CALIFORNIA BUDGET PROJECT

budget brief

UPDATED MAY 2008

GOVERNOR'S PROPOSED HEALTH CUTS WOULD INCREASE RANKS OF UNINSURED, REDUCE ACCESS

The Governor's Proposed 2008-09 Budget includes sharp reductions to state-funded health coverage programs that provide access to needed health services to more than 7 million Californians. The proposals are designed to decrease the number of Californians covered by Medi-Cal and Healthy Families, reduce access to services for those who keep their coverage, and increase the amounts families must pay. Altogether, the proposals would increase the number of uninsured Californians by more than half a million when fully implemented. The proposals would result in state savings of $1.1 billion – primarily in Medi-Cal – but also would cause California to forgo $1.2 billion in federal matching dollars that could help the state weather the current economic downturn.

Medi-Cal and Healthy Families: An Overview

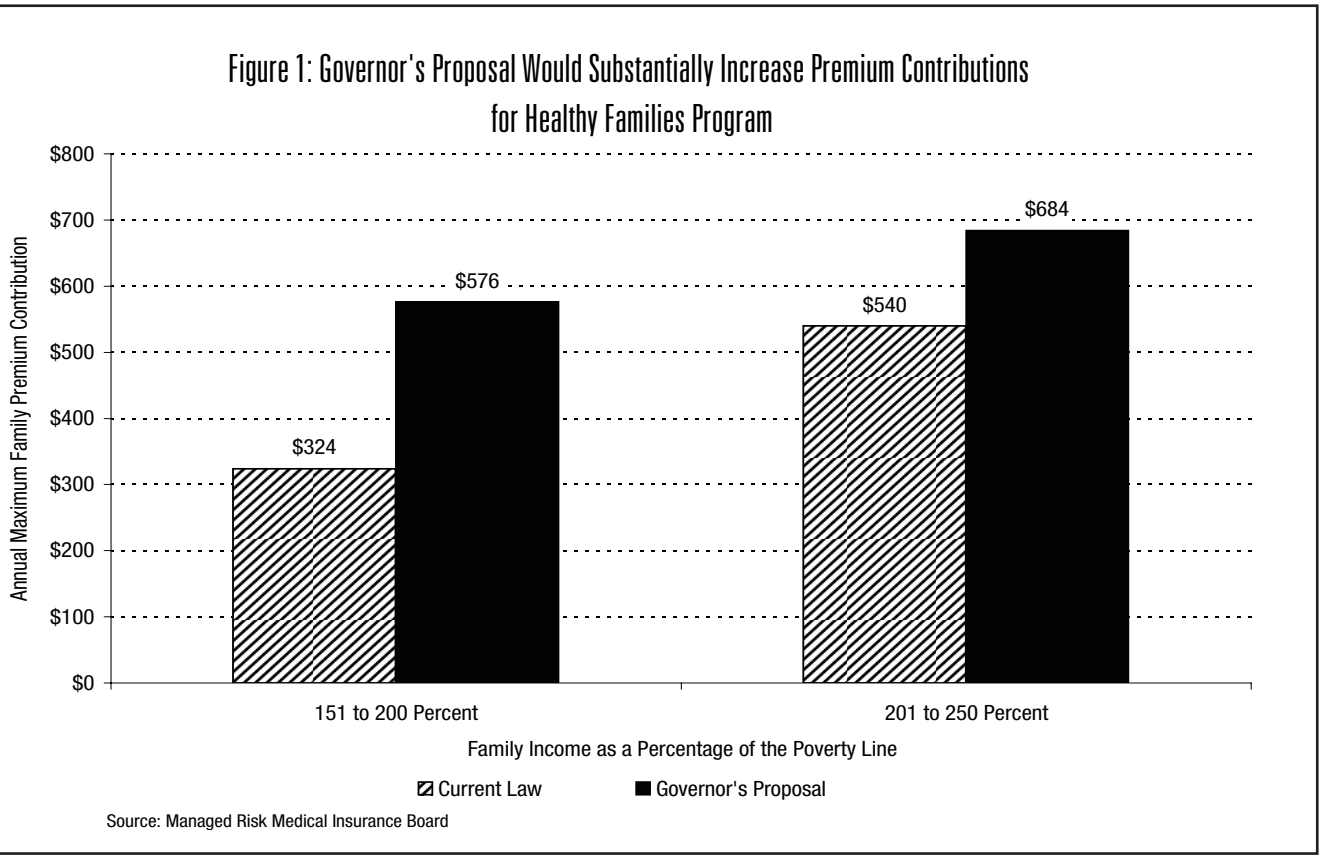
Medi-Cal is California's version of Medicaid, a federal-state health insurance program for low-income individuals who cannot afford or who do not have access to private coverage. Medi-Cal provides health care services to 6.6 million low-income children, parents, seniors, and people with disabilities. Medi-Cal insures about one out of three children in California, covers the majority of people living with AIDS, and pays for 46 percent of all births in California. Medi-Cal also pays for two-thirds of all nursing home care, fills in gaps in Medicare coverage for low-income people who are elderly and people with disabilities, and is an important source of funding for public hospitals and other safety net providers. The state and federal governments each pay 50 percent of most Medi-Cal costs.

