

North Carolina Child Advocacy Institute

Why Cutting

**MEDICAID**

is Harmful to NC's Health



an NCCAI Background Briefing

June, 2003

# Medicaid Basics

## Helping (Only) Those Who Cannot Help Themselves

- + Medicaid is a state-federal partnership providing access to health care as part of the "safety net" of publicly-supported human services for our most vulnerable citizens. It is not health insurance for all poor people. Men and women of sound mind, able body and working age are not eligible for Medicaid. ***Medicaid benefits are limited to dependent children, pregnant women, the disabled and the elderly.***
- + No poor people in our state receive a Medicaid check that provides them with extra income. ***Medicaid dollars go directly into the hands of NC health care providers as reimbursement for services provided to patients.*** Medicaid is the largest payer of many critical health care services for North Carolinians, including prenatal visits, deliveries and nursing home care.
- + In 2001, Medicaid invested more than \$7 billion (including approximately \$2.4 billion in state funds) in ***health care for 1.3 million North Carolinians***, or about 17% of the state's citizens. This is roughly equivalent to those served by NC's public schools.
- + Medicaid expenditures improve not only the health status of its direct recipients, but all North Carolinians by underwriting the state's network of health services, health care institutions and health care providers. For example, Medicaid has played a major role in reducing infant mortality and pediatric lead poisoning, enhancing care for chronic illnesses such as asthma, and establishing statewide guidelines for the improvement of long-term care. ***Many health care practices and institutions across our state would have to close their doors - or dramatically increase the costs to their patients with private insurance - if Medicaid no longer provided a firm financial foundation for these providers.***
- + Medicaid plays a significant role in stimulating state business activity. In 2001, state dollars spent on ***Medicaid generated almost \$9 billion in new business activity and created 100,000 new jobs.*** Conversely, reductions in Medicaid spending will result in significant reductions in business activity and worsen NC's unemployment problems. Thus, proposals to reduce Medicaid spending must factor in these economic consequences.
- + Last but far from least, Medicaid has enabled the children of poor parents to avoid poor birth outcomes and poor health throughout childhood. ***Healthy babies are likely to become healthy children - and healthy children are far more likely to succeed in school and become productive citizens.*** At the other end of the life cycle, Medicaid has enabled retired low-income workers and indigent senior citizens to get the health care they require in their declining years. It offers them a measure of dignity, security and freedom from neglect if they become ill or fragile.

## Introduction

After elementary and secondary education, Medicaid is the second largest item in most state budgets. North Carolina is no exception. However, there is a vast difference between the constant attention devoted to public education and the relative obscurity of Medicaid.

When thought of at all, Medicaid too often is regarded as little more than a financial burden that North Carolina must bear. By contrast, education is understood to be a right, with its own special Article in the State Constitution -- and almost all North Carolinians have taken advantage of that right. The focus of public debate is usually not on the size of our investments in education, but on "accountability" to assure that we get the best possible returns on our investments.

Though dire fiscal circumstances may require the consideration of reductions in education, these generally are considered with great reluctance. Indeed, it seems that every governor and gubernatorial candidate in recent memory has wanted to be known as "The Education Governor". None of them have vied for the title of "The Medicaid Governor". The same is true of NC's legislative and community leaders.

There is no established right to Medicaid (nor to health care, generally). It has become a public function under the State Constitution's guiding principle that "beneficent provision for the poor, the unfortunate and the orphan is one of the first duties of a civilized ...state".

Unlike public education, the majority of our citizens have little or no personal experience with Medicaid. Most media coverage about it is focused on increasing costs and occasional accountability concerns. Thus, the public perception of the program is somewhat negative.

The result is that slashing Medicaid is considered without hesitation. In fact, 45 states took actions to limit Medicaid spending in 2002. With budget crises likely to continue, there will be increased pressure to make major Medicaid reductions in North Carolina. *Yielding to this pressure by taking an ax to Medicaid would be a mistake having dangerous consequences for our state's economic, social and physical health.*

It is the responsibility of the Governor and the General Assembly to use taxpayers' money in the most efficient and effective ways possible. All public programs, and especially the large ones, should be scrutinized carefully. The key word here is **carefully**.

Because Medicaid so often is either misunderstood or poorly understood, the purpose of NCCAI's *Background Briefing* is to provide basic information for elected officials, the media and the public. Our hope is that a better understanding will lead to more informed opinions and decisions about Medicaid in the North Carolina General Assembly.

