The downturn in the global economy is impacting workers and families across the nation. Economic conditions are deteriorating, and we may only be at the very beginning of the downturn. As unemployment increases, economic activity will continue to decline, and businesses that already are cutting back on expenses will be forced to scale back even further.

Here in Virginia the nationwide recession has strained the state budget with a shortfall of up to $3.2 billion expected in fiscal years 2009 and 2010. With this shortfall, funding for critical programs and services has been placed at risk at exactly the point that Virginia residents will need them the most. Many citizens will be exposed to not only financial anxiety from benefit reduction and job loss but also the reduction and loss of health benefits for themselves and their families.

Health care is the second largest expenditure in the state budget, behind only K-12 education. Virginia’s health care safety net programs like Medicaid and the state’s children’s health insurance program, Family Access to Medical Insurance Security (FAMIS), are targeted for cuts. These cuts will likely reduce reimbursement rates to providers caring for Medicaid/FAMIS patients and scale back coverage to citizens who will look to this safety net in increasing numbers as the economy worsens.

To help protect these workers and their families, Virginia and all other states should maintain the health safety net for those in need of health coverage caused by a job loss. While budget solvency is important, the General Assembly and Governor Kaine should consider the critical importance of health care, especially during these uncertain economic times. It should be noted that Congress, with the support of President-elect Barack Obama, is likely to approve a major economic recovery package early in 2009 that will include financial fiscal relief to states, including a temporary increase in Medicaid reimbursement rates (perhaps up to an 8 percent increase) that would add hundreds of millions of dollars in assistance for the state. This fiscal relief should help prevent reductions in health safety net programs.

This brief first examines the key gaps in the health care safety net in Virginia and proposes improvements to help protect workers and their families.

The General Assembly and Governor Kaine should consider the critical importance of health care, especially during these uncertain economic times.
A Safety Net Already Strained

While the health care safety net exists to catch and support individuals and families during periods of significant financial challenge or hardship, such as during a major financial crisis, the safety net in Virginia was showing indications of weakness even before the current economic crisis arrived due to the erosion of employer-sponsored health insurance.

Employer-sponsored health insurance coverage levels decline

In general, Americans get their health insurance through their jobs. With a large military and government employment sector, Virginia traditionally has had a high percentage of workers covered by employer-provided insurance. Even during the past eight years, with employer-sponsored coverage declining substantially across the nation, the Commonwealth has consistently out-paced the rest of the United States in providing employer health benefits.

But even before the current economic slowdown began, Virginia’s employer-sponsored health care system showed signs of weakening. In 2006 almost 67 percent of Virginians were covered by their employer, according to U.S. Census Bureau estimates. By 2007, the percentage fell to less than 62 percent of the state population.

Costs of coverage are rising for employer and employee

One of the causes of the decline of employer-sponsored insurance coverage is the rising cost of that coverage for both employer and employee. According to a Families USA estimate of the Medical Expenditures Panel Survey data, premiums for family coverage in Virginia have increased by more than 80 percent since 2000, and by about 65 percent for individual health insurance. In 2007, the total cost of a family employer-sponsored health insurance policy was about $12,200 (both the employer and employee share). For an individual policy, the total cost was more than $4,300.

With the rising costs of premiums likely placing a strain on businesses that offer health coverage, workers are being asked to shoulder a greater share of the total premium. Virginia workers purchasing individual coverage paid 24.1 percent of the premium in 2006, up from 20 percent in 2005 (as shown in Figure 1). This is the highest percentage of any state in the nation. For family coverage, Virginians paid the third highest percentage
How the declining economy will affect Virginia

• **Rising unemployment.** Virginia’s unemployment rate, typically lower than the national average, has started to rise. Between November 2007 and November 2008, unemployment rose from 3.2 percent to 4.8 percent in the state. Most economists predict that the national unemployment rate potentially will rise to 8 percent or higher during this recession, meaning the state unemployment rate will continue its increase as well.

• **Loss of benefits.** The loss of employment will likely also result in the loss of employer-sponsored health insurance for many workers and their families. A September 2008 analysis by the Kaiser Family Foundation found that a 1-percent increase in unemployment would result in 1 million additional Americans enrolling in Medicaid or SCHIP. An additional 1.1 million would become uninsured.

