



# Medicaid

51 million people in the United States receive health services through Medicaid, the nation's major public health insurance program for people with low income. Of this number, 25 million children (one-third of all children in America) and 13 million low-income parents are covered under Medicaid. Furthermore, 5 million elderly and 8 million people with disabilities receive critical health care through this program.<sup>1</sup>

In spite of the major achievements of the Medicaid program in providing health coverage for low-income people, nearly 45 million people under the age of 65 did not have health insurance in 2003, including 9.3 million children. Without assistance, millions of people living in or near poverty cannot afford to pay for basic health care for themselves and their families.<sup>2</sup>

Lack of comprehensive and affordable health insurance can compromise both the health and financial well-being of individuals and families, and ultimately has an impact on society as a whole. The uninsured are less likely to obtain treatment when needed including the care which is likely to prevent serious illness and more frequent hospitalization.<sup>3</sup>

## MEDICAID BASICS

The Medicaid program pays for medical assistance and long-term care for certain low-income individuals and families with children, low-income elderly, and persons with disabilities. This program became law in 1965 and is administered by the states within federal guidelines. The federal government provides matching funds to the states for the costs they incur paying health care providers for delivering services. Under this framework, states have significant discretion in how they run their programs. As a result, eligibility rules, benefit levels, service delivery and provider payment structures vary greatly across states.<sup>4</sup>

**Eligibility:** Medicaid is an entitlement program that provides benefits to all who qualify and apply. Medicaid does not offer health assistance to all poor persons; having a low income is only one of many eligibility requirements. Although states are responsible for implementing the program, federal guidelines require Medicaid to cover specific groups of people and to deliver certain types of benefits. The federal statute identifies over 25 different eligibility categories that cover low-income pregnant women, children and their parents, people with disabilities, and/or persons who are aged or blind.<sup>5</sup>

Low-income children make up about half and their parents or caregivers 25 percent of the Medicaid beneficiaries. The elderly and people with disabilities account for the remaining quarter (disabled 16 percent, elderly 9 percent). While adults and children in families account for 75 percent of Medicaid *coverage*, the

blind, people with disabilities, and the elderly account for 70 percent of Medicaid *expenditures*, as those groups often require acute and long-term care.<sup>6</sup>

**Services Covered:** Medicaid covers a broad range of services. Federally required services include inpatient and outpatient hospital care; physician, midwife, and certified nurse practitioner services; laboratory and x-ray services; nursing home and home health care; family planning; a regimen of screening, diagnosis, and treatment for those under age 21; and rural clinics. States may also offer additional services such as prescription drug coverage, clinic services, prosthetic devices, hearing aids, dental care and intermediate care facilities for the mentally retarded.<sup>7</sup>

**Financing:** Financed and operated jointly by the states and the federal government, Medicaid accounts for roughly one-fifth of the nation's health care spending and nearly half of all spending on long-term care. As the largest source of federal support to the states, Medicaid is also a major engine in state economies, supporting millions of jobs across the country. Its guarantee of open-ended federal financing enables states to respond to losses of private health insurance attributable to unemployment and rising health insurance premiums, increases in health care costs, emergencies and disasters, and an aging society. States can receive from 50 percent to 83 percent of Medicaid costs from the federal government. Current rates range from 50 percent to 77 percent. States with the lowest per capita income receive the highest federal match rate (called the Federal Medical Assistance Percentage, or FMAP). In 2002, the federal government financed 57 percent of the total \$250 billion in state and federal Medicaid spending.<sup>8</sup>

### **SCHIP (STATE CHILDREN'S HEALTH INSURANCE PROGRAM)**

Federal and state governments have made efforts to provide health coverage to more children in recent years. Medicaid's coverage of children has expanded over the last several years. Most recently in 1997, the State Children's Health Insurance Program (SCHIP) was enacted to provide a capped amount of federal matching funds to states for coverage of children with incomes too high to qualify for Medicaid, but for whom private health insurance was either unavailable or unaffordable. Covering roughly 5 million children in 2003, SCHIP has played an important role in reducing the number of uninsured children in America.<sup>9</sup> The latest Census data indicate that Medicaid and SCHIP have continued to cover more children than in past years. This growth in coverage for children has helped to offset the decline in employer-based coverage for families.<sup>10</sup>

*For more information on SCHIP, see: CHN Issue Brief: State Children's Health Insurance Program*

