



# The Missouri Budget Project

## **First Do No Harm**

*Recommendations for Strengthening Missouri's  
Health Care System*

## **Report #1: Medicaid**

*February 2006*

Shaping Policy...  
Protecting  
Missourians

**First Do No Harm:  
Recommendations for Strengthening Missouri's Health Care System  
Report #1: Medicaid**

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*The Missouri Budget Project is a statewide, nonprofit, nonpartisan organization that informs the public about the state's budgetary and tax policy options and their impact on low-income Missourians.*

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## *Introduction: Health Care in Crisis*

It has become clear that health care is in crisis in Missouri. In the last five years the state has faced alarming increases in the number of people who are uninsured. Employers and families are struggling with the rising costs of coverage, and, state policymakers have struggled with how to finance the public health care system. Consistently, recent surveys of voters indicate that protecting and enhancing health care access is a continued and growing priority.<sup>1</sup>

Missouri is not alone in this crisis. All states have faced some degree of fiscal constraint in the last five years due to the economic decline beginning in 2001 and the recent tax reductions on the national and state level. However, while other states have worked to create solutions that preserve much needed health services, Missouri leaders have chosen instead to make some of the deepest cuts to health care in the nation. More than 240,000 of Missouri's low income working parents, people with disabilities, children and seniors have lost health care as a direct result of state cuts to the Medicaid and other health care programs.<sup>2</sup> Further, legislation passed in 2005 created the "Medicaid Reform Commission", charged with ending the current Medicaid system by 2008. Missouri is the only state in the nation is considering completely redesigning Medicaid.

This analysis provides:

- Brief insight into the overarching health care crisis in the state,
- The role of the Medicaid Health Care Program in Missourians' access to health insurance,
- A framework for policymakers in considering health policy change, and
- Recommendations for areas of policy improvement that the 2006 Missouri General Assembly should consider.

## *Health Care in Crisis: The Facts*

Missouri's health care struggles are indicative of the larger crisis in health care in the nation. Recent trends are startling as the number of people lacking health insurance coverage in the United States is reaching historic levels:

- Nearly 45 Million Americans were uninsured in 2003, an increase of 5.2 million people as compared to 2000;<sup>3</sup>
- According to the Center on Budget & Policy Priorities, this is the highest level of people without health insurance in recorded history;<sup>4</sup>
- More disturbing, 82 million people reported being uninsured sometime during the two year period of 2002 – 2003;<sup>5</sup>

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<sup>1</sup> See the Missouri Foundation for Health "Missourians' Attitudes on Health Care: A Bi-Partisan Analysis of Survey Finding" Fact Sheet Winter 2005 <http://www.mffh.org/ShowMe6Fact%20Sheet-web.pdf> and the Missouri Budget Project, "2005 Statewide Survey Results: Missourians Strongly Oppose Health Care Cuts" <http://www.mobudget.org/Unicom%20Survey%20Results%20Summary.pdf>

<sup>2</sup> For a comprehensive review of Missouri's health care budget cuts, See Missouri Budget Project, "*The High Price of Budget Cuts: Missourians Lose Health Care*", January 2006 at [www.mobudget.org](http://www.mobudget.org)

<sup>3</sup> National Coalition on Health Care, "*Facts on Health Insurance Coverage*", [www.nchc.org](http://www.nchc.org)

<sup>4</sup> Center on Budget & Policy Priorities, "*Number of Americans without Insurance Reaches Highest Level on Record*", August 27, 2004, [www.cbpp.org](http://www.cbpp.org)

<sup>5</sup> National Coalition on Health Care, "*Facts on Health Insurance Coverage*", [www.nchc.org](http://www.nchc.org)

- Nearly one-third of the United States Population spent a portion of the 2002-2003 period without insurance, and the amount of people that were uninsured during the 2003 calendar year is the equivalent of the population in 24 states and Washington D.C.;<sup>6</sup>
- In Missouri, the most recent data from the U.S. Census Bureau indicate that 707,000 thousand Missourians lacked health insurance in 2004, a substantial increase over the 524,000 who were uninsured in 2000.<sup>7</sup>

The increase in the number of Missourians without health care coverage, while startling, is not inexplicable given the striking increases in health care costs during this same period:

- The cost to access private health insurance increased on average 12.6% per year between 2000 and 2003;<sup>8</sup>
- As the increases become more difficult for employers to keep pace with, many are limiting or removing benefits and others are shifting the costs to their employees. As a result, employer based health insurance coverage has slipped dramatically. Between 2000 – 2004 more than 453,942 Missourians lost employer sponsored health insurance, the 3<sup>rd</sup> highest decline in the nation;<sup>9</sup>
- Between 2000 and 2004 the employee contribution for health insurance increased by 126%;<sup>10</sup>

The increased cost for the nation to access health care is reaching crisis levels, and is eroding the United States' economic productivity:

- Total private and public health care expenditures in the United States nearly doubled between 1993 to 2003, growing from \$888 billion to nearly \$1.7 trillion;<sup>11</sup>
- By 2003, health care expenditures comprised more than 15% of the Gross Domestic Product, eroding other economic investments;<sup>12</sup>
- According to the World Health Organization, the U.S. spends a larger percentage of its gross domestic product on health care than any other nation.<sup>13</sup> This in turn will impact our country's ability to compete in the global marketplace.

**If these current patterns in health care continue without intervention, it is probable that most Missourians will find themselves uninsured at some point in their lives.**

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<sup>6</sup> Families USA, "Census Bureau's Uninsured Number Indicates Fourth Increase in a Row", August 30, 2005, [www.familiesusa.org](http://www.familiesusa.org)

<sup>7</sup> U.S. Census Bureau, [www.census.gov](http://www.census.gov)

<sup>8</sup> "Future Medicaid Growth is not Due to Flaws in the Program's Design, but to Demographic Trends and General Increases in Health Care Costs", Leighton Ku, Center on Budget & Policy Priorities, February 4, 2005

<sup>9</sup> Kaiser State Health Facts; "Change in Number of Nonelderly with Employer-Sponsored Insurance, 2000-2004", [www.StateHealthFacts.org](http://www.StateHealthFacts.org)

<sup>10</sup> National Coalition on Health Care, "Facts on Health Insurance Coverage", [www.nchc.org](http://www.nchc.org)

<sup>11</sup> U.S. Centers for Medicare and Medicaid Services: <http://www.cms.hhs.gov/>

<sup>12</sup> IBID

<sup>13</sup> World Health Organization, "Health Spending Around the World 2002", [www.who.int](http://www.who.int)

### *Health Care in Crisis: Reframing the Debate*

Overwhelmingly, the health policy discussion in Missouri in the last two years has been predominantly focused on how to trim state costs and cut Medicaid, rather than how to help more Missourians access health care. As a result, state budget cuts have resulted in 240,000 more Missourians losing health care access. Not surprisingly, the vast majority of Missourians agree that the state is moving in the wrong direction. A July 2005 statewide survey of voters shows that 78.6% of those surveyed said they opposed the Medicaid cuts.<sup>14</sup>

The dialogue in 2006 must return to focusing on what the real intent of Missouri's health policy debates should be:

1. "First Do No Harm": Cuts to Medicaid and other health care programs do not create solutions to Missouri's health care crisis, and in fact make the crisis even more severe. Policy decisions should first and foremost not create further harm.
2. Secondly, Missouri must refocus our public policy priorities on creating solutions that increase access to health care for more Missourians, not less.

Medicaid has borne the brunt of public attention and legislative action because it is a large, publicly-funded health insurance program. However, addressing Medicaid in isolation of the larger health care issues facing the people of the state does not reach the core causes of the health care crisis.

The current policy debate provides a real opportunity to address improvements in Medicaid and improvements in the larger health care system as well. This paper addresses some of the policies Missouri can implement in the next year to create a better health care system for everyone.

This first analysis in the "First Do No Harm" series focuses on improving and financing the state's Medicaid program. Subsequent reports will focus on increasing access to health care in the broader health care system.

### *Recommendations: Improving Medicaid*

#### *States and Medicaid – Why Medicaid?*

Given the national trends in health care, it is no surprise that states are struggling with providing for their public health care programs. As greater numbers of Americans become uninsured, a greater number of families are turning to state health care programs, including Medicaid, for their access to health care. Further, as national health care inflation in the private market continues to spiral, increased financial pressure outside of Medicaid's control is placed on this program as part of the state's budget.<sup>15</sup>

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<sup>14</sup> Missouri Budget Project, "2005 Statewide Survey Results: Missourians Strongly Oppose Health Care Cuts" <http://www.mobudget.org/Unicom%20Survey%20Results%20Summary.pdf>

