

# Medicaid is Far From Broken

## Critical Insurance Program Should Be Expanded

By Massey Whorley and Michael J. Cassidy

Virginia's Medicaid program isn't the broken, out-of-control system that its opponents portray. Far from it. The public insurance program for low-income people provides a wide range of Virginians with needed health care, improves their overall well-being, holds down medical costs, and protects families from financial ruin because of serious illness or injury.

This paper explains how Medicaid does that efficiently, and why Virginia lawmakers should accept federal money to make it even better.

### Medicaid Coverage Is Efficient

The amount spent on Medicaid has grown over time, but the fact is that it costs Medicaid much less than private insurance to cover people of similar health status. (See Figure 1.)

Growth in Virginia Medicaid spending is largely due to the steady rise of health care costs nationwide, but the state has worked to limit that growth by having an efficient system that operates on half the administrative costs of private plans. A

smaller portion of the growth is the result of Medicaid covering more people because of declines in the economy and decisions by state lawmakers to expand coverage.

Rising medical costs and greater use of services represent 66 percent of the growth in Medicaid costs since 1990, according to the state Medicaid office. Medicaid, just like all other insurers, is a purchaser of health care, so its costs are tied to the costs of visits to the doctor, medical procedures, prescription drugs, diagnostic equipment, and other goods and services. As a result, when health care costs go up, as they have since 1990 at a rate of about 5 percent per year, Medicaid costs go up, too. But Medicaid works to rein in those costs, and so the average cost per recipient has only increased by 3.5 percent per year since 1990.

The state's aging population also plays a role in how costs have increased. As the

insurer of last resort, especially for long-term care, Medicaid often steps in to help people at the time in their lives when they need the greatest level of care. But that coverage comes at a cost, and long-term care comprises 35 percent, the largest share, of Virginia's Medicaid spending. The proportion of Virginia's population older than 65 is projected to reach 19 percent by 2030, up from 13 percent in 2012, according to U.S. Census Bureau data. As people grow older, they often require more medical care.

Medicaid enrollment has more than tripled since 1990, but that accounts for only 24 percent of the growth in Medicaid spending. Over those two decades, Virginians battled through three economic recessions, which saw Medicaid enrollment increase as people were laid off, lost coverage through their employers, and could not afford other private insurance options. (See Figure 2.) Since 2000, the



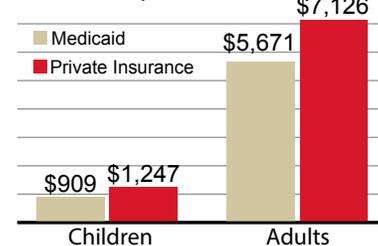
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FIGURE 1

### Medicaid Costs Less

Medicaid costs 27% less for children and 20% less for adults than private insurance after adjusting for health status.

2005 Per Capita Costs

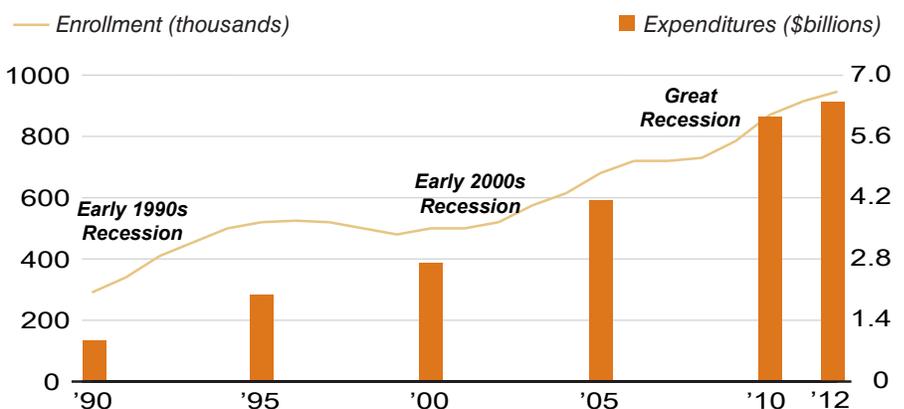


Source: Center on Budget and Policy Priorities analysis

FIGURE 2

### Moving Together

Virginia Medicaid enrollment, and in response spending, has gone up when the economy has gone down because more people need access to affordable health coverage.



Source: Department Medical Assistance Services data

proportion of Virginians with employer-sponsored health insurance has declined to 64 percent from 73 percent, according to Census data.

