

# Cuts to Health Care Are Bad for Virginia's Economy



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## Governor's budget proposal will eliminate services for thousands of Virginians and jobs

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Governor McDonnell proposes a set of deep cuts to health care in Virginia that will mean over \$800 million in lost business activity in the economy, further increased costs for Virginians with private insurance, near elimination of state support for cost-effective health care providers such as community health centers, and reduced access to needed services for thousands of Virginians.

The proposed cuts would do nothing to address the key challenges facing Virginia when it comes to health care: reducing the cost of health care, making people healthier, or improving the quality of health care Virginians receive. Instead, the Governor's proposals simply shift costs from state government over to individuals and families and to the clinics, hospitals, and nursing homes that treat them.

These cuts will hit one of the most important sectors of Virginia's economy. The health care sector employs almost 1 in 10 workers in Virginia's labor force. Slashing services, cutting payment rates and eligibility will mean more job losses and a weaker state economy as health care providers respond to these cuts with actions like laying off staff and reducing orders to vendors and businesses.

The Governor's proposed cuts include:

- Cuts of over \$802 million from Virginia's Medicaid program.
- Eliminating long term care for over 4,500 elderly.
- Slashing payments for indigent care to public hospitals in the state.
- Imposing a cap for home health care services and weakening the state's safety net service providers.

These cuts sit on top of an already stringent program and at a time of increasing need—the number of uninsured tops 1 million in Virginia—and the share of our workforce who get insurance through their jobs continues to decline impacting thousands of Virginians who can least afford it and who are running out of options in the current tough economy.

### Virginia Medicaid: Stringent

Virginia already has one of the leanest and most restrictive Medicaid programs in the country, with tight eligibility requirements that hit children, the elderly and the disabled hardest of all. Over half of Virginia's Medicaid enrollees are children with family incomes of less than 133 percent of the federal poverty level (the federal minimum) – that's less than \$30,000 a year for a family of four. For the aged, blind and disabled populations, Virginia covers individuals up to 80 percent of the federal poverty level – just over \$8,700 a year for an elderly individual—which is only slightly higher than the required minimum level of 74 percent of poverty.

Overall, Virginia's Medicaid program ranks 48th in per capita spending. For non-disabled people and elderly adults, where there is no federal minimum, Virginia falls well below most other states. Virginia covers parents up to an average of 24 percent of the federal poverty level – that's less than \$500 a month for parents with two kids – well below the national average of 65 percent. In fact, Virginia ranks 44th nationally in eligibility for working parents, lower than all neighboring states.

In terms of benefits, the state's program is also strict. Virginia's Medicaid coverage does include the benefits that are either required by federal law or are standard in most other state Medicaid programs. Virginia does not charge premiums for either adults or children, but does charge nominal co-payments in non-children coverage for doctor visits and certain other health care services.

While the state generally does keep up with other states in most of its benefit offerings, there are a number of shortcomings that remain. Virginia is one of 17 states that does not cover hearing aids; among seven states that does not cover eyeglass purchases; and among 16 states that will not cover dentures in Medicaid. Only four states (Virginia, Oklahoma, Kentucky and Maryland) do not cover any of these products.

### Denying Reality

With the state's Medicaid eligibility and benefits already at bare bones levels, and with a federal restriction on cutting them any further still in place, the Governor proposes to ignore real and known cost increases in Medicaid driven by health care inflation.

Under the budget proposal, the Governor denies inflationary adjustments to Medicaid payments for hospitals, nursing homes and other providers, and cuts over \$258 million from hospitals over the biennium through reduced payments for the Medicaid services they provide. The cuts to nursing homes are estimated to be approximately \$75 million. These cuts to Medicaid payments would occur

even though those payments already are considerably lower than what Medicare and private insurance pay.

In addition, the budget cuts indigent care funding for the public hospitals at VCU and UVA Health Systems. This reduction will result in almost \$30 million less in general funds for these hospitals.