## Medicaid Expenditures and Services

Medicaid is a unique federal-state partnership to provide health care coverage for a state's low-income, vulnerable populations.

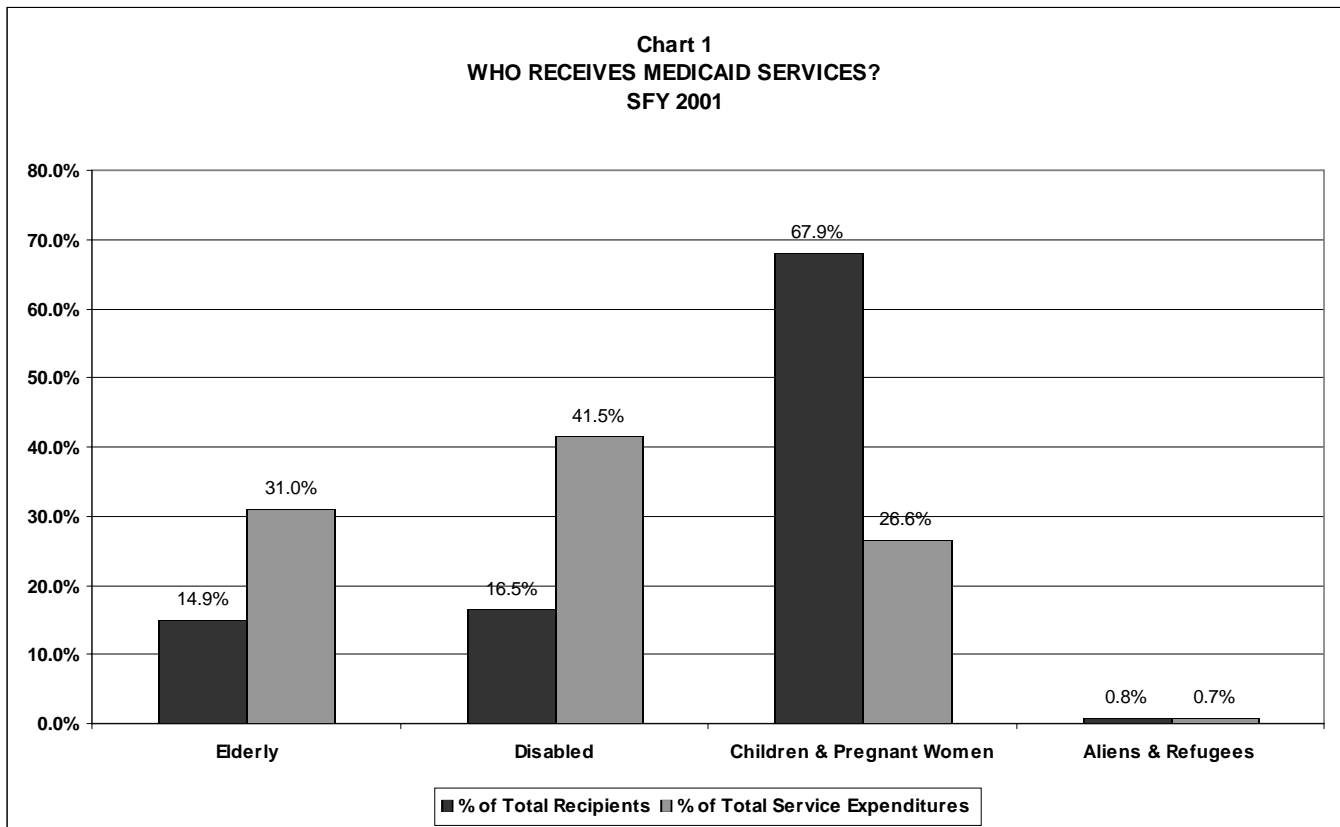
States have a fair amount of flexibility in designing their programs, though every state Medicaid program must provide a minimum set of defined services for low-income children, pregnant women, and some elderly and disabled people. Significantly, the federal government "matches" every state dollar spent on Medicaid with almost two federal dollars.

