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The Impact of House Bill 1011's Proposals to Reduce Medicaid Eligibility and Services (March 29, 2004)

This paper provides a brief updated analysis of the impact of HB 1011.¹ The primary revisions of the Medicaid portion of HB 1011, as of this time, are that the bill no longer mandates managed care for seniors and people with disabilities (although expansion of managed care to these populations is still under consideration), it no longer includes an asset test for pregnant women, and, although it imposes a new asset test for CHIP participants, the asset limit is set at \$25,000 rather than the \$1,000 amount initially proposed.

We provide updated figures on two issues related to these proposed Medicaid budget cuts: (1) how these proposed cuts will increase the number of uninsured Missourians; and (2) the impact of these proposals on the Missouri economy. We recognize that further revisions are likely to occur as the budget process moves forward and the figures in this document will need to be revised accordingly. However, it is important to understand the health and financial impact of the Medicaid cuts presently under consideration.

I. What Would be the Impact on Missouri's Uninsured?

The Medicaid cuts contained in the original version of HB 1011 would have created 68,480 newly uninsured Missourians. Although the current version of HB 1011 dropped a proposed asset test for pregnant women and raised the proposed asset test for children in the State's CHIP program to \$25,000 asset instead of the \$1000 limit originally imposed, **nearly 65,000 Missourians would lose health insurance under the revised version of HB 1011.**

A breakdown of the number of uninsured created by the revised budget bill, based on Department of Social Services’ estimates, is as follows:

Proposed Eligibility Change	Uninsured
Elimination of Medical Assistance for General Relief Recipients	3200 people with temporary disabilities
Reduction of Parent Eligibility to 50% of the federal poverty level	39,000 low-income parents
New Assets Test for Families	1600 low-income parents
New Assets Test for SCHIP Children	881 children
New Cost-sharing for SCHIP Children In Families with Incomes Between 151% and 225% of the federal poverty level	20,000 children
Total Increase in Uninsured Missourians	64,681 people

The largest group of low-income Missourians that would become uninsured under the budget proposal continues to be 39,000 low-income parents with incomes above 50% of the federal poverty level, \$7836 annually for a family of three. Moreover, thousands more Missourians—who are not counted in these calculations—are likely to lose Medicaid coverage and join the ranks of the uninsured because of the new administrative barriers related to new asset verification requirements.²

Making nearly 65,000 more people ineligible for Missouri Medicaid would increase the percentage of state residents who are uninsured. **The rate of uninsured children in the United States and Missouri has remained steady, despite the decline in employer-based coverage, due to the Medicaid and SCHIP programs.**³ Census data show that the rising rate of uninsured adults would have been far worse, if not for the role of Medicaid and SCHIP in responding to increased need during this present recession. If Medicaid eligibility is cut as proposed in HB 1011, Missouri’s rate of uninsured will rise with a corresponding negative impact on the health of low-income Missourians.

Because cutting Medicaid causes families to lose health insurance, cutting Medicaid hurts the health of Missouri’s low income, working families. There is significant evidence that *having health insurance* improves access to health care and health outcomes.⁴ The uninsured receive less preventative care, are diagnosed at more advanced disease states, and once diagnosed, tend to receive less therapeutic care (drugs and surgical interventions) than people who have health insurance.⁵ Moreover, a wide array of studies demonstrate that Medicaid and SCHIP coverage improve access to health care and improve health outcomes.⁶ Such coverage can decrease emergency room usage, reduce preventable hospitalizations, and improve access to primary

health care.⁷ Studies also have found that Missouri's Medicaid program has had a number of positive impacts on children's health care.⁸

A loss of insurance coverage also increases the amount of "uncompensated care" -- care that is not paid for by private or public insurance -- thus transferring these health care costs to other parts of the health system, driving up costs and straining health resources for people who are not covered by the Medicaid program. In testimony before the House Interim Committee, the Missouri Hospital Association pointed out the substantial "cost-shift" that would occur if Missouri's rate of uninsured were higher.⁹ The St. Louis Regional Health Commission has also documented the uncompensated care burden that results when people become uninsured and the impact this cost-shift has on private insurers and the employers with whom they contract.¹⁰ This cost-shift ultimately affects people who have insurance and employers who provide insurance. As pointed out already, Medicaid and SCHIP are a significant reason why Missouri's rate of uninsured has not grown more over the last several years.