Public hospitals provide a vital safety net to underserved areas in Virginia, including communities with high poverty rates, large minority populations, and large uninsured populations. They provide inpatient, primary, and specialty care as well as training for physicians and nurses. In addition, UVA and VCU health systems are the only Level I trauma care centers (facilities with the capability to treat the whole range of trauma patients) in their respective regions.

Demand for services at public hospitals has increased steadily in recent years. Furthermore, public hospitals are also in a much more precarious financial situation than private ones. They generally operate with lower profit margins than the rest of the hospital industry and are highly dependent on Medicaid payments for their operations. Nationally, public hospitals receive 35 percent of their revenue from Medicaid, nearly double the 18 percent rate for all hospitals.

In reality, however, the loss of funding to these providers will be much larger. Generally, Medicaid in Virginia is funded with 50 percent of the funding coming from state General Fund dollars and 50 percent coming from federal contributions. That means that the over \$363 million cut in state spending for providers will result in at least \$696 million loss of resources to the program and to the Virginia health care economy.

Although reductions to providers may have less immediate impact on patient access to Medicaid – hospitals are required to see patients – it will likely limit hospital and nursing home effectiveness. Medicaid payment rates will decline to 60 percent of costs or below under the Governor’s proposal according to hospital industry estimates. In June 2008, Medicaid payment rates stood at 78 percent of costs. To combat the significant loss of revenue, providers may have to reduce staff or delay improvements to facilities that impact the care provided to all patients regardless of their insurance status.

### Long Term Care Cuts

The cost of nursing home and other long-term care is prohibitively expensive for most Americans. In Virginia and 37 other states, individuals with incomes up to 300 percent of Supplemental Security Income (SSI) – \$2094 a month in 2012 – can qualify for Medicaid without spending down their income to meet Medicaid income qualifications. This has allowed many Virginians to maintain some small level of income while still receiving the long-term care that they need. Governor McDonnell’s budget will reduce the eligibility threshold to 250 percent of SSI, an eligibility reduction of approximately \$350 a month for an individual.

The Governor’s proposal will cause over 4,500 Virginians to lose this coverage beginning in January 2014. The proposal cuts \$18.2 million in General Fund spending, with the state losing another \$18.2 in federal funding for a total program hit of \$36.4 million.

Such a cut will force thousands of seniors to meet a spend-down by incurring medical expenses first. This is a complicated process for the individual and Virginia’s Department of Social Services. The general Medicaid aged, blind and disabled income eligibility

threshold is approximately \$726 a month in Virginia, almost two-thirds less than the current eligibility standard for these seniors.

Many seniors and disabled will choose to meet a spend-down to qualify for long-term care. In addition to being a complicated process that some will not be willing or able to meet, it is also a potentially short-sighted approach since it would not significantly reduce Medicaid spending over time if some that lose eligibility simply qualify by another standard.

In addition to the Medicaid long-term care cut, the Governor jeopardizes those with serious health needs by proposing a reduction in the number of weekly personal home care hours allowed from 56 to 48, a Medicaid cut of \$4 million (GF & NGF) over the biennium that could force additional Virginians to need residential long-term care instead of staying in a more cost-effective home setting.

**Figure 1: Virginia Safety Net Takes a Big Hit**

McDonnell’s Proposed FY 2014 cuts  
(50 percent across the board)

Virginia Health Care Foundation	\$2,040,286
Virginia Association of Free Clinics	\$1,598,200
Virginia Community Healthcare Association	\$1,204,375
CHIP of Virginia	\$757,946
AIDS Resource and consultation center and one local early intervention and treatment center	\$232,055
Virginia Health Information	\$123,657
Statewide Sickle Cell Chapter of Virginia	\$45,000
St Mary’s Health Wagon	\$38,356
Arthur Ashe Health Center	\$37,830
Alexandria Neighborhood Health Services, Inc.	\$34,748
Community Health Center for the Rappahannock Region	\$21,250
Jeanie Schmidt Free Clinic	\$19,125
Mission of Mercy	\$10,625
Chesapeake Adult General Medical Clinic	\$8,686
Fan Free Clinic	\$6,960
Olde Towne Medical Center	\$5,115
<b>Total</b>	<b>\$6,184,214</b>

