

Proposed Federal Cuts Threaten Illinois' Medicaid Program

Introduction

Medicaid is the nation's primary public health insurance program for low-income families, the disabled and the poor elderly. It provides health care coverage for over 57 million Americans, including more than two million Illinoisans per year. Illinois' Medicaid program covers more than one million children; pays for 40 percent of the state's births; and pays for two of every three nursing home days. Medicaid's role as the principal provider of health care coverage for the state's most vulnerable populations can be expected to increase over time due to the sluggish economic recovery in Illinois and the private sector trend to reduce health care benefits offered to workers, particularly in low wage jobs. In Illinois, employer-sponsored health care coverage declined from 75.4 percent of the workforce in 1979 to just 60.8 percent in 2003.¹ As fewer workers have access to employer-provided health coverage, the skyrocketing growth of private health insurance costs, which according to the Kaiser Family Foundation are increasing at three times the rate of inflation, has made it increasingly difficult for Illinois workers to maintain health insurance coverage.

In addition to providing health care access to low-income families, Medicaid plays a substantial role in the state's economy. Illinois hospitals, nursing homes and community health centers depend on Medicaid funds to keep their doors open. For example, in 2002 alone, more than \$3.2 billion in Medicaid funds flowed into Illinois' hospitals. Similarly, Medicaid is the primary payor for nearly two-thirds of Illinois nursing home residents and is the source of one of every five dollars spent on prescription drugs. For these reasons, Illinois has much to lose if federal proposals to cut Medicaid are passed. Indeed, any cuts in Medicaid funding would be detrimental to both Illinois' economy and the state's ability to provide health care services to low-income children and families, who frequently are unable to afford private health insurance.

Federal Medicaid Cuts and the Effects on Low-Income Families

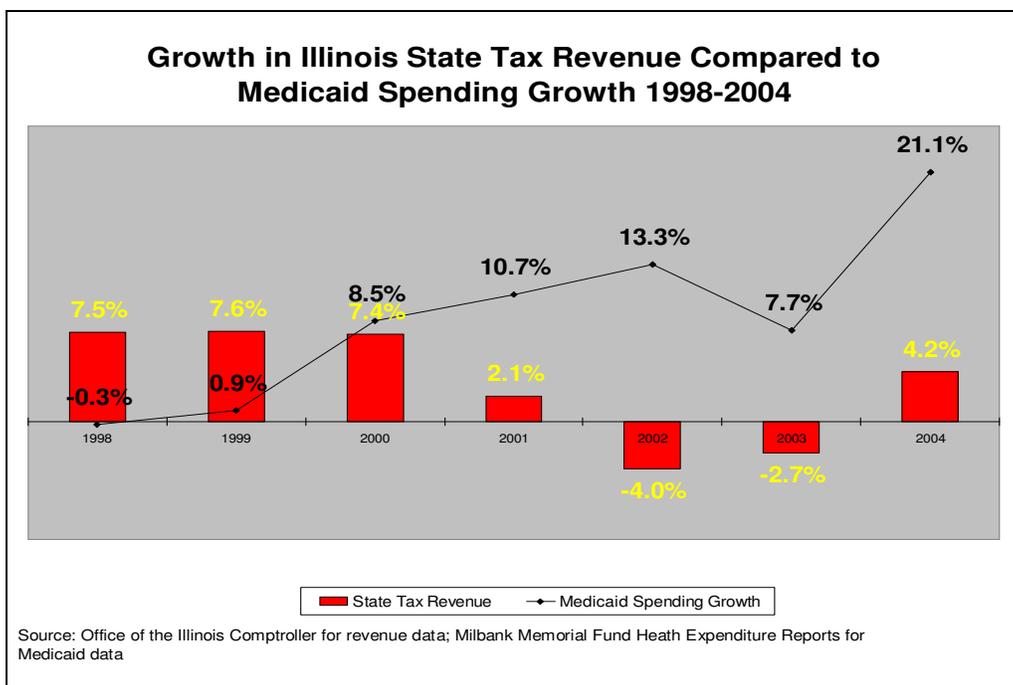
Under pressure of ever increasing federal budget deficits and rapidly rising health care costs, Congress has proposed cutting Medicaid, which is financed jointly by the federal government and the states. The Congressional Budget Office estimates that the proposed cuts would total \$16 billion over the next ten years. The most devastating cuts to Medicaid would be implemented through benefit reductions and increased co-payments at the election of the states which administer the program. Under current law, states are permitted to charge beneficiaries only nominal amounts – no more than \$3 per service – for families living just above the poverty line. If enacted, the federal budget bill would allow states to charge significantly greater co-payments for doctors' visits and prescription drugs for the nations' most vulnerable children and families. For instance, a state would be permitted to charge near-poor children co-payments of \$20 or more per doctor visit, in addition to co-payments for medicine, eating into money that would otherwise go for food, housing and basic living expenses.