<sup>15</sup> Compounding the situation, for Missouri, and the majority of other states, the new pressure on the Medicaid budget came at the same time as the state fiscal crisis

Medicaid should not be unduly blamed for the strain that has been placed on it because of the private market's failure to provide health care. Additionally, data shows that despite the larger health care pressures, Medicaid has proven to be a more cost effective and comprehensive system of care as compared to private insurance. A study by economists at the Urban Institute found that Medicaid costs 30 percent less than private health insurance for adults, after adjusting for their health status; costs to care for children were 10 percent less than private insurance.<sup>16</sup> From 2000-2003 Medicaid spending per enrollee averaged a 6.9% increase per year. By comparison, private health insurance spending grew by 9% per year, and employer-sponsored insurance spending grew by 12 %.<sup>17</sup>

Missouri's Medicaid program is particularly efficient, both in terms of health care expenses and administrative costs.<sup>18</sup> Missouri's Medicaid system is also affordable compared to other state Medicaid budgets. Even prior to the Medicaid cuts, Missouri ranked 39<sup>th</sup> in the amount of state general revenue spent on Medicaid, and 36<sup>th</sup> in the amount spent per person on Medicaid (FY 2002).<sup>19</sup>

Further, Medicaid is a critical part of Missouri's health care system as more than 900,000 Missourians rely on the program for their health care access. Fifty-five percent of Missourians insured through Medicaid are children. Children account for 20% of spending for Medicaid.<sup>20</sup> Parents in low-income families accounted for 19% of the people insured by Medicaid, but only 10% of Medicaid spending.<sup>21</sup> Sixty-five percent of all people who receive Medicaid are in working families, but do not have access to affordable insurance. In fact, nearly 9 out of every 10 of the people whose eligibility for Medicaid was cut in 2006 was a working adult. Those who don't work who receive health care through Medicaid are largely Missouri's seniors and people with disabilities.

Medicaid dollars provide significant support to Missouri's health care system as well. Total state and federal funds expended on health care in Missouri make up 46% of spending in Missouri's health care industry.<sup>22</sup> Medicaid is particularly pivotal in Missouri's economic production because it is a joint federal and state-funded program. For each dollar in state general revenue Missouri expends, it is able to generate nearly \$2 in federal funds and provider investment as a result. Economic impact studies have demonstrated that every \$1 million spent on Medicaid generates over \$3 million in business activity and creates 42 jobs.<sup>23</sup>

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<sup>16</sup> Jack Hadley and John Holahan, "Is Health Care Spending Higher under Medicaid or Private Insurance?" *Inquiry*, 40 (2003/2004): 323-42.

<sup>17</sup> Kaiser Family Foundation at [www.kff.org](http://www.kff.org)

<sup>18</sup> Leighton Ku and Judith Solomon, *Is Missouri's Medicaid Program Out-of-Step and Inefficient?*, Center on Budget and Policy Priorities, April 5, 2005

<sup>19</sup> Center on Budget and Policy Priorities, based on CMS data

<sup>20</sup> [www.oseda.edu/medicaid](http://www.oseda.edu/medicaid)

<sup>21</sup> *ibid*

<sup>22</sup> *Health Care Expenditures & Insurance in Missouri*, Kenneth E. Thorpe, PHD, Missouri Foundation for Health, October 2003.

<sup>23</sup> Ferber, J. Economic and Health Benefits of Medicaid and SCHIP, Missouri Foundation for Health, April 2004, citing a study from the John Cook School of Business, St. Louis University

There continues to be broad public support of Medicaid. As mentioned previously, a July 2005 statewide survey of voters shows that 78.6% of those surveyed said they opposed the Medicaid cuts.<sup>24</sup> This is due largely to the fact that all Missourians are impacted by Medicaid. While 15% of Missourians currently depend on Medicaid for their health care access, nearly every family is likely to be effected by Medicaid at some point in their lives.

Further, keeping people insured has broad impacts on societal health, and on the economic productivity of the state. Losing access to health care increases preventable deaths and the spread of contagious disease, decreases workforce productivity due to illness, and encourages cost increases in employment-based and private health insurance. According to the Institute of Medicine, being uninsured has become the 6<sup>th</sup> leading cause of preventable death of people aged 25-64, resulting in 18,000 deaths per year.<sup>25</sup>

The increased costs for employers resulting from uninsured workers, increased sick days and lack of productivity are not the only economic consequences of cutting Medicaid. There are more extensive ramifications of Medicaid cuts including the impact on: individuals who have private insurance; the health care industry in the state; and the overall Gross State Product.

