ISSUE REVIEW

Iowa Legislative Services Agency
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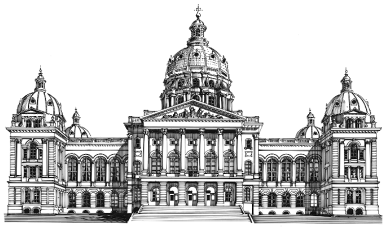


State Capitol
Des Moines, IA 50319
December 19, 2003

Medicaid Update

ISSUE

The Medical Assistance Program (Medicaid) has experienced significant increases in expenditures and enrollment over the past three years. These increases have been primarily attributed to the economy and increases in the cost of prescription drugs. This ***Issue Review*** provides an update on the experiences of the Iowa Medicaid Program over the past three years and recent legislative changes intended to address the cost growth. In addition, information is provided on other states' experiences over the same time period.

AFFECTED AGENCIES

Department of Human Services
County Governments

CODE AUTHORITY

Chapter 249A, Code of Iowa
2003 Iowa Acts, HF 619
Chapter 77-84, 87-90, Iowa Administrative Code

BACKGROUND

Medicaid is jointly funded by the states and the federal government based on the Federal Matching Assistance Percentage. Iowa's Medicaid Program is funded 63.5% by the Federal government and 36.5% by the State. The majority of the State match is funded by the State, including the General Fund, the Senior Living Trust Fund, the Hospital Trust Fund, and the Healthy Iowans Tobacco Trust Fund. County governments also provide State matching funds for adults in the Mental Retardation Home and Community Based Services Waiver. In FY 2003, approximately $2.129 billion was expended for the Iowa Medicaid Program from all fund sources. Of this amount, $531.0 million was funded by State funds and $1.471 billion was funded by federal funds. The expenditures for FY 2003 from all fund sources are shown in **Table 1**.

Table 1 FY 2003 Medicaid Expenditures – All Funds	
State General Fund	$ 418,742,073
Senior Living Trust Fund	48,085,961
Hospital Trust Fund	19,000,000
Healthy Iowans Tobacco Trust	38,530,302
Other/County Governments	126,585,323
Federal Funds	1,471,477,209
Total All Funds	$2,129,020,868

The Medicaid Program pays for medical services, including but not limited to hospital, physician, nursing facility, mental health, prescription drugs, and home and community based services, provided to Iowans who meet the eligibility criteria. In order to be enrolled in the Program, participants must both meet income criteria and fall within specified categories, such as being disabled, a child, a pregnant woman, over age 65, or the parent or guardian of a child. Meeting the income criteria alone is not sufficient to be enrolled. The Medicaid Program is an entitlement, meaning any person who meets the eligibility criteria is entitled to services. As of September 30, 2003, there were 266,995 recipients enrolled in the Iowa Medicaid Program.

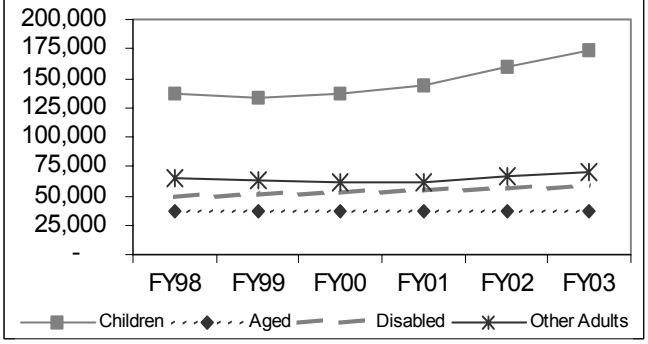
Nationally, and in Iowa, Medicaid programs have experienced significant increases in expenditures and enrollment over the past three years. State Medicaid expenditures increased 23.5% from the beginning of FY 2001 through FY 2003, an average of 7.3% per year. Enrollment increased 29.2% over the same period, an average of 8.9% per year. In comparison, net State General Fund revenue, excluding transfers, declined 5.9% over the same time period (an average of –2.0% per year) and State population growth was flat. The Medicaid Program increases have consistently outpaced budgeted estimates and have resulted in the need for supplemental appropriations in each of the past three years (see **Table 2**). The increases have been driven by a combination of growth in enrollment and in the cost of providing services. These factors are discussed in more detail in the following sections.

Table 2 Supplemental Appropriations	
FY 2001	$15,900,000
FY 2002	57,497,000
FY 2003	58,000,000

ENROLLMENT AND EXPENDITURES

The Medicaid population consists of four main groups of recipients: children, adults with children, the disabled, and persons over age 65. Children make up the largest portion of the population at 51.0%, adults with children are 20.9%, the disabled are 17.2%, and persons over age 65 are 10.9% of the total. The number of children is increasing faster than any other group, accounting for 71.7% of the enrollment growth in Medicaid over the past three years (see **Table 3**).