• **Unaffordable benefits.** As employers face higher insurance costs and falling revenues, many employees will likely bear more of the expense. In 2006, Virginia workers faced a 20 percent average increase in their share of the total health insurance premium cost, and paid the highest percentage of the premium in the nation for single coverage. For family coverage, Virginians paid the third highest percentage in the United States.

With the decline of employer-sponsored health insurance and the increase in premium costs for workers and employers, Virginia has experienced a dramatic increase in the number of uninsured citizens. Although the percentage of Virginians without health insurance has increased steadily since 2001, when 10.4 percent of Virginians were without health coverage, the problem worsened considerably in 2007. Between 2006 and 2007, the percentage of Virginians without health coverage increased from 13.3 percent to 14.8 percent. And, for the second year in a row, more than a million Virginians were without health insurance coverage.1

Nationally, the uninsured percentage declined from 15.8 to 15.3 percent, largely due to the success of Medicaid and the State Children's Health Insurance Program (SCHIP; called FAMIS in Virginia). Although Virginia has had a lower percentage of uninsured citizens than the national average, the increase in the state in 2007 ran counter to the U.S. trend.

Virginia has experienced a dramatic increase in the number of uninsured.
Gaps in Coverage Weaken the Safety Net

During economic downturns, the availability of a health care safety net becomes even more critical. More citizens are unemployed, often suddenly, fewer citizens are able to access insurance through their employers, and the cost of coverage is either a strain on a family budget or so expensive as to be completely out of reach. While the budget situation in the Commonwealth will force policymakers in the state to set priorities, health care is an area that should not be ignored or neglected. Two successful safety net programs, Medicaid and FAMIS, can be strengthened to meet the needs of Virginians during the current economic downturn.

Why is coverage important?

Increased health insurance coverage, whether through employer-sponsored/private coverage or public insurance, helps those receiving coverage and reduces the overall cost of health insurance coverage. Recent research has shown that coverage in Medicaid and SCHIP substantially increases the likelihood of people accessing preventative and other necessary care, often with a significant social benefit as well.

- Seventy-five percent of children in Medicaid and SCHIP received a well-child visit in 2005, compared with only 46 percent of those without health insurance coverage, according to the Urban Institute.

- Children with Medicaid or SCHIP coverage miss fewer days of school, on average, than uninsured children.

- About 88 percent of adults with Medicaid coverage see a doctor within a typical year, while only 58 percent of uninsured adults do, according to the Centers for Disease Control.

- Uninsured persons already cost approximately $100 billion annually in health care-related services, much of it delivered through expensive, uncompensated emergency room care. Uncompensated care is partially reflected in higher premiums for Americans with insurance coverage. Bringing more people into the insurance system would likely reduce the cost of health insurance.
SCHIP Reauthorization

The original 10-year SCHIP authorization, included in the Balanced Budget Act of 1997, provided $40 billion in block grant funding for states to establish and run coverage programs for low-income children. At the time, few policymakers knew how states would react to the new program, but it quickly became apparent that there was great enthusiasm. States, including Virginia, gradually increased the size of their programs to respond to the burgeoning needs of low-income uninsured children. By 2007, the majority of states were spending in excess of their federal allotment, relying on unspent funds from previous years to prevent shortfalls that could result in reduced coverage.

To address the funding and programmatic needs, Congress twice passed a five-year $60 billion reauthorization bill. The legislation would have increased SCHIP block grant funding by an average of $7 billion a year, enough to prevent state shortfalls and allow states to cover an additional 3 to 4 million children according to Congressional Budget Office (CBO) estimates. Both bills were vetoed, forcing Congress to extend the program temporarily (with additional resources to prevent funding shortfalls) until March 31, 2009.

Without reauthorization or an additional extension, Virginia has estimated a $24 million funding shortfall beginning in July 2009. Such a shortfall could require the state to restrict enrollment or reduce benefits. However, Congressional leaders have indicated that SCHIP reauthorization will be a top priority when the new Congress reconvenes in January 2009. President-elect Obama has signaled that he intends to sign SCHIP reauthorization early in his new administration.

Current Medicaid policy leaves children vulnerable

Virginians who cannot access or afford private health insurance coverage through their employer are often left on their own to finance the cost of their health care. Privately purchased, non-employer insurance is prohibitively expensive for all but the young and healthy, and most adults and parents are unable to qualify for public programs such as Medicaid due to state-based income policies.