The health care industry and ancillary industries benefit directly from Medicaid expenditures. Medicaid payments contribute to the overall income of health care providers including doctors, pharmacists, hospitals, nursing homes, mental health clinics and others. The Federally Qualified Health Clinics in Missouri report that state and federal Medicaid funding encompasses nearly 50% of their overall income sources. Providers throughout the state rely on these funds to deliver services. The health care industry in Missouri is compromised when Medicaid is cut. Several national studies demonstrate the impact of Medicaid on the economic activity in local communities and states. Most recently, a Missouri-specific study cites that for every \$1 million expended in Medicaid, the state is able to generate an additional \$3-5 million in business activity, creating between 42-71 jobs.<sup>26</sup> Cutting several hundred million from Medicaid (as Missouri has in the last four years) will compromise thousands of Missouri jobs.

Eventually, the costs of care for the uninsured are passed on to everyone. Individuals' taxes pay for the state's contribution to uncompensated health care. Larger numbers of uninsured Missourians result in higher insurance premiums for private or employer-sponsored health insurance. In 2005, it is estimated that Missourians' private health insurance premiums increased by 2.9% or between \$110 and \$291 for individuals or

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<sup>24</sup> Missouri Budget Project, "2005 Statewide Survey Results: Missourians Strongly Oppose Health Care Cuts" <http://www.mobudget.org/Unicom%20Survey%20Results%20Summary.pdf>

<sup>25</sup> *The Costs and Consequences of Being Uninsured*; Karen Davis, PHD, the Commonwealth Fund; *m* Medical Care Research and review 60, 2 (June 2003)

<sup>26</sup> Missouri Foundation for Health *Show Me Series Report 5: Economic and Health Benefits of Missouri Medicaid* available at [www.mffh.org](http://www.mffh.org)

families due to the cost of health care for the uninsured. By 2010, this will result in a 4.9% increase.<sup>27</sup>

Medicaid is the best option states currently have to ensure access to health care for individuals who cannot otherwise obtain affordable care. It remains a vital component of the state's health care system.

### *Medicaid in Other States*

Because of its importance in the U.S. health care system, more than 29 states took steps to expand or restore Medicaid coverage in 2004 and 2005:

- Twelve states expanded coverage for children and their parents (Colorado, Connecticut, Florida, Illinois, Montana, New Jersey, New Mexico, North Carolina, Utah, Virginia, Wisconsin and Wyoming).
- Nine states restored eligibility for Medicaid to people they had previously cut when times were hard (Connecticut, Florida, Georgia, Michigan, Montana, New Jersey, Texas, Utah and Washington).<sup>28</sup>

Missouri on the other hand, has cut eligibility for more than 240,000 families, including low-income working parents, seniors and people with disabilities. Additionally, Missouri significantly reduced the health care components provided to those that remain insured through Medicaid, and instituted cost-sharing provisions for children as well as adults (See Table 1).

*Table 1  
Summary of the Missourians Impacted by Cuts to State Health Care Programs*

<b>Category of eligibility reduction</b>	<b>Number of Missourians affected in Fiscal Years 02-05</b>	<b>Number of Missourians affected in Fiscal Year 06</b>	<b>Total People impacted by Medicaid &amp; Health Cuts in Missouri</b>
Medicaid Eligibility Cuts	55,642 Missourians	90,604	146,246
Medicaid Spend down Changes	40,696 Missourians	15,723	56,419
Women's Health Care Cuts	30,000 Missourians		30,000
Mental Health Care Cuts	8,800 Missourians		8,800
<b>Total Health Care Cuts</b>	<b>135,138 Missourians</b>	<b>106,327 Missourians</b>	<b>241,465 Missourians</b>

Source: Missouri Departments of Social Services and Mental Health, Budget Divisions.

<sup>27</sup> *Paying a Premium, The Added Cost of Care for the Uninsured*, Families USA, June 2005

<sup>28</sup> Donna Cohen Ross and Laura Cox, *"In a Time of Growing Need: State Choices Influence Health Coverage Access for Children and Families"*, Kaiser Commission on Medicaid and the Uninsured, Oct. 2005.