## Banking on the Affordable Care Act

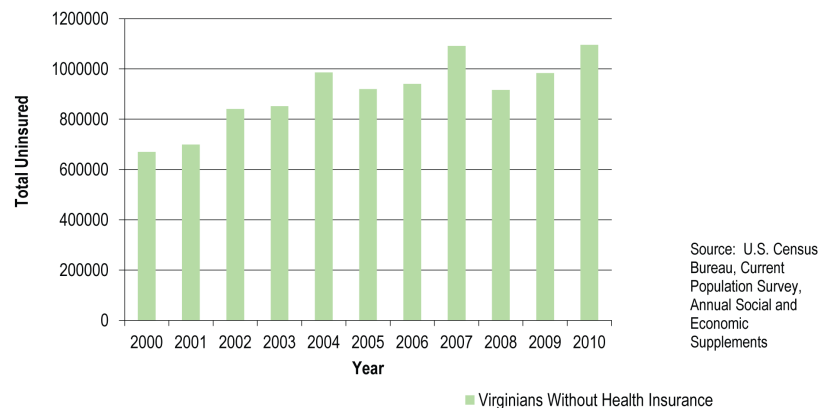
The proposed budget would also significantly reduce support for Virginia's free clinics, community health centers and other safety net providers. These safety net providers, foundations and direct service organizations provide important services to uninsured and underserved low-income Virginians. While Virginia has long had one of the least generous Medicaid programs in the country, the state has prided itself on providing a comprehensive safety net for the uninsured.

In addition, a number of these providers have a proven track record of delivering cost-effective health care to very needy and often difficult to serve populations. For example, a number of studies show how community health centers provide quality care less expensively than almost any other provider. They utilize proven approaches to effective health care such as health care homes so patients have consistent care, strong management of chronic diseases (such as hypertension, diabetes, or asthma), widespread use of preventive services, avoiding hospitalization and emergency room use, and low operating margins. Yet, the Governor proposes to slash state funding for these cost-effective providers.

Beginning in July 2013, the Governor's proposal slashes money for these programs by half, with a total reduction of more than \$6 million in General Fund support [see Figure 1]. Some of the 50 percent reductions include:

- Cut of more than \$2 million for the Virginia Health Care Foundation
- Reduction of almost \$1.6 million for the Virginia Association of Free Clinics
- \$1.2 million cut for the Virginia Community Healthcare Association

Figure 2: Number of uninsured Virginians, 2000-2010



Yet despite actively working against implementation of the Affordable Care Act (ACA), the McDonnell administration has stated that these reductions are justifiable because the ACA will be covering many more Virginians in Medicaid beginning in 2014. This is a short-sighted and even misguided approach. The Medicaid expansion called for in the new health care law will not go into effect until six months after these cuts take effect. The safety net providers will be working under a greatly reduced budget even before they see any change in need. Furthermore, while hundreds of thousands of Virginians are expected to gain coverage under the expansion, any decline in safety net need will take months or even years to materialize.

Even under the most optimistic estimates, it is clear that Virginia will still have a significant number of uninsured. Currently, as Figure 2 shows, over one million Virginians remain uninsured. The Urban Institute has estimated that about half of the uninsured would gain coverage under the Medicaid expansion (up to 420,000) and health benefit exchange (approximately 100,000), leaving more than 500,000 Virginians without health insurance coverage and in need of the valuable support provided by free

clinics, community health centers, home health workers and other safety net providers.

## Conclusion

At a time of significant need in an already lean Medicaid program, the Governor has chosen to balance the budget largely through reductions in this and other critical safety net providers. The short-sighted approach will cost Virginia significant federal resources and adversely impact Virginians in need of health care and long-term care services.

### The Commonwealth Institute

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