II. What is the Economic Impact of the Proposed Medicaid Cuts?

Our prior analysis of House Bill 1011's Medicaid provisions noted the potential economic impact of the bill's proposed cuts to the Medicaid program. That analysis pointed out that Medicaid brings significant federal matching dollars into the state. State Medicaid funds generate federal matching funds at a 61% rate for most individuals and a 72% rate for SCHIP children. Missouri Medicaid spending generates \$1.6 in federal matching funds for every state dollar spent while SCHIP spending generates about \$2.7 in federal matching funds.

This paper provides a revised economic analysis based on changes that have occurred so far in the budget process. Some of the prior proposals for achieving Medicaid savings have been revised through amendments. This analysis takes those revisions into account, as well as updated estimates of the loss in funds that result from the new SCHIP premiums.¹¹ The primary revisions, as of this writing, are that House Bill 1011 no longer assumes any managed care savings, no longer includes an asset test for pregnant women, and revises the proposed CHIP asset test upwards from \$1000 to \$25,000. We recognize that further changes are possible before the House passes the Social Services budget but thought it would be useful to provide updated numbers on the economic impact of the budget cuts as presently proposed.¹²

These findings are included in the attached table. **The proposed income and asset tests, optional services cuts, and cost-sharing in the current version of the House budget would deny the state \$76.8 million in federal Medicaid and SCHIP funds.**

Because the House budget proposals would deny Missouri substantial federal funds, they would also cause a substantial loss of jobs and economic activity. A wide variety of studies in multiple states have shown that state Medicaid spending generates economic activity and jobs throughout state and local economies based on the "multiplier effect" from such spending.¹³ Federal Medicaid dollars generate spending in the health sector, which generates other spending that flows throughout the state and local economies. When Medicaid services and eligibility are cut, these federal funds are lost, and hence, economic activity and jobs, are lost as well. A new report, soon to be published by the Missouri Foundation for Health and based on an analysis by

the St. Louis University School of Business, will document the significant economic impact that Medicaid has in Missouri.

An analysis of economic data by the St. Louis University School of Business shows that proposed Medicaid eligibility and service cuts translate into losses totaling:

- 2049 jobs
- \$149.3 million in economic activity,
- \$72.7 million in wages,
- \$ 5.4 million in tax revenue (based on those wages).

The following chart breaks these down according to each proposed cut in eligibility.¹⁴ Thus, it is clear that the current version of the bill would continue to have a negative impact on jobs and economic activity.

Economic Impact of Key Medicaid Cuts (Revised March 29, 2004)

Proposed Policy Change	Budget Cutbacks Proposed (millions)	Federal Funds Lost (millions)	Reduction in Economic Activity (millions)	Reduction in Jobs	Reduction in Income (millions)	Lost Tax Revenue (millions)
Lower Parents' Eligibility to 50% of poverty	\$ 18.7	\$29.5	\$57.26	786	\$27.9	\$2.08
Impose Asset tests on Families	\$1.4	\$2.2	\$4.29	59	\$2.1	\$0.15
Additional Cost-sharing for SCHIP Children	\$8	\$21.4	\$41.7	572	\$20.3	\$1.51
Asset test for SCHIP Children (\$25,000)	\$.2	\$.54	\$1.04	14	\$.51	\$.038
Dental and optical services	\$6.9	\$10.9	\$21.13	290	\$10.3	\$0.77
Prior Authorization of Psychotropic Drugs	\$7.8	\$12.3	\$23.9	328	\$11.6	\$0.87
Total:	\$ 43	\$76.84	\$149.32	2049	\$72.71	\$5.42

Conclusion

The House Budget Committee has made amendments that affect the total level of Medicaid eligibility and services cuts being proposed, including modification of assets tests and restoration of previously estimated managed care savings. While these changes somewhat lessen the overall cut in Medicaid, the current proposal still would significantly increase Missouri's uninsured population and would cause substantial losses in federal funds, economic activity, jobs, wages, and tax revenue.