\*The number of people impacted annually conceivably grows over time as the federal poverty level is adjusted yearly based on inflation, and with the growth in the number of uninsured in the state.

The breadth of these cuts is dramatic. They include severe cuts to Missouri's Medicaid program, the elimination of the Women's Comprehensive Health Care Program, and cuts to mental health care programs. As a result of these and other reductions and eliminations, 241,465 **Missourians have lost access to health insurance**, services, and state-sponsored health care programs in the last five years.<sup>29</sup> Brief descriptions of the cuts include:

- Eligibility for low-income parents was reduced to just 17-22% of the federal poverty level, or an income of \$292 a month for a family of three. Missouri reduced health care for these parents more deeply than any other state. The vast majority of the parents who lost Medicaid were mothers—over 70%. Nine out of 10 of the parents are working, but do not have access to insurance;
- The majority of the mothers who lost Medicaid are of child-bearing age. Without access to health care and family planning services to keep them healthy they are more likely to be unhealthy when they become pregnant and the state is therefore more likely to see an increase in the number of unhealthy children born;
- The legislature eliminated the “MAWD” program or Medical Assistance for Workers with Disabilities. This program previously allowed more than 18,000 Missourians with disabilities to return to work without losing their vital health care service. As employers and individuals with preexisting disabilities will not likely be able to access or fund private insurance, many of these individuals will be forced to choose between their work or their health care;
- The individuals with mental illness who were cut from Medicaid and other vital mental health care services will find it extremely difficult to access their psychotropic medications that help them remain healthy and productive members of our communities;
- Seniors and people with disabilities who lost coverage will be much less likely to access the medications that keep them healthy, or they will have to choose between their medications or food or paying their utilities each month; and
- The early results of imposing premiums for children are alarming. The Department of Social Services sent letters to about 27,000 families (representing about 46,000 children), informing them that they needed to pay premiums beginning October 2005. By November 9, 2005 approximately 12,000 children became uninsured as a result of this policy.<sup>30</sup>

Missouri Medicaid policies are failing our citizens, particularly when compared to the expansions that other states have provided.

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<sup>29</sup> For a more comprehensive review of the cuts in Missouri see: Missouri Budget Project, “*The High Price of Budget Cuts: Missourians Lose Health Care*”, January 2006 at [www.mobudget.org](http://www.mobudget.org)

<sup>30</sup> Gary Sherman, Director of the Department of Social Services at the Medicaid Reform Commission work session, November 9, 2005

### *Improving Medicaid in Missouri:*

While Medicaid continues to be a vital health care program, and the best available option for states, there are viable policy options that could improve it. The following describes some of the immediate public policies the General Assembly can implement to improve and finance Medicaid for Missouri:

### *First Do No Harm:*

In the first week of January 2006, the Governor's office announced that the state is expected to receive an additional \$245 million in tax revenues in the current fiscal year than originally expected.<sup>31</sup> That amount is sufficient to cover the Medicaid reductions made by the Governor and the General Assembly for the remainder of the current fiscal year. Given that the state has not implemented a program to replace Medicaid, and has proven to have the finances available, policy makers should call for the immediate restoration of Medicaid. Restoring Medicaid would provide much needed health services to the more than 100,000 low-income families, children, and people with disabilities, and Missouri seniors who lost coverage due to the cuts. Additionally, the funding would bring in nearly twice that amount in federal matching funds to the health care industry in Missouri. Medicaid is the only available option for health care for hundreds of thousands of Missourians.

Further, the state unnecessarily created an arbitrary time limit for its legislative review of the Medicaid system, and the creation of a new health system. Missouri is currently required to create and implement a new program in just two years. This is a complex task which requires careful research and deliberation. Legislators must take the time necessary to develop a new program that ensures no additional harm to Missourians is unintentionally created. The mandate to end the current Medicaid program by 2008 should be revoked.

It is critical for policymakers to understand that Medicaid not only serves those who are now low income, but the program is also a safety net for the many Missourians who are at risk of losing their jobs and health insurance. In addition, it is important for Medicaid to be available to those who may fall into poverty and illness in the future. Efforts to cut Medicaid costs too deeply could substantially increase the number of uninsured Missourians. Loss of funding to health care providers could weaken the system of clinics, hospitals, nursing homes and other health care providers that serve Missouri, and could harm the state economy. The consequences of the recent cuts to Medicaid are just beginning to materialize; the state should not move forward with program changes that will intensify the suffering of low-income Missourians who have already lost health coverage or have had their services reduced. Given that the state should be working conscientiously to ensure that no more harm to Missourians is unintentionally created, legislators should slow down and revoke the two year time frame they required.

