Stone-faced and desperate, the unemployed father pleaded with Nevada’s lawmakers.

Doctors refused to operate on the out-of-work pharmacist’s daughters Hannah, 8, and Zaynah, 5. The girls suffer from cerebral palsy and leukodystrophy—the progressive degeneration of the brain’s white matter—and need surgery. The girls qualify for Medicaid, but the state’s health care program pays so little that physicians have shut their doors to Medicaid patients.

“It breaks your heart,” says Nevada Senate Majority Leader Steven Horsford. “People think only low-income people need access to health care, but it shows that everyone is struggling.”

In recent months, scenes like this have played out in state legislatures across the country. The severe fiscal crisis has led some two dozen states to enact or propose wrenching cuts to health insurance programs for the poor. Legislators took aim at Medicaid, the state-federal program for the poor and disabled, because it is one the largest pieces of the states’ budgets.

The federal economic recovery package throws states a lifeline. It increases the federal portion of Medicaid payments by 6.2 percent, and gives additional funds to states with high unemployment. The package runs from Oct. 1, 2008, to the end of 2010. States will get about $87 billion in new money for five months of past expenses and pay fewer matching funds for almost two years.

The timing hits the bull’s-eye because almost every state is adjusting its 2009 budget and looking at its FY 2010 budget.
Still Struggling

Yet for states facing deep budget shortfalls, it is doubtful the subsidy can reverse earlier payment and benefit cuts.

“The stimulus will require states to restore any eligibility cuts” made after July 1, says Ann Kohler, director of the National Association of State Medicaid Directors. “But it will not be enough to restore other cuts.”

The problem is that there is a growing need for Medicaid as more people lose their jobs. For every 1 percent increase in unemployment, 1.1 million people become uninsured, according to the Kaiser Family Foundation. Of those, some portion are eligible for Medicaid. Inevitably, the longer the recession persists, the more likely it is that unemployed people with families will become eligible.

A January 2009 New York Times survey found that from 2007 to 2008, 16 states saw enrollment increases of more than 5 percent. Many are predicting further increases. Nevada officials expect that by 2010, Medicaid enrollment will rise by more than 30 percent from 2008 levels.

Another Medicaid problem haunts states. Even in good times, health care costs are skyrocketing faster than state revenues. Each year Medicaid gobbles up a greater piece of the budget pie.

“We are hearing from states, ‘This is helpful, but keep up the work. We need more help,’” says Kathleen Stoll, deputy executive director at Families USA. States want the federal government to lend a greater hand in restructuring the program.

Medicaid Basics

Federal rules require those eligible for Medicaid to be given certain services. States can’t establish waiting lists or cap enrollment for those considered part of mandatory groups or they lose federal funding. The federal government requires Medicaid to provide physician and hospital-based care for very low-income pregnant women, children under age 6, the low-income elderly, the disabled and a small set of parents.

In addition, the state must pay for nursing care for very poor elderly and disabled people. Every state covers prescription drugs,

CHIP Gets Renewed

Reauthorizing the state Children’s Health Insurance Program (CHIP, formerly SCHIP) was one of the first actions by the new Congress and the Obama administration. The 10-year-old SCHIP program was operating on an extension of the original law after the previous Congress and the Bush administration reached an impasse on several key issues.

Effective April 1, the Reauthorization:

- Extends CHIP through fiscal year 2013.
- Increases federal funding by raising the federal excise tax on tobacco products to cover 4.1 million more low-income, uninsured children, in addition to the 7 million children currently enrolled.
- Establishes an upper income limit of 300 percent of the federal poverty guideline for states to receive the more generous federal CHIP matching rate, with an exception for states that already have permission to cover higher income children. Other states may be able to obtain the lower Medicaid matching rate for children enrolled in CHIP whose family income exceeds the upper limit.
- Allows states to cover certain low-income pregnant women through a state plan amendment if the state covers children in families with income at a minimum of 200 percent of the federal poverty guidelines and covers pregnant women at a minimum of 185 percent of the federal poverty guidelines.
- Requires states to cover dental services, and requires parity of mental health services.
- Requires a phase-out of coverage for parents of enrolled children, and prohibits the approval of new waivers to do so.
- Requires a phase-out of coverage for non-pregnant childless adults for the few states that had received federal permission to do so.
- Removes the five-year waiting period for legal immigrant children and pregnant women to enroll.
- Provides $100 million in grants for outreach and enrollment activities to states.
- Expands current premium assistance options for states.