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¹ For a more detailed analysis, see Joel Ferber and Sidney Watson, *Preliminary Analysis of Key Medicaid Provisions in House Bill 1011: Reviewing the Impact of Proposed Medicaid Cuts*, February 24, 2004.

² Moreover, HB 1566 would create even more uninsured through the imposition of a new "affordability" test that is not currently included in the House budget proposal.

³ See Robert Mills, *Health Insurance Coverage in the United States: 2002*, Current Population Reports P60-223, U.S. Census Bureau, September, 2003.

⁴ Kaiser Commission on the Future of Medicaid and the Uninsured, *The Uninsured and their Access to Health*, January 2003.

⁵ See Jack Hadley, Sicker and Poorer: *The Consequences of Being Uninsured: Executive Summary*, The Kaiser Commission on Medicaid and the Uninsured, February 2003. www.kff.org/uninsured/20020510-index.cfm, 1.

⁶ O'Brien and Mann, *Maintaining the Gains: The Importance of Preserving Coverage in Medicaid and SCHIP, Covering Kids and Families*, June 2003.

⁷ *Id.* (and citations therein).

⁸ Department Of Social Services, State of Missouri, *Since MC+ Began*, February 10, 2003.

⁹ Missouri Hospital Association, *Missouri Medicaid Briefing*, House Interim Committee on Medicaid Cost and Containment, October 10, 2003, at 37.

¹⁰ St. Louis Regional Health Commission, *Missouri's Medicaid Program and its Impact on Missouri Business*, April 2003.

¹¹ These figures include updated economic projections of the impact of the new SCHIP cost-sharing proposal. The House Budget bill did not estimate the cuts in Medicaid funding that would occur when premiums are expanded to additional SCHIP participants. This updated calculation uses the Department of Social Service's estimated impact on state and federal funds. When additional premiums are imposed, the state will lose federal funds for two reasons: (1) The state will lose federal funding for the estimated 20,000 SCHIP recipients who would lose coverage; (2) For the recipients remaining on the program, the state can only receive federal matching funds for Medicaid payments made by the state, which will be lower if the recipient pays a premium -- no matching funds are received for the premiums that are collected, only for the amount that Medicaid pays. The Department assumes that the 20,000 children who lose coverage will be somewhat healthier than those who remain on the program and thus uses a lower

cost projection of lost federal funds than would be the case if it used the average cost per child in the Missouri SCHIP program to calculate the state and federal savings.

¹² For example, the Mental Health Association of Greater St. Louis has indicated that modifications that may be made to the proposal for prior authorization of psychotropic drugs but changes in the budgetary assumptions about this proposal have not been reflected in any amendments as of this writing.

¹³ National Conference of State Legislatures, *State Medicaid and Health Multiplier Studies: Reports, News Accounts, and Sources and Explanations of Economic Models* (and citations therein), July 22, 2003. NCSL lists eight different state multiplier studies analyzing the impact of Medicaid and SCHIP spending in Alaska, Montana, North Carolina, Ohio, South Carolina, Texas, Utah, and Wisconsin respectively. Other states that have recently conducted such studies are Georgia, Arkansas, Montana, Mississippi, Idaho, Virginia, Florida, and Arizona. In addition to these *state* studies, the Merrick School of Business of the University of Baltimore analyzed the economic impact of Medicaid spending in all fifty states for the Washington D.C.-based Families USA, using a multiplier analysis.

¹⁴ These economic data were computed by Heather Bednarek, Ph.D and Muhammad Islam, Ph.D, John Cook School of Business, at St. Louis University, based on proposed state budget cuts in the House budget bill, and estimates from the Department of Social Services. This economic analysis only includes the specific cuts to eligibility and services that are directly mentioned in the table; it does not discuss issues such as the differences between the House and the Governor on increases needed for “pharmacy inflation,” or issues such as third party liability and general relief cuts, which do not have a *direct* impact on federal matching funds. The table captures the economic impact of *federal funds* that the state would lose from cutting these Medicaid services and eligibility groups. It does not consider any economic loss attributable to the cuts in *state* funds for these eligibility groups and services.