Table 3
Medicaid Enrollment



Expenditures have increased significantly since FY 2001 due to the enrollment growth, but also due to increases in the cost of medical services, particularly prescription drugs. The three highest categories are summarized below:

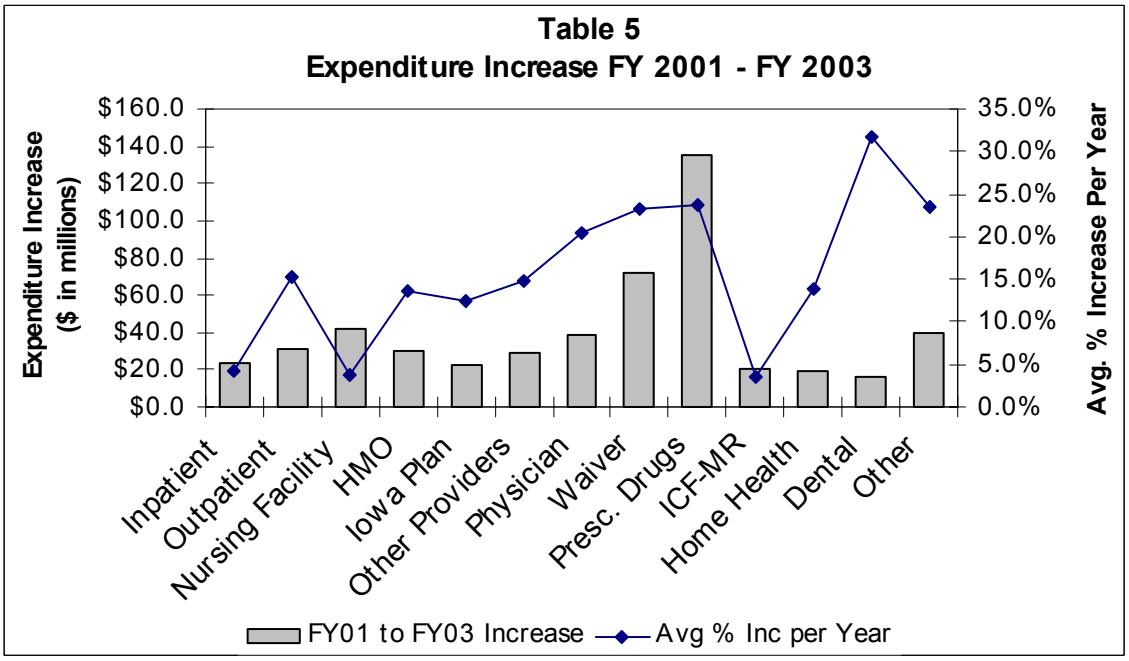
1. Prescription Drugs - From FY 2001 through FY 2003, prescription drugs increased an average of 23.8% per year and accounted for the largest share (25.9%) of the increase in total expenditures.
2. Waivers - Home and Community Based Services Waivers, which allow persons who would otherwise be in a nursing home to receive services at home, increased by an average of 23.4% per year and accounted for the second largest share (13.8%) of the increase in total expenditures. The Mentally Retarded (MR) Waiver is approximately half of Waiver expenditures; the State match for the MR Waiver is funded by county governments.
3. Nursing Facilities - The category of expenditures accounting for the third highest share of the increase in expenditures (8.0%) is nursing facility costs, which increased by an average of 3.8% per year.

Table 4
Expenditures by Provider
($ in millions)

	FY 2003
Nursing Facility	$406.7
Prescription Drug	323.9
Inpatient	209.8
ICF-MR	209.3
Waiver	175.1
HMO	104.3
Physician	103.0
Outpatient	97.7
Other	97.3
Other Providers	94.4
Iowa Plan	85.2
Home Health	66.9
Dental	34.1
Total	$2,007.7

Table 4 shows FY 2003 expenditures for all funds (State and Federal) by provider category. **Table 5** shows the expenditure increase for each provider category from FY 2001 through FY 2003 and the average percent increase per year for each category.

Table 5
Expenditure Increase FY 2001 - FY 2003



While the majority of the increase in enrollment over the past three years has been in the number of children, the increase in expenditures has been driven by expenditures for the elderly and disabled. The provider categories accounting for the largest share of expenditure increases (prescription drugs, Home and Community Based Services Waivers, and Nursing Facilities) are primarily associated with elderly and disabled populations. For example, in FY 2003, there were

approximately 54,300 persons over age 65 who are eligible for both Medicare and Medicaid (known as "dually eligible"); 21.3% of the total Medicaid population. This group accounted for 56.0% of total Medicaid prescription drug expenditures in FY 2002. This equates to approximately $181.4 million in total funds expenditures ($64.3 million State funds) in FY 2003. This trend is reflected in **Table 6** and **Table 7** below.