Healthy Families provides comprehensive health coverage to children whose family incomes are somewhat above the maximum level for Medi-Cal. Healthy Families covers more than 850,000 children who have family incomes at or below 250 percent of the poverty line – $44,000 for a family of three in 2008 – are not eligible for Medi-Cal, and meet other requirements. Children enrolled in Healthy Families receive coverage through participating health, dental, and vision plans. The Managed Risk Medical Insurance Board (MRMIB) administers Healthy Families, which is jointly funded by the state and federal State Children's Health Insurance Program (SCHIP) dollars, with the federal government paying about two-thirds of the program's costs. Families with children enrolled in the program also pay monthly premiums of $4 to $15 per child, up to a maximum of $45 per family. In addition, families are responsible for copayments for many services, up to a maximum of $250 per year.

The Governor Would Shift Healthy Families Program Costs to Families

The Governor proposes a number of policy changes that could result in more than 50,000 children losing Healthy Families coverage, reduce access to needed health care services for children who are enrolled, and shift costs to families at a time when many families can least afford it due to the economic downturn. The proposed reductions would result in estimated state savings of $41.9 million, but California would lose an additional $76.1 million in federal funds – nearly twice the state savings.[1]

- **The Governor would require families to pay more for Healthy Families coverage.** The maximum family premium



contribution would increase from $27 per month to $48 per month – or from $324 to $576 annually (77.8 percent) – for families with incomes between 151 percent and 200 percent of the poverty line (Figure 1). The maximum family premium contribution would increase from $45 to $57 per month – or from $540 to $684 annually (26.7 percent) – for families with incomes between 201 percent and 250 percent of the poverty line.[2]

Research suggests that more than 50,000 children could lose coverage because of families' higher costs. Experience from other states suggests that up to 10 percent of children affected by the higher premiums could lose coverage, although the Administration's estimated savings do not reflect a drop in coverage.[3] If the higher costs affected 600,000 children covered by Healthy Families in 2008-09 – those with family incomes above 150 percent of the poverty line – and 10 percent of them lost coverage, approximately 60,000 children would lose coverage as a result of the Governor's proposal.[4] MRMIB staff has indicated that the Governor's proposal could result in an even higher share of children losing coverage.[5]

Higher premium contributions also would shift more of the cost of coverage to families. The Administration estimates the proposal would shift $31.3 million in health care costs from the state and federal governments to families. The state would save $11.1 million, but also would lose $20.2 million in federal matching funds. Families with children in Healthy Families who already struggle to make ends meet due to their low incomes and the lagging economy would have to work harder to meet their basic needs, such as by reducing spending on food and housing.

- **The Governor proposes to increase copayments.** The Governor would increase copayments from $5 to $7.50 for nonpreventive services for families with incomes above 150 percent of the poverty line. Services that are deemed "preventive" – such as well-child visits, immunizations, and chronic care treatment – would be excluded. However, nonpreventive visits include many services – such as prescriptions, eye exams, and doctor visits to treat illnesses – that are necessary to maintain good health.

  Higher copayments would deter families from seeking needed medical care for their children. The Administration estimates that families will use 1.25 percent fewer health care services. However, research from other states suggests a steeper decline. For example, when Utah increased copayments from $2 to $3 in its Medicaid program in 2003, the number of doctor visits per person enrolled declined by more than 10 percent.[6]

Research suggests that families respond to higher health costs by cutting back both on effective and less effective medical care.[7] Families are likely to cut back on both types of care because they are unable to determine which care is appropriate. As a result, many families likely will forgo medically necessary doctor visits and prescriptions due to the increased cost.

- **The Governor proposes to reduce payments to managed care plans.** The Governor would reduce the rates paid to health, dental, and vision plans that provide coverage through Healthy Families by 5 percent, which could make it harder for families to find providers that accept Healthy Families coverage and potentially could leave families in some counties without access to Healthy Families providers. Currently MRMIB contracts with 23 health plans to provide coverage in different parts of the state. In most counties, families can choose from more than one health plan, but in seven counties only one plan participates in Healthy Families. Lower rates could mean that some plans would no longer participate in the program – as suggested in public hearings by MRMIB – giving families less choice and potentially requiring them to change providers.[8] If the health plan in counties with only one plan no longer participates, either MRMIB would have to find another plan or access could be eliminated entirely in that county. In addition, lower rates could lead plans to restrict the providers with whom they contract in order to reduce their costs, further reducing access.