Virginia is one of the most restrictive states in providing Medicaid coverage. Income eligibility limits for parents in Virginia are below 30 percent of the federal poverty level, less than half the national average. That means parents earning more than $6,000 annually likely will not qualify for coverage under Medicaid.

Virginia is a wealthy state, with the 9th highest per capita personal income in the nation. The state’s wealth and revenue base would suggest robust public insurance programs. Yet, Medicaid funding is not nearly as adequate as the state’s wealth would suggest. Virginia ranks 47th in per capita Medicaid spending nationwide, ahead of only Colorado, Nevada and Utah. As Figure 2 shows, Virginia spends $609 per capita — only slightly more than half the national average of $1,015 and less than all of its neighboring states. Increasing the coverage of the Medicaid program for parents is well within the economic means of the state and would help support the most vulnerable Virginians during a difficult economic period.
FAMIS Basics

Funding:
• FAMIS is a block-grant program. States are allocated funds from the federal government based on a funding formula that considers factors such as the child poverty rate and percentage of low-income uninsured in the state. 
• Virginia spent approximately $170 million on FAMIS in federal fiscal year 2007, $59.6 million in state funding and $110.7 million in federal funds.

Coverage populations and enrollment:
• Over 144,000 children were enrolled in FAMIS during federal fiscal year 2007. Children age 0-18 with family incomes between 133 and 200 percent of the federal poverty level are eligible. Children age 6-18 with family incomes between 100 and 133 percent of poverty receive Medicaid benefits but are paid for with FAMIS funding.
• Pregnant women between 133 and 185 percent of the federal poverty level are also eligible under the FAMIS MOMS program. Over 1,000 women are enrolled in the program at any point in time. Beginning in July 2009, the program will be expanded to cover pregnant women with incomes up to 200 percent of the federal poverty level.

Benefits:
• Modeled on benefits offered in the state employee health benefit package; hospital care, doctor visits, well-baby/well-child visits, prescription drugs, vaccinations, dental and vision care, mental health services, and emergency care are covered.
# Positioning the Safety Net for Maximum Support

The Commonwealth Institute has identified five specific remedies to strengthen the health care safety net and position it to better meet the needs of Virginians during this economic downturn.

## 1. Cover More Parents

With total per-capita Medicaid expenditures less generous than in most states, Virginia is capable of increasing coverage, especially to low-income parents. To do this, policymakers should consider raising the income eligibility level to 100 percent of the federal poverty level (approximately $17,500 for a family of three).

When parents gain government health coverage, they are more likely to enroll their child. The majority of uninsured children are already eligible for either Medicaid or FAMIS (110,000 children are eligible but remain unenrolled, often because of a lack of information). There is a great opportunity to increase the percentage of Virginians with health insurance, especially in a time of severe economic difficulties.

Increasing parental coverage eligibility just to the national average of 64 percent of poverty would result in 19,000 to 37,000 additional parents with coverage, according to Governor Kaine’s Health Reform Commission. Expanding coverage to 100 percent of poverty would result in coverage for between 42,000 and 65,000 more Virginia parents. The Health Reform Commission estimated the cost of expansion to 100 percent of the federal poverty level would cost the state between $84 million and $127.5 million annually.

## 2. Cover All Kids

Assuming a successful federal SCHIP reauthorization in 2009, new federal funding support will be available to Virginia to cover additional children in the FAMIS program. Even with the success of FAMIS since 2002, there are still 187,000 uninsured children in Virginia. This estimate includes approximately 110,000 children who are already eligible for either FAMIS or Medicaid but are unenrolled.
With the new federal funding, Virginia policymakers should make a renewed effort to reach the eligible but unenrolled children in both FAMIS and Medicaid.

The General Assembly and Governor Kaine should also consider expanding FAMIS income eligibility from 200 to 300 percent of the federal poverty level, with a full cost buy-in option for families with incomes above 300 percent of the federal poverty level.

The Health Reform Commission, based on 2007 Department of Medical Assistance Service estimates, reported that increasing eligibility could enroll more than 21,000 children with family incomes between 200 and 300 percent of poverty at a state cost of approximately $21 million a year.