### **PROGRAM SHORTCOMINGS**

**Medicaid Leaves Many Poor People Uninsured.** Medicaid and SCHIP have been effective at providing health coverage for millions of low-income children, some of their parents, seniors, and people with disabilities. Despite that, many parents and other adults without children are often ineligible even if their incomes are low. In 42 states, adults without children have no chance of qualifying for Medicaid and similar programs even if they have no income at all, unless they are severely disabled. These same uninsured adults rarely received employer-sponsored health care.<sup>11</sup>

Some of the neediest families go without Medicaid. Before 1996, poor families receiving cash welfare assistance were also automatically enrolled in Medicaid. But after the 1996 welfare law (Personal Responsibility and Work Opportunity Reconciliation Act, or PRWORA) was enacted, many families left welfare and no longer received Medicaid, even though they remained eligible. Better information and increased outreach have somewhat improved the situation but it remains a concern.<sup>12</sup>

The 1996 welfare law also significantly reduced the eligibility of non-citizens for many public programs, including Medicaid and the State Children's Health Insurance Program (SCHIP). The federal legislation imposed a five-year ban on receipt of benefits for many legal immigrants. Between 42 percent and 51 percent of non-citizens lack health coverage due to low-paying jobs without health insurance and restrictions on public coverage through Medicaid and SCHIP. Even for immigrants that may qualify for coverage themselves or who have children who may qualify, confusion and concern about enrolling often prevents them from doing so.<sup>13</sup>

**State Implementation Challenges.** As with many other social service programs, Medicaid suffers from state-level implementation difficulties. In recent years, the economic downturn, rising health care and prescription drug costs, and decline in employer-based health coverage have contributed to rising Medicaid enrollments. States faced with serious fiscal difficulties in this environment have reduced Medicaid spending by introducing changes in eligibility rules, enrollment procedures, cost-sharing requirements and other barriers.<sup>14</sup>

**Moving From Welfare to Work.** Families leaving welfare (Temporary Assistance for Needy Families or TANF) for work often move to low-wage jobs that do not offer health insurance. The Transitional Medicaid Assistance (TMA) program provides up to 12 months of transitional coverage for these families facing a loss of health coverage. But families are often not made aware of their transitional coverage options.<sup>15</sup> Also, families may be deterred from applying due to burdensome enrollment procedures. Streamlined application and renewal procedures and outreach efforts are needed to reach parents.<sup>16</sup> Families who recently left the rolls often need more than one year of transitional coverage. Legislation has been introduced that would expand the TMA program to extend coverage to eligible families for an additional 12 months but those expansions have not yet passed.

### **CURRENTLY UNDER DEBATE**

Medicaid has improved access to health care for millions of low-income individuals and families. Medicaid's costs have grown due to increases in enrollment in part because of the weak economic conditions, as well as from rising health care costs. Medicaid's growth has offset some of the loss of employer-based coverage. Nevertheless, as states continue to face budget shortfalls, they will continue to seek ways to contain Medicaid costs. A recent survey conducted by the Kaiser Commission on Medicaid and the Uninsured found that some states continue to make progress in increasing access to the program by simplifying eligibility and enrollment procedures. The survey also discovered that all 50 states and DC had implemented cost containment strategies in fiscal year 2004 and all planned new actions for fiscal year 2005. Popular actions include controlling drug costs, reducing or freezing provider payments, as well as cutting eligibility and limiting benefits.<sup>17</sup>

The Bush administration's proposal to restructure Medicaid and SCHIP would fundamentally change both programs. The proposal gives states a choice of remaining in the current program or opting into a block grant structure. For the latter, participating states would receive a short-term funding boost for Medicaid, but thereafter the program would be combined with the State Children's Health Insurance Program (SCHIP) and federal payments would be capped. As a result states would no longer receive funding increases when enrollment levels or health care costs rise. Unable to afford higher costs or larger caseloads without additional federal support, states might be forced to cut Medicaid benefits and restrict program eligibility.<sup>18</sup>

Although the implications of this proposal would depend greatly on the final details, advocates for the poor worry that states, facing their most severe budget crises in a half century and desperate for immediate fiscal relief, will be tempted to participate in the block grant program in spite of the loss of funds over time. Short on program funds, states would be forced to cut Medicaid benefits and caseloads. While some safeguards protecting "mandatory" recipients would remain intact, the Bush plan would eliminate the Medicaid entitlement for the millions of "optional" program beneficiaries – those whom states are not required to insure under federal law. Approximately one-third of Medicaid participants fall into this optional category which includes some of the sickest and poorest beneficiaries.<sup>19</sup>