### *Implement a State False Claims Act:*

Clearly all Missourians concur that the state must be a good steward of tax dollars. Although the governor and legislature have railed against waste and fraud in Medicaid,

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<sup>31</sup> Associated Press, David Lieb; "State Taking in More Money than Expected"; January 6, 2005

their policies to date have not really addressed this issue in a serious fashion. Instead their efforts focused on cutting services for those who were playing by the rules. There are measures that the state can take that will make Medicaid more efficient, and ensure that resources are properly directed toward health care. Careful attention must be given to these measures so that we “do no harm” while doing our best to improve Medicaid.

A majority of states have begun comprehensive statistically-based reviews of payments that were erroneously issued in Medicaid. (Payment error includes fraud but also unintentional errors). The reviews that have been done consistently find that the overwhelming majority (more than 85%) of payment errors in Medicaid are related to provider billing errors, not beneficiary fraud.<sup>32</sup> However, Missouri has done little to address provider-related fraud or waste.

In March of 2005, the Missouri Budget Project held a news conference that encouraged the Legislature to implement a state version of the Federal False Claims Act. Sixteen states, including Illinois, Texas, Tennessee, California and Florida, have implemented “State False Claims Acts” in recent years. The act provides incentives for reporting fraud and increases penalties on providers, and has proven to be effective in identifying and eliminating fraud. Estimates on how much revenue could be recovered if Missouri were to implement a State False Claims Act vary, with some projections as high as \$575 million per year.<sup>33</sup>

Due to the success of State False Claims Acts, the U.S. Congress recently passed legislation that would create federal incentives for states to pass Medicaid False Claims Act legislation. The same bill would also require companies doing more than a \$1 million worth of business with Medicaid to educate their employees about the provisions of the Federal False Claims Act. Bi-partisan support for the law that expands the state’s ability to investigate and stop health care provider fraud, including a whistleblower provision, may mean this provision will soon be a federal requirement.

Missouri could also use the law to monitor and track other state public-private contracts and tax credit programs for abuses. In addition, the legislature should give additional directives to the state agency (and additional administrative resources) to more carefully monitor provider billing and to upgrade the Medicaid Fraud Unit.

Simply by implementing a better system of fraud detection, the state could save enough revenue to be able to fund Medicaid adequately and restore the cuts of the last few years. Mothers, children, seniors and people with disabilities should not bear the brunt of health care cutbacks when reasonable options such as the State False Claims Act could be enacted in Missouri.

*Better enforce third-party liability:*

Another administrative method to control costs is to increase monitoring and enforcement of Third Party Liability. Many Medicaid beneficiaries have additional public (such as

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<sup>32</sup> See studies of Medicaid pilot projects to measure errors in Medicaid at [www.permpilot.org](http://www.permpilot.org).

<sup>33</sup> *Kansas City Star Article, Dec. 21, 2005*; also see Taxpayers Against Fraud Education Fund [www.taf.org](http://www.taf.org)

Medicare) or even private insurance coverage. When this is the case, the other insurers should have primary responsibility for paying bills and Medicaid acts as the “payer of last resort”. Missouri should do more to hold these other insurers, including self-insured plans and pharmacy benefits managers, responsible for their obligations.

*Emphasize Home & Community-Based Services:*

A majority of all Medicaid expenditures are incurred for a small minority of beneficiaries who have more serious health needs, including long-term care. In Missouri, people with disabilities and seniors comprise just 22% of the Medicaid population but absorb 66% of the costs.<sup>34</sup> Their health status simply requires more expensive care.

As a result, Medicaid programs in other states have begun to provide care in a fashion that is less expensive, but also more humane and satisfying to patients. For example, the great majority of long-term care costs in Missouri are for institutional care, particularly nursing homes and institutions for those with mental retardation or developmental disabilities. But many of these individuals could (and would prefer to) receive care at home, through home and community-based care services. Such approaches are generally less expensive per capita and are more family-based. The state should establish policies that enhance home and community based services in a cost-effective fashion.

