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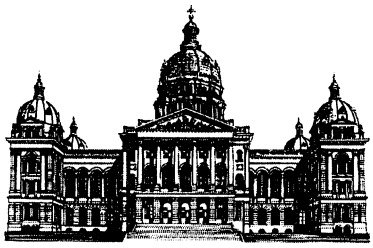


The Senate
State of Iowa
Eighty-first General Assembly
STATEHOUSE
Des Moines, Iowa 50319

COMMITTEES

Appropriations
Economic Growth, *Co-chair*
Human Resources
State Government
Health and Human Services
Appropriations Subcommittee, *Co-chair*

Rationale to Continue Funding Medicaid
&
Cost Savings Proposal while Maintaining Eligibility and Services

As the Medicaid program in Iowa currently stands there is no excuse why an increase in funding for the program should be denied. Moreover, changes in services and eligibility should not be decreased. Cutting patient eligibility or services will only create more of a crisis within our healthcare system.

Medicaid plans cannot stop providing coverage simply because immediate significant improvement is not possible. Medicaid continues to make far reaching achievements. In Iowa, 283,000 constituents were enrolled in Medicaid in 2004. The Fiscal Services Division of the Legislative Services Agency estimates Medicaid enrollment will increase by 5.9% in FY 2005 and 4.5% in FY 2006. This growth is attributed to economic conditions and increases in the cost of services.

Talking Points

- Iowa's families, who rely on Medicaid as the means of receiving their health care, will suffer real hardships if they are considered no longer eligible, or cannot receive the services from qualified providers because of potential cuts to eligibility, services or provider reimbursement rates. This represents the lowest income brackets of Iowa families.

- Iowa's Medicaid program is efficient and of high quality. According to CMS and reported by the Journal of the American Medical Association in January, 2003, Iowa ranks 6th best in the quality of care offered compared to other states.

- Iowa's Medicaid providers are operating at FY 2000 payment levels and rising costs and increased administrative burdens add additional stress to the system – cuts to reimbursement rates would significantly impact an already fragile health care system.

- Providers will question their ability to remain in the Medicaid program if cuts to reimbursement are implemented, impacting access to needed health care services available to Iowa Medicaid patients in both rural and urban areas.

- Iowa's Medicaid program and the associated expenditures of 13% of the state General Fund are a lower percentage of our state budget than other states in our region and are well below the national average, even when adjusted for the use of our one-time and time-limited funds. Iowa's Medicaid program has been conservative despite growing costs.

- The Iowa Medicaid program cannot sustain a cut of $130M without devastating the program – additional sources of revenue need to be identified.

There is a strong belief that changing Medicaid eligibility requirements to remove people from the program or deny them necessary services will only add to the population of uninsured patients who will still need to receive health care. Often these individuals end up seeking care through expensive resources like hospital emergency rooms and the cost for this care ends up being shifted to patients covered by insurance, creating a perverse cycle of escalating insurance costs and fewer people able to afford it. Access to care is also likely to diminish if Iowa's already low Medicaid reimbursement rates are cut even more. Services considered to be "optional" under Medicaid were repeatedly identified as programs that provide Iowa Medicaid with high quality care and outcomes. If those services were eliminated, the care would often be replaced by higher cost alternatives and access to care and service may also be undermined. Cuts in eligibles, services or reimbursement may have favorable impacts on the State's budget but will create problems in the health care system as a whole and in the budgets of others.

Financial Weight

Medicaid is a function of the economic development in Iowa. Medicaid brings in money that would not be here otherwise. The rate of return through matching funds of the federal government is almost 2 to 1 (approximately a matching rate of 63.55%). Fiscal Year 2004 State expenditures totaled $537.0 million, which were matched by approximately $1.7 billion in federal funds, for a total of approximately $2.2 billion in expenditures. That $2.2 billion supports a health care infrastructure in Iowa that is suffering from low reimbursement by Medicare, Medicaid and the major health plans which use Medicare as their basis for their private pay fee structures. With Medicaid and Medicare making up more than half of the payments received by some providers and the fact that health care facilities in many rural communities are major employers – any cuts to Medicaid will impact the viability of these rural communities and make urban providers more vulnerable economically.

