

No-Frills Alabama Medicaid Brings Health Care, Jobs

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Alabama's Medicaid program is in the bull's-eye for cuts as the Legislature looks to balance the FY 2013 General Fund budget in the face of a revenue shortfall. Medicaid – the state's health care safety net for its neediest citizens – has long been among the most limited in the nation. Gov. Robert Bentley's recent 10.6 percent proration of the FY 2012 Medicaid budget lowered the baseline even further. And the Alabama House in April 2012 passed a budget that would cut 30 percent more from Medicaid. If the Senate follows suit, how will the cumulative reductions affect vital health services for thousands of poor Alabama children, senior citizens and disabled adults? What will be the impact on hospitals, doctors and other medical providers and the recipients left with few other sources of care? How about businesses, especially in rural Alabama, that depend on Medicaid support to stay afloat? This fact sheet examines what's at stake in the Medicaid budget challenge.

Economic engine for all

Alabamians often are surprised to learn that Medicaid is a major engine for the state's economy. Medicaid creates thousands of jobs, supports rural hospitals and the state's only children's hospital, pays for medical equipment that all patients use, boosts tax revenue in local communities and enhances our quality of life. Medicaid touches the lives of average Alabamians who never need the agency's services themselves. The impact comes through the local jobs and health care services that Medicaid's presence makes available and through increased area revenue and business sales. As a federal-state partnership in a high-poverty state, Alabama Medicaid draws in \$2.19 in federal funding for every \$1 the state puts into the program. This better-than-2-to-1 match, along with the economic activity it stimulates, helps Medicaid pump some \$8.85 billion into the Alabama economy every year. *(See box on Page 2 for details.)*

Bare but beneficial

For a high-poverty state like Alabama, even a no-frills Medicaid plays an enormous role in the health care system. In 2010, Medicaid paid for more than 50 percent of Alabama births and 68 percent of nursing home beds, largely for senior citizens but also for younger people with disabilities. The program provides a medical home for many of our poorest citizens, enabling them to get care when problems are most treatable. During and after the Great Recession, thousands of Alabama families turned to Medicaid for their children's health care when loss of jobs meant loss of health insurance.

In return for federal matching funds, state Medicaid programs have to meet certain basic standards of eligibility and service. For example, they

have to cover children under age 6 in families up to 133 percent of the federal poverty level (\$30,657 in annual income for a family of four in 2012) and children ages 6 through 18 in families up to 100 percent of the poverty level (\$23,050 for a family of four in 2012). One of the factors that makes Alabama Medicaid a "no-frills" program is our low eligibility limit for adults: Parents in a family of four with income of more than \$2,328 a year earn too much to qualify for Alabama Medicaid. For single adults, the annual limit is \$1,332.

The federal government also requires state Medicaid programs to cover certain basic services, including hospital and doctor services, skilled nursing, laboratory and X-ray services, family planning, pregnancy care, and preventive care for children. Another way Alabama has kept our Medicaid lean is to provide only a handful of the many optional services that states also may cover. Under current budget pressures, these services are at risk of being eliminated. But even if all of Alabama's optional Medicaid services – including adult eyeglasses, kidney dialysis, adult prosthetics, adult hospice and adult prescription drugs –

More than a safety net

In fiscal year 2010, Medicaid covered:

- ✓ **21.1%** of Alabama's total population
- ✓ **50%** of all childbirths in the state
- ✓ **43.5%** of children under age 19
- ✓ **19.7%** of Alabamians age 65 and above
- ✓ **68%** of nursing home days

(Data source: Alabama Medicaid Agency)

were cut, the savings would amount to only a third of the Medicaid shortfall for FY 2013. Advocates say paying for some optional services actually lowers costs. For example, Medicaid pays for drugs for many people with serious mental illnesses who would rapidly end up in a higher-cost hospital – or prison – without them.

Choices for offsetting the rest of the shortfall are limited and risky. If lawmakers choose to reduce mandatory services, Alabama Medicaid could lose its federal certification – and funding. If they cut payments to doctors and other Medicaid service providers, some will take fewer Medicaid patients, reducing access to care. Some states have contracts with commercial managed care companies for Medicaid services at lower cost. Advocates say the planning time required for such a change makes it unworkable as a budgetary “quick fix” (see column 2).

Who pays?

The case for more stable Medicaid funding goes beyond the bottom line to the common good.

Many lawmakers calling for cuts insist the state can’t afford to pay current Medicaid expenses, much less the larger role expected when the Affordable Care Act requires Medicaid to cover low-income adults, starting in 2014. Advocates for the poor point out that Alabama can’t afford not to strengthen Medicaid, when accessible medical care would result in a healthier population with lower health costs overall.

The entire state would feel the consequences of a shrunken and less stable Medicaid. Cuts could force even more Alabamians to use emergency rooms as their only doctor. Emergency room care costs more than primary care for a number of reasons: Emergency room personnel often treat people without health records, personal health care providers or ongoing primary care. People without a primary doctor often delay care until problems are more costly to treat. Under federal law, hospital emergency rooms must treat people with serious medical needs, even if they can’t pay. The resulting uncompensated care charges amount to a “hidden tax” on health care, increasing the cost of insurance, hospital stays and medicine for the state and for people who can pay. If Alabama cuts the

Medicaid funding it uses to pull in federal matching dollars, the compounded loss would affect more than health care for the poor. It would weaken the entire health care system and the rural economy.

Care delivery with cost control

In addition to budget allocations, the great challenge for cash-strapped Medicaid programs like Alabama’s is to deliver quality care while controlling costs. Alabama Medicaid has been moving in recent years toward cost-effective care management.

Patient 1st, a primary care case management program, now helps more than 420,000 Medicaid patients receive regular health care to reduce costs of delayed treatment and over-reliance on emergency rooms. In addition, Patient Care Networks began operating in three regions of the state in 2011, using coordinated care to improve health outcomes at lower cost. Data from 2011 show the networks have been especially

effective in reducing emergency room use – by 15 percent, in contrast to a 2 percent increase in non-network areas. Currently serving counties around Auburn-Tuskegee, Huntsville and Tuscaloosa, the pilot project is slated to expand to other regions this year. Patient 1st, Patient Care Networks and other cost-containment efforts such as a pharmacy policy review committee help Alabama Medicaid keep administrative costs at 3 percent.

Lowering use of ERs and other expensive services is a good goal, as long as improving quality of care and patient access remain equal priorities.

Commercial managed care has been successful – and patient-friendly – in some states where Medicaid has high overhead costs. Managed care companies typically seek profit margins of 15 percent or more – five times the cost of our in-state Medicaid administration. Advocates challenge the notion that Alabama’s no-frills Medicaid could offer such returns to out-of-state corporate shareholders without lowering the quality of health care or reducing patients’ access to it.

Medicaid and Alabama’s economy

In FY 2011, Medicaid was responsible for:

- √ 143,300 Alabama jobs
- √ \$3.2 billion in non-state income
- √ \$589 million in state/local taxes
- √ \$8.85 million in total monetary impact

If proposed FY 2013 budget cuts hold, Alabama stands to lose:

- √ \$1.065 billion in statewide business activity
- √ 10,151 jobs

Sources: Alabama Medicaid Agency; U.S. Center for Medicare and Medicaid Services; Families USA Medicaid Calculator, using U.S. Department of Commerce methodology.