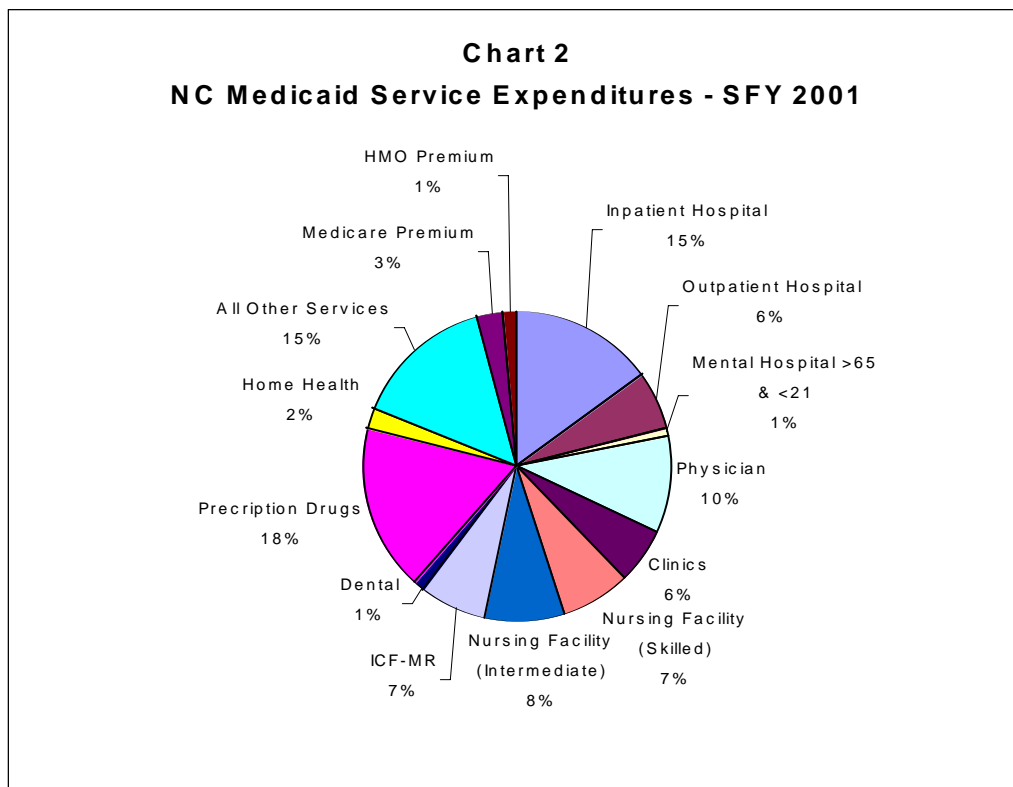
In FY 2001, North Carolina's Medicaid program expended just over \$7 billion to cover services for more than 1.3 million people, or almost 17% of the state's population. Of this amount, \$5.4 billion was for direct health care services, and the federal government covered 62.5% of the expenditures, the state provided 32%, and counties provided 5.5%. (The remaining expenditures were largely for state and local administration, including eligibility determination and

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Without Medicaid, more state residents would remain uninsured, and a significant number of these people would go without needed health care - with long-term consequences to their health and to their ability to contribute to the state's economy. However, when these uninsured people must find health care, they go to local health departments, public hospitals, and other programs and services financed by the state. These services have low levels of federal financial assistance (or none at all).

The bottom line is that states really cannot avoid paying for at least some of the health care needed by its uninsured residents. By paying for that care through Medicaid, North Carolina can, in effect, receive a 62% discount from the federal government. This is a bargain that no state can afford to ignore.





accountability functions. The federal government covered half of these expenditures.)

Chart 1 presents the major categories of eligibility, as well as the percentage of total expenditures for each category for FY 2001. It is noteworthy that the category "pregnant women and children" comprises two-thirds of all recipients, but less than 27% of total expenditures. The categories "elderly" and "disabled" comprise less than one-third of recipients, but more than 70% of the expenditures. This is a reflection of the intensity and the expensive nature of services for these groups.

North Carolina's Medicaid program responds to the needs of recipients with a comprehensive package of critical services. Chart 2 portrays the major service categories, as well as each category's share of total expenses.