If Iowa reduces its Medicaid spending, it will also reduce its draw on federal funds. People in need of Medicaid assistance do not disappear when Medicaid expenditures are reduced. Iowa spends on average 11% of its annual budget on Medicaid expenditures, compared to the national average of 19%., this figure troublesome due to the fact that Iowa has the second oldest population over the age of 85 in the Union and the seniors that utilize Medicaid programs, along with the disabled account for 73.6% of the funds.

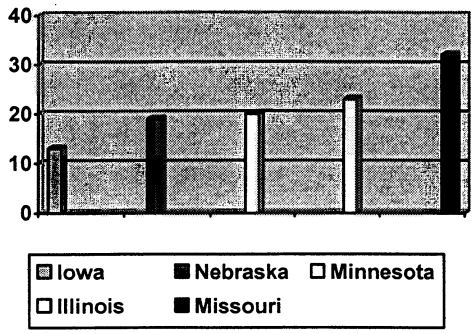
Persons who lose Medicaid coverage are three times as likely as insured persons to lack a regular source of healthcare and twice as likely to have made no visits to a physician's office in a year. In the absence of Medicaid, the number of uninsured people in the State would increase drastically, since most Medicaid beneficiaries have no alternative source of coverage.

Nationally, Medicaid spending increased by 9.8% in FY 2003. In Iowa, expenditures increased by about 5.6% before including the surplus from the enhanced federal match rate.

For FY 2005, the General Assembly budgeted 13% of the general fund dollars for Medicaid expenditures. This is down from FY 2004 where 14% of general fund dollars were dedicated to the program according to the National Association of State Budget Officers. This is

significantly lower than surrounding states such as Missouri – 32%, Illinois – 23%, Minnesota – 20% and Nebraska – 19%, with **Iowa ranking 47th lowest nationwide on this measure.**

FY 2005 General Assembly budget for Medicaid Expenditures



As the number of eligibles for Medicaid and the corresponding services increase in Iowa as a result of the lack of available jobs and private insurance for underemployed Iowans, there are areas of the Medicaid budget growing at a faster rate than others. These include significant increases in three areas of optional services: prescription drug costs, long-term care services, and home and community-based waiver services.

Optional services provide significant preventative and ongoing specialized health care outside of the traditional acute care services offered by physicians and hospitals. While these services technically are listed as optional services under federal rules in the Medicaid program, each service is a vital component of the success of the Medicaid program to date and cannot be considered optional when looking at the needs of the Iowa Medicaid recipients. Cutting optional services will only cut minimal costs in the short term and increase costs in the future. These optional services include:

1) Prescription drugs.
2) Preventive dental services.
3) Chiropractic and Podiatric services.
4) Durable medical equipment, such as wheelchairs, dentures, eye glasses, and prosthetics.
5) Physical, occupational, and speech therapy.
6) Hospice.
7) Home and community-based services.
8) Other services.

In 2003 Congress enacted legislation that allocated $10.0 billion in one-time Federal Fiscal Relief for State Medicaid Programs. The increase in federal matching funds allows State expenditures to be shifted to federal funds on a one-time basis. For Iowa, this resulted in a shift of $14.9 million in FY 2003 and $47.6 million in 2004 to federal funds on a one-time basis. Now that the one time funds have been exhausted, FY 2005 the State matching funds will need to increase by $47.6 million to make up for the loss of the one-time federal fund.

Iowa State Medicaid Expenditures	
FY 2002 Actual	$516.0 million
FY 2003 Actual	$531.0 million
FY 2004 Actual	537.0 million
FY 2005 Appropriation	568.5 million
FY 2005 LSA Estimate (w/ supplemental)	622.2 million
FY 2006 LSA Estimate	700.0 million

Moral Obligation

Medicaid covers four main groups 1) pregnant woman and children 2) members of a family with dependent children 3) ages 65+, and lastly, blind and disabled.

On the national level, the US remains the only industrialized nation that has never settled on a social policy that, however policy makers choose to accomplish, offers a basic set of healthcare benefits to all residents regardless of their ability to pay- certainly a regrettable failure in a nation blessed with so many resources.

States make a moral commitment for a healthcare safety net for vulnerable citizens in society. During the economic downturn, Medicaid was the safety net that cushioned the fall. If Medicaid is cut, there will be no net to break the fall. It is our moral obligation to try to provide quality healthcare everyone can afford.