In addition, efforts to enroll more children and key decisions by Virginia lawmakers to cover more seniors and people living with disabilities have boosted enrollment and improved the lives of tens of thousands of Virginians. For example, over the last 12 years lawmakers voted to cover 4,600 more individuals with intellectual disabilities.

### Physicians are Accepting New Patients

Contrary to what many critics assert, most doctors accept patients with Medicaid insurance. About 76 percent of physicians are accepting new Medicaid patients, according to the National Center for Health Statistics. And that number doesn't even include doctors whose offices or clinics are associated with hospitals and community health centers, key providers of care for Medicaid patients. (See Figure 3.)

In fact, the share of doctors accepting new Medicaid patients is nearly the same as the

share who are accepting new patients with private insurance or Medicare. Nationally, 82 percent of physicians report accepting new patients with private insurance and 83 percent are accepting new Medicare patients. So people with Medicaid have access that is comparable to those with private insurance.

Moreover, the Affordable Care Act gives doctors a strong incentive to accept new Medicaid patients: it increased Medicaid reimbursement rates for primary care physicians to the same levels as Medicare in 2013 and for 2014, the first year of Medicaid expansion for states that have chosen to expand coverage.

**It costs Medicaid much less than private insurance to cover people of similar health status.**

### People's Health Improves

Gaining access to health coverage means that people can get the routine care they need before an inexpensive condition becomes a costly emergency or an expensive chronic illness. People with Medicaid have greater access to outpatient services, preventive screenings, and much-needed prescription drugs than people who don't have insurance. Compared to people without insurance, Medicaid recipients are 25 percent more likely to report that their health is "good" or "excellent," according to a study done in Oregon.

In addition, for many Medicaid recipients who have struggled for years with meager incomes and poor health, better access to care means increased detection, diagnosis, and proper management of chronic conditions like diabetes and depression. Early detection and treatment of chronic diseases are critical to halting them before they become more serious and more costly.

This kind of access to health care through Medicaid can have significant long-term benefits. For example, in three states that made more people eligible for Medicaid between 2000 and 2005 (New York, Maine, and Arizona), overall death rates declined compared to neighboring states that didn't significantly expand eligibility, according to a study in the *New England Journal of Medicine*. The decline was significant: 6.1 percent among the entire adult population in the states that expanded eligibility.

### Protection from Financial Ruin

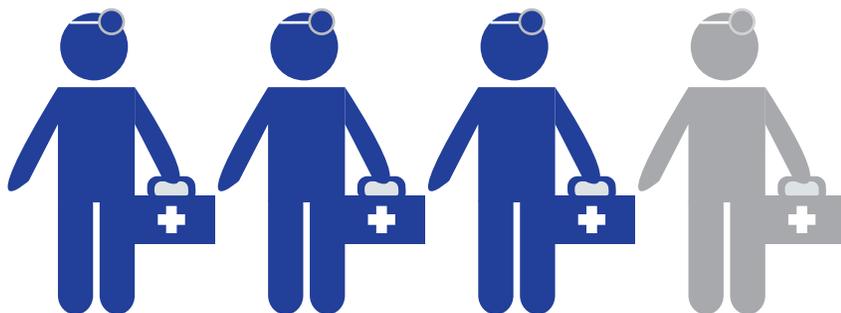
Medicaid is an effective insurance tool, protecting people from catastrophic out-of-pocket health care costs and potential financial ruin.

Medical debt is the leading cause of personal bankruptcy. More than 2 million people per year, including more than 50,000 in Virginia, go bankrupt because of unpaid medical debt. But people with insurance

FIGURE 3

## PRESCRIPTION FOR ACCESS

**Rx** *Three out of four doctors are accepting new Medicaid patients*



Source: National Ambulatory Medical Care Survey Electronic Medical Records Supplement, 2011

through Medicaid are 50 percent less likely to borrow money or fail to pay other bills because of medical debt than people without insurance, according to the Oregon study. They are also 25 percent less likely to have an unpaid medical bill, which is good news for health care providers as well. Like all health insurance, Medicaid makes sure that a trip to a doctor's office doesn't sink a family's budget when they are barely treading water.

### Strong Fraud Prevention

Virginia's Medicaid program has a strong track record of preventing fraud and waste. This is in large part because of front-end controls that prevent inappropriate payments rather than after-the-fact "pay and chase" efforts.