### Medicaid's Contributions to Health Care and Health Status

As the largest public purchaser of health care within the state, the Medicaid program has the opportunity to create a statewide network of health care providers to meet the service needs of its recipients. (Indeed, though there are constant concerns regarding reimbursement rates, there were more than 61,000 enrolled Medicaid providers in FY 2001.) In addition, as Medicaid works with these providers to enhance the quality and effectiveness of care, improvements in health status accrue not only to Medicaid recipients, but all others served by these providers. Below are a few highlights:

- ▶ *Medicaid is the largest single purchaser of prenatal and delivery services, covering more than 40% of births annually.*

- ▶ *Medicaid was one of the leaders of the state's initiative to reduce infant mortality. Through its Baby Love Program, it helped reduce the infant mortality rate by 22% in the past decade.*
- ▶ *Through its Health Check initiative, more than 70% of children in the Medicaid program now receive continuous preventive care. This remarkable achievement is a major factor making North Carolina's immunization rate one of the nation's highest.*
- ▶ *The number of children with elevated blood lead levels has dropped by 70% in the past 5 years, largely due to the emphasis placed on awareness and screening by the Medicaid program.*
- ▶ *Through its Carolina Access Program, Medicaid has supported provider training regarding the care of pediatric asthma, and rates of hospitalization due to asthma have dropped by 14% in the past 5 years.*
- ▶ *Medicaid has introduced a screening system that identifies enrolled children and adults with disabilities. This helps assure that these recipients access the specialized services they need.*
- ▶ *Medicaid is the largest purchaser of nursing home care, as well as in-home care. Thus, Medicaid helps assure that these providers are in place for the remainder of the population that needs such services. In addition, Medicaid takes leadership with regard to quality of care issues, such as development of guidelines for the continuum of long-term care.*

Beyond its role as a major piece of the human service safety net, Medicaid has a significant, though less understood, impact on the state economy. Families USA recently published the results of an economic analysis that helps to clarify this impact.

The economic input-output analysis is based on the RIMS II model created by the US Department of Commerce, Bureau of Economic Analysis. This model shows the relationships among nearly 500 industries in the economy, and reflects a state economy's current industrial structure, trading patterns, wage and salary data, and personal income data.

Events or programs have an economic impact by attracting new spending that would not otherwise exist in a state. In North Carolina, as noted above, every state Medicaid dollar spent for health benefits brings in about two federal dollars. That alone indicates that Medicaid can have a substantial positive effect on the state economy. However, an even larger effect occurs through what economists call the "multiplier effect", i.e., businesses and individuals that earn Medicaid dollars spend those earnings on purchases from others, who then spend those earnings from others, etc.

The analysis estimates that the multiplier effect for North Carolina in federal FY 2001 was 3.64. This means that the reported \$2.4 billion state dollars spent on Medicaid in federal FY 2001 generated almost \$9 billion in new business activity. The RIMS II model also estimated that this new activity included the creation of approximately 100,000 new jobs.

Regrettably, the multiplier effect also works in reverse. For every \$1 million cut in state dollars, \$3.6 million is lost in business activity, including about 39 jobs.

## Conclusion

**In truth, Medicaid is good medicine - both for the health of our people and the health of our economy. It may sound harmless when it is proposed that Medicaid should be cut by tens or hundreds of millions of dollars - but it is not harmless in real life.**

**Wholesale reductions in Medicaid would have the following predictable consequences:**

- **Many North Carolinians would have little or no effective access to needed health care;**
- **Unemployment would increase and business revenues would decrease across NC;**
- **Non-Medicaid patients would see their health care costs and medical insurance premiums rise even more quickly and dramatically throughout North Carolina;**
- **Inadequate prenatal care would lead to more dead or unhealthy babies born in our state;**
- **Nursing homes would be unavailable to elderly people unable to pay the full costs; and**
- **Minor childhood illnesses and injuries would remain untreated until they become life-threatening or compromise a child's long-term quality of life.**

**That's why cutting Medicaid is harmful to NC's health.**

**Please let your elected officials know that you oppose slashing Medicaid. It is a bargain and a blessing for the people and the economy of North Carolina. The time has come to treat Medicaid with the respect and support it deserves.**

*This report was prepared by the staff and Fellows of the North Carolina Child Advocacy Institute (NCCAI) under the leadership of Tom Vitaglione. He is an NCCAI Senior Fellow for Child Health and Safety and a former Co-Chair of the NC Child Fatality Task Force. Previously, Mr. Vitaglione was the head of children's health for the State of North Carolina. He can be contacted at [tom@ncchild.org](mailto:tom@ncchild.org).*



### **Sources:**

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- Families USA Report, Medicaid: Good Medicine for State Economies
- NC Justice and Community Development Center, NC Policy Brief (Vol. 1, No. 2)

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North Carolina's KIDS COUNT organization



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311 East Edenton Street  
Raleigh, NC 27601