Table 6
Total Expenditures

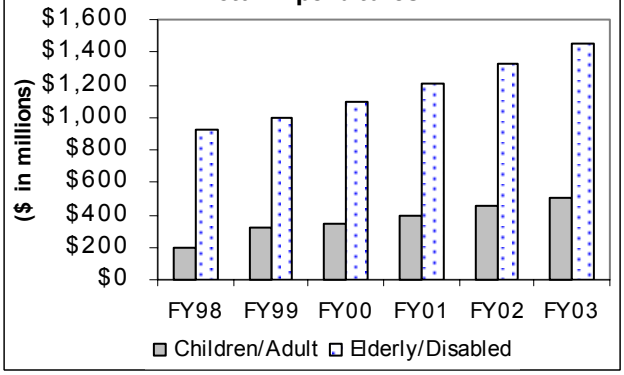
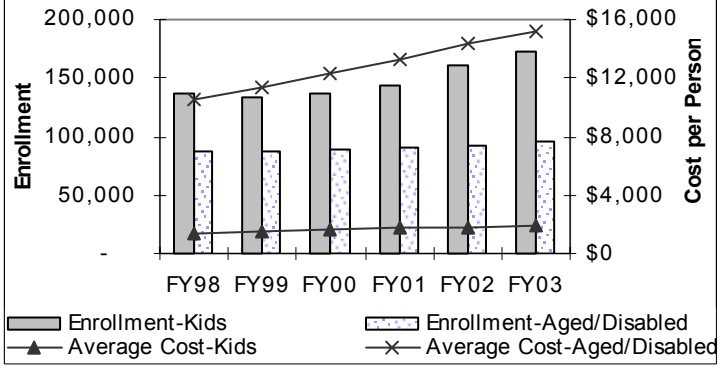


Table 7
Enrollment vs Cost - Children & Elderly/Disabled



The elderly and disabled recipients in Medicaid are 28.1% of total enrollment, but account for 74.2% of total expenditures. In addition, the elderly and disabled populations account for 68.3% of the total increase in expenditures from FY 2001 through FY 2003, but accounted for only 4.1% of the increase in total enrollment.

This data demonstrates that while enrollment has increased significantly from FY 2001 through FY 2003 (due mainly to growth in children), the primary factor driving spending increases has been expenditures for the elderly and disabled.

SAVINGS INITIATIVES

In an attempt to reduce expenditures in the Medicaid Program, HF 619 (Medicaid Cost Containment Act) was enacted during the 2003 Legislative Session. House File 619 included a number of strategies estimated to result in approximately $46.4 million in savings beginning in FY 2004. These strategies included the following:

- Increasing co-payments for prescription drugs and physician visits to the maximum level permitted by the Federal government (a range of $1 to $3 per co-payment).
- Reducing reimbursement for prescription drugs, including decreases in the pharmacy dispensing fee, brand name drug reimbursement, and the reimbursement rate for the State Maximum Allowable Cost Program for generic drugs.
- Requiring the Department of Human Services to implement a Preferred Drug List.
- Capping nursing facility reimbursements at the FY 2003 level. This change incorporated other nursing facility reimbursement changes implemented through the Administrative Rules process.
- Implementing a physician reimbursement Intergovernmental Transfer Program.
- Implementing a Disease Management Pilot Program.
- Increasing utilization management and targeted audits.

The cost savings options require approval by the Federal Center for Medicare and Medicaid Services (CMS). The co-payment increase and prescription drug reimbursement reductions have been implemented and are estimated to save approximately $7.0 million in FY 2004. The Preferred Drug List is scheduled to begin January 1, 2004, but has not yet received federal approval. The nursing facility cap on reimbursement rates has been implemented; however, there was disagreement between DHS and the providers over how the cap was to be implemented. Other changes to nursing facility reimbursement have been implemented through the Administrative Rules process. The nursing facility changes in total are now estimated to save approximately $6.0 million in FY 2004.

Since HF 619 was enacted, CMS has changed its view of some practices that had been approved in the past. As a result, approval of the physician Intergovernmental Transfer Program (originally estimated to result in $13.5 million in savings) is uncertain. The remaining savings items (approximately $2.0 million in savings) are in the process of being implemented, but have not yet resulted in savings.

After HF 619 was enacted, Congress provided $10.0 billion in one-time federal fiscal relief to states for Medicaid. The funds are allocated to the states through a 2.95% increase in the federal match rate for Medicaid. In FY 2003, Iowa received $14.9 million in increased federal revenue from the enhanced match rate. In FY 2004, Iowa will receive approximately $47.0 million in increased federal revenue for the Medical Assistance Program. The increased federal match rate ends at the end of FY 2004.

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