While some proponents of the Bush proposal point to the potential benefits such as flexibility for states to extend coverage, in reality the proposal does not provide any new resources to pursue new initiatives. Instead, states will face capped federal funding making it difficult over time to maintain their current programs and services.<sup>20</sup>

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<sup>1</sup> Kaiser Commission on Medicaid Facts, *The Medicaid Program at a Glance* (January 2004). Available at <http://www.kff.org/medicaid/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=30463>

<sup>2</sup> Kaiser Family Foundation. *Health Care & the 2004 Elections: The Uninsured*. Available at <http://www.kff.org/uninsured/7155.cfm>

<sup>3</sup> *Ibid*

<sup>4</sup> NAMI, *Medicaid Basics: Key Facts About the Program* (April 2003). Available at [http://www.nami.org/Template.cfm?Section=Issue\\_Spotlights&template=/ContentManagement/ContentDisplay.cfm&ContentID=8298](http://www.nami.org/Template.cfm?Section=Issue_Spotlights&template=/ContentManagement/ContentDisplay.cfm&ContentID=8298)

<sup>5</sup> Centers for Medicare and Medicaid Services, *Medicaid Site for Consumer Information*. Available at <http://www.cms.hhs.gov/medicaid/consumer.asp>

<sup>6</sup> Kaiser Commission on Medicaid Facts, *The Medicaid Program at a Glance* (January 2004). Available at <http://www.kff.org/medicaid/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=30463>

<sup>7</sup> *Ibid*

<sup>8</sup> Kaiser Commission on Medicaid and the Uninsured, *Financing the Medicaid Program: the Many Roles of Federal and State Matching Funds*, (January 2004). Available at <http://www.kff.org/medicaid/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=30545>

<sup>9</sup> Kaiser Family Foundation, *Medicaid/SCHIP*. Available at <http://www.kff.org/medicaid/index.cfm>

<sup>10</sup> Kaiser Commission on Medicaid and the Uninsured, *Beneath the Surface: Barriers Threaten to Slow Progress on Expanding Health Coverage of Children and Families* (October 2004). Available at: <http://www.kff.org/medicaid/7191.cfm>

<sup>11</sup> Families USA, *Working Without a Net: The Health Care Safety Net Still Leaves Millions of Low-Income Workers Uninsured* (April 2004). Available at [http://www.familiesusa.org/site/DocServer/Holes\\_2004\\_update.pdf?docID=3304](http://www.familiesusa.org/site/DocServer/Holes_2004_update.pdf?docID=3304)

<sup>12</sup> Children's Defense Fund, *The State of America's Children 2004*. Washington DC.

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<sup>13</sup> The Kaiser Commission on Medicaid and the Uninsured, *Immigrants and Health Coverage: A Primer* (June 2004). Available at <http://www.kff.org/uninsured/7088.cfm>

<sup>14</sup> Kaiser Commission on Medicaid and the Uninsured, *Beneath the Surface: Barriers Threaten to Slow Progress on Expanding Health Coverage of Children and Families* (October 2004). Available at <http://www.kff.org/medicaid/7191.cfm>

<sup>15</sup> Children's Defense Fund, *The State of America's Children 2004*. Washington DC.

<sup>16</sup> Kaiser Commission on Medicaid and the Uninsured, *Welfare and Work: How Do They Affect Parents' Healthcare Coverage?* (June 2002). Available at <http://www.kff.org/medicaid/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=14131>

<sup>17</sup> Kaiser Commission on Medicaid and the Uninsured, *The Continuing Medicaid Budget Challenge: State Medicaid Spending Growth and Cost Containment in Fiscal Years 2004 and 2005* (October 2004). Available at <http://www.kff.org/medicaid/kcmu100404pkg.cfm>

<sup>18</sup> Kaiser Commission on Medicaid and the Uninsured, *Bush Administration Medicaid/SCHIP Proposal* (May 2003). Available at <http://www.kff.org/medicaid/4117-index.cfm>

<sup>19</sup> Ibid

<sup>20</sup> Ibid