Without the benefit of Medicaid coverage, certain families would be forced to go without necessary preventative care or use a more expensive alternative such as the hospital emergency room when care becomes emergent and necessary. Clearly, those served under the Medicaid program are the most vulnerable to cuts in eligibility and services. The need for health care does not end if eligibility for Medicaid or insurance coverage ends and when care is not reimbursed, it only adds to that care that must be absorbed as uncompensated care. Cuts to eligibility or to services, would only increase the uninsured patients seen by hospitals and physicians placing increased stress on an already fragile health care system. We must continue to fund services to the frail and elderly who currently receive care under the Medicaid program and through funds appropriated from the Senior Living Trust Fund.

Strategies to Meet our Obligation

Revenue

General Fund Appropriation- continue to appropriate $65 to $85 million/year
Provider Tax- Those not providing services to Medicaid clients
Hospital Tax- Fee charged proportionately to hospitals serving the fewest number of Medicaid Patients
Cigarette Users Fee- a $1 increase will generate $163 million

Practice/Organizational Issues

Development of a lay health worker program
Small business health purchasing pool
Statewide prescription drug purchasing pool
Requirement for universal pre-admission assessment
Expansion of the role and numbers of Community Health Centers (CHSs)
Scope of practice issues

Case Management/ Care Management

Buying pharmaceuticals from Canada
Purchasing cooperatives
Drug utilization review

Prevention/Education

Involving patients more in their own therapy

State/Federal Partnerships

Medicaid Block Grants / Entitlement Caps

DHS proposal to CMS regarding IGTs and related issues

Expense Management
Reduce regulatory burdens
Incentives to purchase long-term care insurance
Expand managed care
Preferred drug list

Overarching Issues
Medical liability reform
Exploring select aspects of the NCSL (National Conference of State Legislators) proposal
Creating a standing commission on health care with broad representation
Increasing scrutiny for fraud and abuse
Universal health coverage

HF 619 - FY 2004 Cost Saving Initiatives

- $6.1 million – Pharmacy reimbursement changes.
- $0.9 million –Increase in prescription drug co-payments to the Federal maximums (range of $1 to $3).
- $7.0 million – Implementation of Preferred Drug List.
- $10.8 million – Nursing facility reimbursement changes.
- $2.0 million – Increased utilization management and targeted audits.
- $13.5 million – Physician intergovernmental transfers.
- $6.1 million – Intermediate Care Facility for the Mentally Retarded (ICF/MR) provider fee.

Enrollment Trends

- In Iowa, children account for 51.0% of the Medicaid population and 16.6% of expenditures.
- In Iowa, the elderly and disabled account for 28.1% of the Medicaid population and 74.2% of expenditures.
- About 55.0% of national expenditures on the elderly and disabled for long-term care services.

Mandatory Eligibility Categories

- Families with dependent children (Family Medical Assistance Program [FMAP])
- Children under age 19.
- Pregnant women.
- People who receive Supplemental Security Income (SSI), includes aged, blind, and disabled.
- Certain Medicare beneficiaries.
- Other "protected classes," such as Transitional Medical Assistance.

Optional Eligibility Categories

Iowa has opted to cover additional groups, including:

- Children under age 21 and adults over age 65 in institutions for mental disease.
- Individuals on the Home and Community Based Services Waiver who would be eligible if in an institution.
- Individuals needing breast or cervical cancer treatment. Medicaid for Employed People with Disabilities (sometimes called "Medicaid Buy-in").
- Medically Needy Program.

Eligibility varies by program

- The required income level varies by eligibility category.
- May also vary by age.
- Long-term care eligibility also has a medical term component.
- The following chart provides an overview of the required income levels for some eligibility categories.

Services

Mandatory Services

1) Inpatient and outpatient hospital services.
2) Physician services.
3) Medical and surgical dental services.
4) Nursing home care.
5) Home health care.
6) Family planning services and supplies.
7) Laboratory and x-ray services.
8) Early Periodic Screening, Diagnosis, and Treatment.

- Enrollment and expenditure increases have exceeded expectations, resulting in supplemental appropriations in FY 2001, FY 2002, and FY 2003.
    - FY 2001 $15.9 million from Senior Living Trust Fund.
    - FY 2002 $39.7 million from Senior Living Trust Fund and other State fund transfers.
    - FY 2003 $58.0 million from General Fund and other State funds.