*Improve case management for individuals with chronic diseases:*

A substantial share of Medicaid services is provided for those with chronic diseases such as asthma, diabetes, heart failure and mental illness. Many of these individuals have multiple conditions. Case management and disease management efforts focused on those with the greatest needs can be used to reduce redundant or unnecessary care. By employing evidence-based approaches to care has the potential to save money and improve the quality of care.

*Reduce the cost of prescription drugs:*

The U.S. Congress is considering national policies to reduce the amount paid through national health programs for prescription drugs. Data indicates that Medicaid programs routinely pay far more than the actual acquisition costs of prescription drugs. Missouri could potentially reduce costs by reviewing its expenditures for prescription drugs as compared to other states, with a particular focus on regional acquisition costs.

Also, a number of states are joining multi-state purchasing pools for medications. By combining their purchasing power, states may be able to elicit more competitive bids for rebates from drug manufacturers.<sup>35</sup>

*Assessing the Recent Medicaid Cuts:*

While it is important to discuss Medicaid’s future, a necessary place to begin is an assessment of the changes that have been made in the last few years in Missouri. The state has offered no formal plans to evaluate the impact of the Medicaid cuts on those

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<sup>34</sup> Missouri Department of Social Services; based on Fiscal Year 2004 expenditures and enrollees. [www.dss.mo.gov/mis/pdfs/medicaidexpy04.pdf](http://www.dss.mo.gov/mis/pdfs/medicaidexpy04.pdf)

<sup>35</sup> Ku, Medicaid in Missouri, the Possible Role of Waivers, Testimony to the Medicaid Reform Commission, Sept. 2005.

losing coverage or on Missouri's health care system. Before any further cuts or changes are proposed, a serious effort should be made to fully evaluate the impact of those cuts.

The state should systematically and formally evaluate the impact of recent cuts to Medicaid and other health policy changes. Many other states have required a formal review when changes are enacted. For example, when Oregon was forced to make deep reductions in Medicaid due to budget deficits, it charged state researchers with monitoring the effects of these cuts, using both state and private funds for these efforts.<sup>36</sup> Utah has also required evaluations of the impact of key policy changes.

Proposals presented to the Medicaid Commission by a variety of parties include:

- **Provider-based assessments of the effect of Medicaid cuts.** Utilization data could be collected from safety-net providers including emergency rooms, FQHCs, free clinics, rural health clinics, public and charity hospitals. Three key questions to address are: (1) do patients use fewer preventive or primary care visits and is there an increase in emergency care use or other preventable acute care services, (2) how does the loss of Medicaid revenue affect these providers and (3) do these safety-net providers experience increased demand for uncompensated care services. The Missouri Primary Care Association reports that Medicaid is one of its main sources of income. It reports a 51% increase in Medicaid patients, as well as an increase in the number of uninsured individuals. The uninsured now make up 36% of the patient base.<sup>37</sup>
- **Tracking cost sharing effects on children.** New cost sharing implemented in the Children's Health Insurance Program requires families with incomes from 150% to 300% of the Federal Poverty Level to pay premiums. Some administrative information is already available, but more thorough research should be done.
- **Spend-down for seniors and those with disabilities.** The state should cooperate with the institutions providing care to conduct longitudinal studies on the effect of increased cost sharing on patients. This should include monitoring whether individuals are being institutionalized at a higher rate due to increased cost sharing.
- **Results of the annual reinvestigation policy.** The practice of reviewing the eligibility of Medicaid beneficiaries should be carefully monitored. Do the new statutory requirements identify those no longer eligible or are families losing coverage due to other reasons?

The Department of Social Services Quality Control should examine the bulk of reinvestigations completed since September 1, 2005 to ensure that case closing codes are being used properly. If there are patterns in case-closure codes, such as non-compliance, the state may want to further evaluate its policies and procedures. Many children may be losing their coverage due to excessive administrative requirements rather than eligibility issues.

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<sup>36</sup> See information about the Oregon Health Research and Evaluation Collaborative, at [www.oregon.gov/DAS/OHPPR/OHREC/index.shtml](http://www.oregon.gov/DAS/OHPPR/OHREC/index.shtml)

<sup>37</sup> FQHC's & Medicaid, Increasing Access, Reducing Cost, Sustaining Quality and Improving Health Outcomes, Missouri Medicaid Reform Commission, Swope Health Services, July 28, 2005.

