen State and Local Economies?

According to the Bureau of Labor Statistics, the health care and social assistance sector is expected to become the largest employing major sector in 2024, overtaking state and local government as well as professional and business services.^x Health care and social assistance is projected to increase its employment share from 12 percent in 2014 to 13.6 percent in 2024.^{xi}



Health care providers are also consumers, making purchases from other businesses, such as medical supply companies and food suppliers. Through these activities, providers inject economic life into the communities they serve. Every dollar spent on Medicaid has a ripple effect that stimulates additional spending for goods and services. This generates economic activity that bolsters local economies and strengthens state economic vitality. Fluctuations in Medicaid spending can impact a Medicaid provider's supply order, which then may affect that vendor's purchases from its vendors, and ultimately affect a state's broader economy.

QUALITY OF CARE AND OUTCOMES

How does Medicaid impact outcomes?

People who are enrolled in Medicaid are less likely than uninsured or privately-insured individuals to go without needed medical care due to the cost of care, and in some cases are more likely to have a usual source of care. Several studies have drawn a positive correlation between Medicaid-covered children and completion of high school and college which resulted in greater economic contributions to society as adults.^{xiii} Medicaid provides a long-term return on investment that goes beyond basic health coverage.

How is quality and performance measured in Medicaid?

Quality and performance in Medicaid are measured in a variety of ways and for different covered populations. Variation exists across states in how programs address and measure quality. A number of states are working to develop robust Medicaid fee-for-service quality measurement systems, recognizing the importance of being able to measure quality throughout the Medicaid program.^{xiv} In addition, states are developing quality measurement requirements for comprehensive risk-based managed care plans, where plans submit data based on national quality measures that states and the federal government can use to assess specific plan and overall program performance.^{xv, xvi} Recent surveys have shown that adults covered by Medicaid or parents with children covered by Medicaid are more likely to rate their experience as above satisfactory or give their plan a top rating than those enrolled in commercial plans.

How does Medicaid influence delivery system changes?

States are also implementing programs to improve and reward quality both inside and outside comprehensive, risk-based managed care, such as pay-for-performance (P4P) incentive programs. States have flexibility in designing P4P initiatives and determining the providers that are included. A recent example is the Texas Pay-for-Quality Program, which creates incentives and penalties for managed care organizations based on performance using a set of quality measures.^{xvii} These P4P initiatives require participating plans or providers to meet certain quality thresholds established by the state or demonstrate a specific degree of improvement.

Medicaid Provides Needed, Quality Care

A randomized study in Oregon demonstrated that Medicaid enrollees were 70 percent more likely to report having a regular place of care and 55 percent more likely to report having a usual doctor than similar uninsured individuals. Medicaid enrollees were also 40 percent less likely to borrow money or skip other payments as a result of medical bills.^{xviii}

A recent survey comparing Medicaid-covered individuals with privately-insured and uninsured individuals shows Medicaid covered individuals reported receiving recommended preventive services at higher rates than uninsured individuals.^{xix}

CONCLUSION: MEDICAID IS VITAL

Medicaid is an integral part of the country's economic and social assistance fabric. The program provides needed, quality health care to low-income children and families, adults, the elderly and people with disabilities. Many Medicaid beneficiaries are unable to access health insurance through their workplaces, either because it is not offered or not affordable. Less costly than private coverage, Medicaid has controlled per enrollee spending growth. Medicaid is a vital funding source for both the health care system and the economy as a whole, particularly for the health care safety net, state economic activity and jobs.

The Partnership for Medicaid

The Partnership for Medicaid is a nonpartisan, nationwide coalition of 23 organizations representing health care providers, safety-net health plans, counties and labor. The goal of this coalition is to preserve and improve the Medicaid program.

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- ⁱ Centers for Medicare and Medicaid Services, <https://www.medicaid.gov/medicaid/program-information/medicaid-and-chip-enrollment-data/report-highlights/index.html> (July 2017 Enrollment Report)
- ⁱⁱ Kaiser Family Foundation, "Medicaid Financing: An Overview of the Federal Medicaid Matching Rate (FMAP)," Sept. 2012, <https://kaiserfamilyfoundation.files.wordpress.com/2013/01/8352.pdf>.
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- ^{iv} Kaiser Family Foundation, "Medicaid Matters: Understanding Medicaid's Role in Our Health Care System," March 2011, <https://kaiserfamilyfoundation.files.wordpress.com/2013/01/8165.pdf>.
- ^v Kaiser Family Foundation, "The Role of Medicaid in State Economies and the ACA," Nov. 2013, <https://www.kff.org/medicaid/issue-brief/the-role-of-medicaid-in-state-economies-and-the-aca/>.
- ^{vi} Ibid.
- ^{vii} John Bailey, Center for Rural Affairs, "Medicaid and Rural America," Feb. 2012, <http://files.cfra.org/pdf/Medicaid.pdf>.
- ^{viii} Center for Medicare and Medicaid Services, "National Health Expenditures 2015 Highlights." <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/downloads/highlights.pdf>.
- ^{ix} Manatt Health, "States Expanding Medicaid See Significant Budget Savings and Revenue Gains," March 23, 2016, <https://www.manatt.com/Insights/White-Papers/2016/States-Expanding-Medicaid-See-Significant-Budget-S>.
- ^x U.S. Bureau of Labor Statistics, "Employment Projections: 2014-24 Summary," Dec. 8, 2015, <http://www.bls.gov/news.release/ecopro.nr0.htm>.
- ^{xi} U.S. Bureau of Labor Statistics, "Employment Projections: 2014-24 Summary," Dec. 8, 2015, <http://www.bls.gov/news.release/ecopro.nr0.htm>.
- ^{xii} U.S. Bureau of Labor Statistics, "Occupational Outlook Handbook: Healthcare Occupations," Dec. 17, 2015, <http://www.bls.gov/ooh/healthcare/home.htm>.
- ^{xiii} Georgetown Center for Children and Families, "Medicaid Provides an Excellent Long-Term Return on Investment," July 28, 2015, <http://ccf.georgetown.edu/all/medicaid-provides-excellent-long-term-return-investment>.
- ^{xiv} Center for Health Care Strategies, "Performance Measurement in Fee-for-Service Medicaid: Emerging Best Practices," Oct. 2010, https://www.chcs.org/media/CA_FFS_Performance_Measures_Final_102610.pdf.
- ^{xv} National Committee on Quality Assurance, "What is HEDIS (Healthcare Effectiveness Data and Information Set)," <http://www.ncqa.org/HEDISQualityMeasurement/WhatIsHEDIS.aspx>.
- ^{xvi} Agency for Healthcare Research and Quality, "About CAHPS (Consumer Assessment of Healthcare Providers and Systems)," Oct. 2016, <https://www.ahrq.gov/cahps/about-cahps/index.html>.
- ^{xvii} Texas Health and Human Services, "Medicaid and CHIP Quality and Efficiency Improvement," http://www.hhsc.state.tx.us/hhsc_projects/ECI/P4Q.shtml.
- ^{xviii} Katherine Baicker, PhD, and Amy Finkelstein, PhD, "The Effects of Medicaid Coverage-Learning from the Oregon Experiment," Aug. 25, 2011. <http://www.nejm.org/doi/full/10.1056/NEJMp1108222>.
- ^{xix} The Commonwealth Fund, "Does Medicaid Make a Difference? Findings from the Commonwealth Fund Biennial Health Insurance Survey, 2014." <http://www.commonwealthfund.org/publications/issue-briefs/2015/jun/does-medicaid-make-a-difference>.