But, in addition to new enrollees with family incomes between 200 and 300 percent of poverty, increasing eligibility would likely enroll more children who are already eligible for FAMIS under existing income limits (This would result in some additional state costs above the $21 million for the expansion). States such as Illinois and Pennsylvania that have implemented programs to cover all children have found that the majority of their enrollees have family incomes of less than 200 percent of poverty.

For instance, of the 166,000 children initially enrolled in Illinois’ All Kids program, 70 percent were already eligible under the state’s old eligibility threshold of 200 percent of the federal poverty level. As families who previously did not think they were eligible for coverage learn that their state is offering access to coverage for all children, they are more likely to sign their children up for coverage since the uncertainty of qualifying has been removed.

### 3. Create Options for Working Virginians

About 70 percent of the uninsured in Virginia live in families with at least one full-time employee. Many of these families earn too much to qualify for Medicaid or FAMIS. With the erosion of employer-sponsored insurance, more Virginians will continue to become uninsured in the economic downturn.

In 2008, based on the recommendation of the Health Reform Commission, the General Assembly considered the “Virginia Share” program for small businesses. Under the proposal, workers, small businesses and the state would each contribute a third of the total premium cost for a

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**Medicaid Basics**

**Funding and coverage:**
- In fiscal year 2008, Virginia spent approximately $4.6 billion on Medicaid ($2.3 billion in state funds, $2.3 billion in federal match) and covered over 800,000 state residents.
- Approximately 56 percent of the state’s enrollment are children with family incomes up to 133 percent of the federal poverty level.
- Elderly and disabled are 33 percent of the enrollees, but generate about 66 percent of program spending.
- Adult/parental coverage accounts for 15 percent of enrollees and 9 percent of spending.

**Benefits:**
- Medicaid benefits include skilled nursing and home health services, inpatient hospital coverage, transportation, federally qualified health center coverage, transportation services, family planning services, prenatal care and laboratory and x-ray services.
- Virginia also provides optional coverage, including for mental health services, dental care for young adults 19 to 21, prescription drug coverage, and rehabilitation services.
- Children in Medicaid receive comprehensive benefits and preventive care through federally mandated Early Periodic Screening, Diagnostic and Treatment (EPSDT) benefits. EPSDT benefits include dental, vision, vaccines and other health screenings and services that help ensure healthy childhood development.
comprehensive insurance product. The state subsidies would be capped, so higher income Virginians would have to pay more for coverage. Although a revised plan passed the Senate, it was not adopted by the House of Delegates.

Virginia should once again consider a Virginia Share-type program to help alleviate the problem of uninsurance that is continuing to worsen in the state. Such a plan would help small businesses finance insurance coverage for their workers and allow more Virginians to afford coverage. It should include comprehensive benefits and reasonable cost-sharing that will not create a larger group of underinsured citizens. However, unlike the original Virginia Share plan, the insurance plan would likely need larger subsidies for lower income workers who might be unable to contribute a third of the premium costs.

4. Protect Access

For states trying to increase access to care for Medicaid and SCHIP beneficiaries, policymakers must ensure that there is an adequate number of physicians and other providers available to treat these patients. Although Medicaid is an entitlement for those who qualify, it does not provide a guarantee that an accessible and close-by provider will be available. It is tempting for states looking to protect enrollment in Medicaid and SCHIP to cut or slow the growth of reimbursements to providers. These are often “below the radar” reductions that can save the state money, without forcing any increases in revenue or benefit reductions.

To close the budget shortfall of $1.2 billion earlier in 2008, Virginia made changes to some provider reimbursements for fiscal years 2009 and 2010 in the 2008 state budget. Physician reimbursements were protected, but the Commonwealth did not provide for full inflationary adjustments for inpatient hospital and nursing care reimbursements.

This change saved the state approximately $41 million, but it lowered the average Medicaid reimbursement rate for inpatient hospital care from 78 percent to 75 percent of costs. “With the continued economic downturn, Governor Kaine proposed eliminating inflationary adjustments or reducing reimbursement rates further for providers. This could adversely impact

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**Match Rates for Medicaid/SCHIP**

The Federal Medical Assistance Percentages (FMAP) for Medicaid ranges from 50 percent to 75 percent, depending on economic conditions within a particular state. The formula compares the average per capita income for a state compared to the national average. With the 9th highest per capita personal income in the United States, Virginia’s match rate for Medicaid is 50 percent. Every dollar of state Medicaid spending is matched by a dollar of federal funding.