—Jennifer Saunders, NCSL

Check out more information about the reauthorization and directives at www.ncsl.org/magazine.
and many states cover optional services—vision care, dentistry, diapers for nursing home residents and wheelchairs—that have been added since Medicaid was enacted in 1965 and now are considered part of the standard of care.

In recent years, some states have expanded Medicaid to “optional” populations, generally the same categories of patients, but with slightly higher incomes. Coverage expansions have become the centerpiece of some states’ health care reform efforts, but they are in jeopardy now.

VERMONT

The stimulus package could not have come a moment later for Vermont. The sparsely populated state with fewer than 1 million people faced a dramatic budget gap in early February. Just days after the bill was signed, Vermont’s House Appropriations Committee would have had to decide on Governor Jim Douglas’ proposed Medicaid cuts—effective in March.

The state was short $52 million this fiscal year and some $500 million over the next two. Manufacturing slowdowns and a drop in tourism caused unemployment to top 8 percent.

The proposed Medicaid changes would have increased premiums and cost-sharing in Medicaid and Catamount Health, the state’s showpiece coverage expansion program; cut payments to all providers by 4 percent; and slashed a program that gave free prescription drugs to low-income seniors.

Just 48 hours after Congress approved the bill, Vermont Representative Mark Larson says the House committee suspended decisions on Medicaid cuts.

“It is our hope that the federal money gives us the ability to keep our programs intact for the next one to two years,” Larson says, noting that increasing Catamount’s cost-sharing and premiums would put the program out of reach of the very people it is intended to serve.

But even with the federal money, Vermont will be short $30 million in FY 2010. So although there is a temporary halt on spending cuts, some legislators view the federal money as simply buying time to consider options.

“We’re not saying that tough decisions don’t have to be made,” says Senator Jane Kitchel. “But they need to be made in a thoughtful way.”

UTAH

For Utah legislators, the federal economic recovery bill’s passage came in the midst of a downward budget spiral. Despite $400 million in cuts this fiscal year, lawmakers learned in mid-February the state would still be $171 million short and lack another $320 million next year.

Legislators considered cutting every agency’s budget by 15 percent. The recovery bill will likely cover the $171 million current year gap. But the across-the-board cuts are still in play, and new money may not restore previous cuts.

The first cuts came last September, when declining revenue projections forced legislators to slash $272 million from the state’s roughly $11 billion budget.

Although much better off than some states, Utah’s 4.3 percent unemployment rate reached a two-year high in December. Medicaid caseloads are climbing at 13 percent. And there are no signs of a recovery.

So the state snipped “optional” services for some of Medicaid’s 165,000 patients, such as physical therapy, audiology, vision and chiropractic care.

Round two in December: Lawmakers modestly trimmed administrative payments to Medicaid managed care organizations by 1 percent and rescinded inflation increases for hospitals, nursing homes and home health care providers.

“It has been painful, it has been hard, but I think the overall effect has been really good,” says Senator Lyle Hillyard, noting that those budget sessions forced legislators to examine every program.

“The citizenry of Utah expect us to do this,” he says. “They appreciate the fact that we balanced the budget and tried to protect people as much as we could.”

Going forward, the new federal law prohibits states from altering Medicaid eligibility. That means Utah lawmakers will not be able—as planned—to tighten asset and income requirements.

Low-income pregnant women in Utah, for instance, can have no more than $5,000 in their bank accounts to get free prenatal care. The state talked about lowering that threshold to $3,000.

Utah allows about 21,000 low-income people with steep medical expenses to qualify for free care if they contribute a portion of their incomes. Lawmakers considered increasing contribution levels for the “medically needy.”