The state can play an important role in two ways. First, it could help fund and administer these research efforts. At a minimum, the state should facilitate research by independent organizations. They should cooperate in providing access to data, in order to conduct surveys of those losing Medicaid coverage; access to claims and encounter data should also be provided. This is comparable to surveys that have been done in the past of those leaving welfare. While researchers have been able to obtain cooperation from the state previously, there are concerns that the state would not cooperate with requests for cooperation at this time. Support from foundations and state universities could also be used to conduct the research.

### *Recommendations: Financing Medicaid*

#### *Utilize the Current Fiscal Year “Surplus” In Missouri*

In the first week of January 2006, the Governor’s office announced that the state is expected to receive an additional \$245 million in tax revenues in the current fiscal year than originally expected.<sup>38</sup> That amount is more than sufficient to cover the Medicaid reductions made by the Governor and the General Assembly for the remainder of the current fiscal year and into fiscal year 2007 as well.

Given that the state has not implemented a program to replace Medicaid, and has proven to have the finances available, policy makers should call for the immediate restoration of Medicaid. Restoring Medicaid would provide much needed health services to the more than 100,000 low income families, children, and people with disabilities, and Missouri seniors who lost coverage due to the cuts. Additionally, the funding would bring in nearly twice that amount in federal matching funds to the health care industry in Missouri. Medicaid is the only available option for health care for hundreds of thousands of Missourians.

#### *Implement a Missouri State False Claims Act*

As mentioned previously, sixteen states, including Illinois, Texas, Tennessee, California and Florida have implemented “State False Claims Acts” in recent years. The State is likely to save between \$200 million and \$500 million alone from the false claims proceeds. Additionally, due to the success of State False Claims Acts, the U.S. Senate Finance Committee recently passed legislation that would create federal incentives for states to pass Medicaid, allowing the state to recoup even more funds.

The amount of funding that could be salvaged from implementing the State False Claims Act could be in turn utilized to ensure that more Missourians are receiving health care services. The funds would more than replace the current year surplus as well and could be invested in other general revenue needs.

#### *Direct the Tobacco Settlement Funds to Health Care – Another Financing Option*

Since Fiscal Year 2001 the state has been receiving annual disbursements as agreed to in the Master Settlement Agreement of the multi-state Tobacco Lawsuit:

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<sup>38</sup> Associated Press, David Lieb; “*State Taking in More Money than Expected*”; January 6, 2005

*Table 2*  
*Master Tobacco Settlement Proceeds*

<b>Fiscal Year</b>	<b>Amount of Proceeds</b>
FY 2001- 2005	\$965.8 Million
FY 2006 – FY 2025	\$3.5791 Billion (average \$188 Million per year)
<b>Total for 25 Years</b>	<b>\$4.5449 Billion<sup>39</sup></b>

The Tobacco Settlement proceeds are an available option to fund health care for Missourians. In fact, a strong argument can be made that the tobacco settlement proceeds were in fact intended to offset health care costs the state faced due to smoking. However, the first disbursements of the settlement proceeds coincided with the start of the state fiscal crisis, so these funds largely were not utilized for health care.

Missouri should conscientiously direct the remaining tobacco settlement proceeds to health care, including Medicaid services. The average annual payment for the next 20 years will be approximately \$188 million. If utilized for Medicaid, the funds would generate an additional \$282 per year in federal matching funds.

*The 2006 Tobacco Tax Proposal*

Efforts are underway to place an initiative on the November 2006 ballot to raise cigarette taxes in Missouri. If passed, approximately \$102 million per year would be allocated for restoration of Medicaid. Other funding would be used to increase payments to health care providers and for smoking cessation programs. Passage of the cigarette tax proposal would be one step forward in improving health care access for low-income Missourians.

*Conclusion:*

- Missouri’s policy makers should approach the health care debate with the attitude of “First Do No Harm.” While the health care situation is grim, and policy discussions will be harrowing, Missouri cannot lose site of the real goal: To increase access to health care for more Missourians;
- Given the state has no other service in place for the 100,000 Missourians who lost health care due to the 2005 Medicaid cuts, the state should utilize the \$250 million in “surplus” revenues that it currently has available to restore Medicaid services immediately. The funds are more than sufficient to cover health care for the people impacted by the cuts.
- The state has many financing options that would repay the \$250 million. Missouri should immediately utilize several of the sources cited above to finance Medicaid and ensure access to affordable health care for Missourians.

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<sup>39</sup> 2005 Annual Fiscal Report- Prepared by Missouri Senate Appropriations Committee Staff