To prevent fraud and waste, Medicaid partners with managed care organizations and other contractors to coordinate the networks of providers eligible to participate in Medicaid. This coordination is expanding to include mental health providers as a part of the state Medicaid reforms currently underway. Safeguards include requiring approval of medical procedures before they are performed to ensure that Medicaid patients are only getting the services they need. This saves the state an estimated \$190 million per year. And auditing claims before they are paid to make sure they are consistent with state policy saves nearly \$40 million per year. All told, the payment error rate in Virginia is less than one-half of one percent.

But when improper payments are made -- either through billing errors or provider fraud -- Virginia's Medicaid administrators have a solid record of identifying and recovering improper billing and payment. Some 900 recovery audits are performed each year. In state fiscal years 2011 and 2012, about 140 referrals were made to the state's Medicaid fraud unit, resulting in 32 convictions and \$55 million in fines,

penalties, and restitution. The Medicaid fraud unit also took the lead in a national lawsuit against a major pharmaceutical firm, recovering millions of dollars for Virginia in 2013.

### If the Money Stops, So Does Expansion

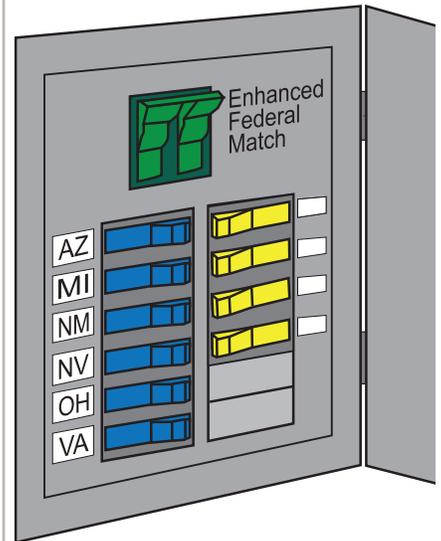
Providing Medicaid coverage to more people is a great deal for Virginia financially. The federal government will pay 100 percent of the cost through 2016 and no less than 90 percent after that.

Some critics are concerned that the federal government might not stick to its part of the deal and eventually decrease the amount it pays. During the 2013 General Assembly session, the legislature addressed this concern and took the smart step to authorize an automatic end to the expansion if the federal commitment is reduced at any point in the future. (See Figure 4.)

FIGURE 4

### Virginia Can Flip the Switch

Virginia, like some other states, has a circuit breaker that would end expansion if Congress lowers the federal match rate for Medicaid expansion, automatically protecting the state.



Source: TCI analysis of state Medicaid legislation

**Compared to people without insurance, Medicaid recipients are 25 percent more likely to report that their health is "good" or "excellent."**

As the state begins to use federal Medicaid dollars to pay for things currently covered by state funds, Virginia will save up to \$1.64 billion over the next nine years on care for the poor, mental health and substance abuse services, and hospital care for prisoners, among other things. (See Figure 6.) Legislators have set up a special fund to capture those dollars to help pay for future Medicaid costs.

### Virginia Should Cover More People

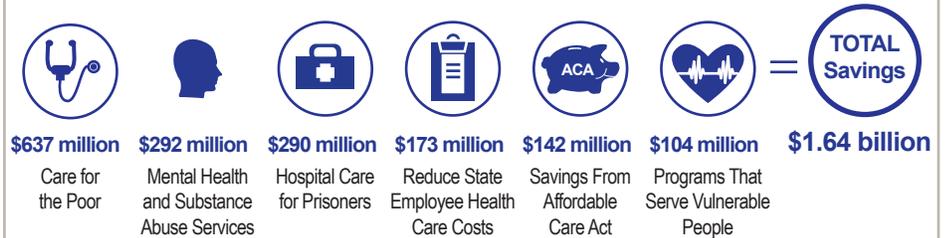
Despite the strong rhetoric of those opposed to expansion, the fact is Medicaid is an efficient public insurance program that uses private insurance companies to connect people with the health care they need to stay healthy and productive,

In Virginia, up to 400,000 uninsured people stand to gain access to quality care, better health, and financial stability if the state expands coverage. Many of the uninsured are working in the most important parts of our economy – like tourism, retail, trade, and construction – but the jobs they have

**FIGURE 5**

### Six Key Sources for Savings

Expanding Medicaid would allow for some of the services currently provided with state general fund dollars to be paid with federal funds. Savings from Medicaid expansion would offset all of the costs, ease state budget pressures, and provide funding for unmet health needs in Virginia.



Sources: TCI analyses of DMAS and Senate Finance Committee

often don't come with health insurance or pay them enough to afford coverage on their own.

Medicaid isn't broken. Far from it. Lawmakers should expand Medicaid to get hard-working Virginians the help they need.

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