Hillyard says that when these proposals were aired, groups of patients said they would lose health care coverage.

“But no matter where you draw the line, there are people who are excluded,” Hillyard says. “You have to live with that fact.”

Many program expansions took place in 2006-2007 when fiscal times were better, he adds. “Quite frankly, had we known then what we know now, we probably wouldn’t have increased the benefits that we did.”

Although eligibility cuts are off the table for now, Utah still needs to slash $10 million from Medicaid. Legislators are considering cutting payments to doctors and hospitals by 10 percent.

NEVADA

Nevada no longer provides poor children with eye check-ups, glasses or orthodontic care. The elderly and disabled get just one hour of help a day for bathing, eating and dressing. Payments to hospitals and doctors were cut 5 percent, and some pediatric specialists saw payments drop 41 percent.
The federal economic recovery bill aims to relieve one of the biggest burdens on people who have lost their jobs: The high cost of health insurance.

President Obama inked a provision to help laid-off workers stay on their employers’ health plans. For every dollar the insurance costs, the federal government offers to pay 65 cents. Workers pay the remaining 35 cents. The subsidy runs out after nine months.

The concept, never before widely tested, is to prevent large numbers of people from becoming uninsured. And for some portion of the population, it makes COBRA—the federal Consolidated Omnibus Budget Reconciliation Act—affordable for the first time.

But the provision is most likely to help wealthier families, not low-income families with little savings. And that latter group generally makes up the uninsured.

“It is better than nothing, but for many of them, the idea of finding the other half [of the money] is going to be very difficult,” says Paul Fronstin, director of the health research and education program at the Employee Benefit Research Institute. “You are going from paying a portion of the premium to the whole thing. You are unemployed. And you are doing this all on an after-tax basis.”

The subsidy would reduce individual insurance costs to $131 a month and family coverage to $350 a month, on average. The bill caps eligibility for single people earning $125,000 and couples earning $250,000 a year. The government estimates the provision will help 7 million people and cost $24.7 billion.

But it seems unlikely to help the working poor, Fronstin says.

“It’s not going to help millions of people,” he says, “and you are still going to have millions of people out there who lost health insurance.”

These cuts, approved in December, were part of reducing $1.5 billion in the current fiscal year.

“There were hundreds of millions of dollars in cuts made to Medicaid,” says Horsford. “You name it, we did it in the last year.”

Now the Legislature must decide if Nevada’s federal stimulus allotment of $450 million to Medicaid is enough to cover the burgeoning number of enrollees as well as restore some of the program’s integrity.

“It is probably going to help us preserve programs and expand enrollment in Medicaid that we would not have been able to do, but it will not address fundamental problems,” says Horsford.

The problem is access to health care. Even before the crisis, Nevada paid poorly and offered among the fewest optional services in the nation.

After the December cuts, the program’s reimbursement rates were so low—and the services it offered so few—that a Medicaid card verged on becoming meaningless, an insurance card doctors won’t honor.

“We are cutting [payments] so much that it is going to cost hospitals more to provide services than we pay them,” says Nevada Assemblywoman Sheila Leslie. “We may have a Medicaid program, but you may not be able to get anything under it. You may not be able to get services.”

At the same time, enrollment is skyrocketing. The state’s unemployment rate is expected to hit 12 percent soon, up from 9 percent now. Every percentage point rise in unemployment brings 14,000 new people onto the Medicaid program, according to Horsford.

Governor Jim Gibbons’ 2010 budget proposes capping the state’s SCHIP program at 25,000 children, cutting another 5 percent in hospital payments and reducing by $3 an hour payment to personal care attendants. His office has said it would recommend first using the $450 million in federal stimulus money to cover new enrollees.

Horsford is among the legislators who say these cuts go too far. They want to consider other means—including new taxes—to keep the program intact.

“We are doing the hard work of figuring out the priorities we will fund,” he says, “and figuring out some of our revenue options in order to responsibly balance our budget.”