¹ The Center for Tax and Budget Accountability, "The State of Working Illinois," October 2005.

It is well-documented that charging poor and low-income families for necessary health care expenses leads many to forego needed treatment and medicine.² Thus, federal Medicaid cuts will force many families to simply go without necessary health care, compelling them to seek treatment in emergency rooms, which is generally more costly and sought at a later, more serious stage of illness.

Another potential consequence of the proposed Medicaid cuts will be increased hospital uncompensated care costs. As higher co-pays and increased coverage costs push families off Medicaid or discourage them from seeking needed health care, it is likely that hospital uncompensated care costs, that is, expenses incurred by public and private hospitals for which they cannot recover payment – generally due to a patient’s inability to pay – will increase as former Medicaid participants seek care in emergency rooms.

Illinois Tax Revenue Compared to Medicaid Spending Growth



Illinois’ Revenue System Cannot Keep Pace with Medicaid Costs

Illinois regularly experiences annual budget deficits because of revenue shortfalls caused by structural problems in the state fiscal system.³ The flaws in Illinois’ tax system are exacerbated during economic downturns, worsening the state’s ongoing deficits. The severity of the problem is such that, under its current fiscal structure, Illinois does not raise enough revenue annually to finance the same level of public services it provided the prior year, adjusting solely for inflation.⁴ As a result, each year the state has a gap

² The Kaiser Family Foundation, “Increasing Premiums and Cost Sharing in Medicaid and SCHIP: Recent State Experiences,” May 2005.

³ Illinois’ structural deficit was identified in a study done for CTBA by Professor Fred Giertz, at the University of Illinois Urbana. CTBA has identified the extent of the structural deficit problem in Illinois. Numerous publications on the structural deficit can be found on CTBA’s website at www.ctbaonline.org.

⁴ *Id.*

between estimated revenues and expenditures. The technical term for this is a “structural deficit.” Because Illinois is constitutionally required to balance its budget, revenue underperformance often leads to cuts in essential public and human services. Consequently, as the chart above shows, Illinois’ antiquated fiscal system does not have the capacity to fund even the current level of state spending on Medicaid, much less keep up with the rising costs of Medicaid over time, or the proposed federal cuts in the program.

Despite Illinois’ fiscal problems, Governor Blagojevich and the General Assembly should be applauded for not cutting Medicaid, as many states have done in response to financial difficulties. However, as Medicaid continues to consume more of the state’s budget, continued growth in Medicaid spending effectively forces cuts in other essential human and public services the state provides. If the state’s fiscal limitations are compounded by federal Medicaid cuts, the state’s balanced budget requirement will force it either to cut Medicaid or other essential programs that focus on helping vulnerable populations.

Conclusion

When combined with escalating health care costs and the state’s ongoing structural deficit, any federal cuts to Illinois’ Medicaid program will result in an increased number of uninsured poor and low-income families, while also having a potentially devastating impact on the state’s health care industry. According to Families U.S.A., every \$1 million invested in Illinois’ Medicaid program results in nearly \$2.4 million in new business activity and more than 20 new jobs.⁵ Reducing the amount of federal Medicaid funds Illinois receives will reduce the flow of dollars to hospitals, nursing homes, home health agencies and pharmacies, and reduce the amount of money circulating through the state economy, negatively affecting employment, income, state tax revenue and economic output.

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⁵ Families, U.S.A., “Medicaid Cuts are Bad Medicine.”