SCHIP is funded through an Enhanced FMAP, 30 percent higher than the match rate for Medicaid, between 65 percent and 85 percent. Virginia’s enhanced match for the FAMIS program is 65 percent, with every dollar spent matched by approximately two dollars in federal funding.
the number of treatment options available to beneficiaries of Medicaid and FAMIS, especially in rural areas of the state where there are fewer providers overall.

5. Protect Patient Safety

In July 2008, Virginia began to require acute care hospitals to report hospital-acquired infections to the Centers for Disease Control and Prevention (CDC) National Healthcare Safety Network, as well as the Virginia Board of Health. This information will be available to the public when requested.

Tracking and reducing hospital-acquired infections, as well as medical errors, can protect patient health and save money for insurers, hospitals and the state. Nationally, 1.7 million hospitalized patients acquired an infection every year. Of those, approximately 100,000 die from their infections. The average cost for those who face an infection while in the hospital is almost $60,000, as hospital stays are extended and extra care is needed. This impacts private/employer-sponsored health insurance premiums, Medicaid and SCHIP funding, and hospital finances.

Virginia’s reporting of infection rates is an important first step in spurring action to reduce infections and improve patient care. But, Virginia policymakers should do even more to prevent hospital-acquired infections. Beginning in October 2008, the Centers for Medicare and Medicaid Services (CMS) stopped paying for services related to most hospital-acquired infections for Medicare beneficiaries. Applying the new CMS rules to Medicaid payments, as Governor Kaine proposed in his recent budget amendments, could be a cost-saving measure for the state and for patients, and may also provide an incentive for hospitals and providers to reduce infection rates and other medical errors.

Access and Quality Improvements Would Protect Virginians

Providing health coverage through private insurance or Medicaid does not ensure that physicians or providers will be accessible when health care treatment is needed. Attention needs to be given to providing safe, effective, and quality care by reducing medical errors and protecting patient safety.

How is Virginia doing?

Virginia’s performance in access and quality is mixed, but improvement is certainly possible to ensure that those who need care can receive it safely and effectively. The most comprehensive study of state performance on access and quality in health care was conducted by the Commonwealth Fund in the 2007 report, *Aiming Higher: Results from a State Scorecard on Health System Performance*. The report ranked states based on a number of comparative measures, including the rate of health care coverage, the percentage of the population visiting a doctor in recent years, preventive care, and hospital quality.

In terms of access, Virginia ranked 22nd overall, better than every other Southern state. The survey found that 84 percent of Virginians visited a doctor within the previous two years, slightly better than the national average of 83.3 percent. Additionally, only 12.5 percent did not visit a doctor because of the cost. This was below the national average of 13.4 percent.

The study’s quality of care review ranked Virginia 24th, with North Carolina the only higher Southern state at 22nd. On most measures, Virginia was at or better than the national average. The state ranked significantly better than the national average on the percentage of adults over 50 and diabetics who receive recommended preventive care, the percentage of children under age 3 who received five vaccinations, the percentage of children receiving preventive dental and medical care visits, and the rate of children with emotional, behavioral or developmental problems accessing mental health care.

While the state has achieved some success in access and quality relative to other states, it still lags behind many states with comparable economic advantages. Efforts to improve access and quality will help improve the health of Virginians and ensure they receive the care they need.
Conclusion

Virginia has significant resources and wealth, but does not provide a very generous health care safety net for low-income Virginians. Workers in the Commonwealth are losing their jobs, their health care and are increasingly anxious about their future economic security. While the economic downturn facing Virginia will force tough budget decisions by the General Assembly and Governor Kaine, they should not ignore the economic hardships facing Virginians. Health care, especially the critical unmet needs in coverage, affordability, and access to care, is even more important in a time when many are facing uncertainty and hardship. Families who have always had health coverage are now finding themselves uninsured, with their health and financial security at risk. The state should seize the opportunity to strengthen the health care safety net to address the critical problems facing so many Virginians.

Endnotes


6 Virginia Hospital and Healthcare Association estimate