The Governor Would Cut Medi-Cal by $1.1 Billion

The Governor proposes a number of policy changes that would sharply reduce the number of Californians served by Medi-Cal by half a million, reduce access to services and providers, and reduce support for the state's safety net hospitals. The changes include adding barriers for people to keep their coverage, reducing payments to physicians and other providers, discontinuing medically needed services to vulnerable Californians, and reducing funding for public and private safety net hospitals that tend to treat Medi-Cal patients and the uninsured. The Governor's proposed reductions would result in state savings of $1.1 billion and also would cause the state to lose $1.1 billion in federal matching funds.[9]

- **The Governor proposes to increase paperwork requirements.** The Governor's plan would reduce the number of children and adults in the Medi-Cal Program by adding paperwork requirements stricter than those in all other states except North Dakota. Specifically, families would have to return paperwork four times per year to retain Medi-Cal eligibility, compared to the current policy of requiring families to return forms once annually for children and twice per year for adults. The proposal would result in estimated state savings of $92.2 million in 2008-09, but would reduce the number of Medi-Cal recipients by half a million when fully implemented.

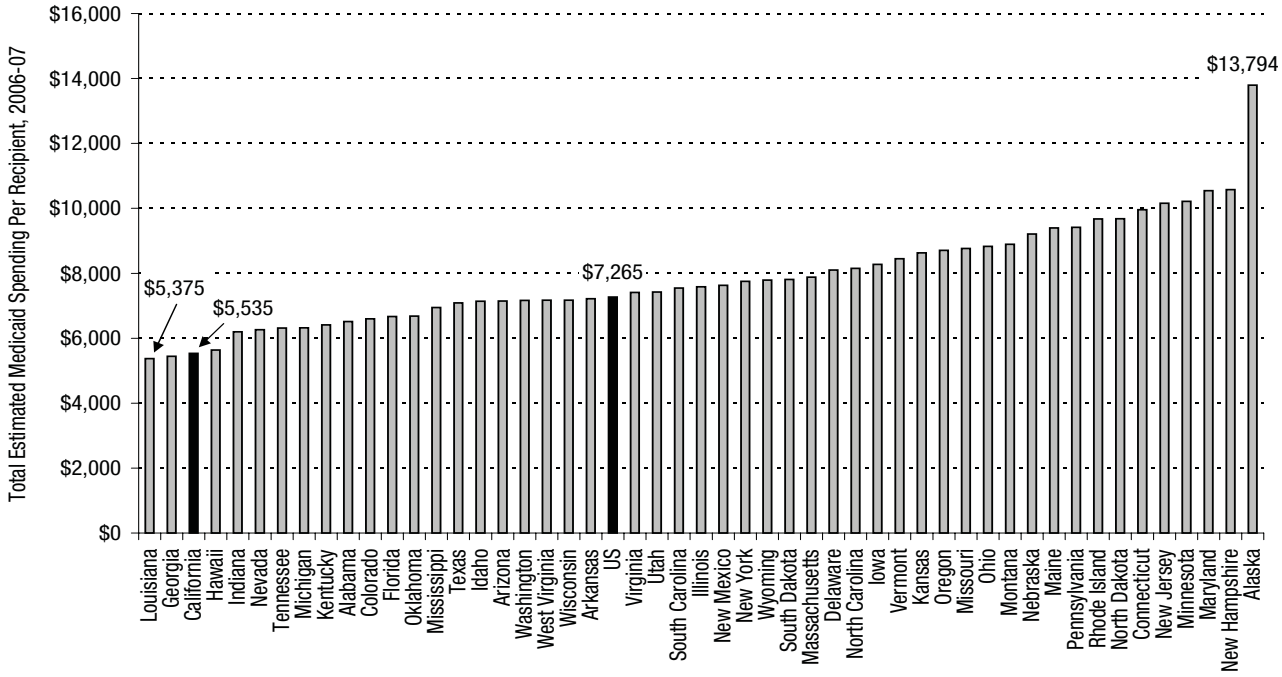
- **The Governor proposes to reduce reimbursement rates for Medi-Cal providers.** The Governor proposes to reduce payments for most providers who treat Medi-Cal patients by 10 percent. The Legislature approved rate cuts for a narrower set of providers effective July 1, but legislators have indicated that they may reconsider that decision as part of the 2008-09 budget.

  California already has one of the most efficient Medicaid programs in the nation. California has adopted policies over many years that have limited Medi-Cal spending, including freezing physician and other provider reimbursements, paying hospitals less than their costs, reducing rates for prescription drugs, and reducing and freezing funding for county Medi-Cal administration. California ranks 48th out of the 50 states in Medicaid spending per person enrolled in the program, despite the fact that costs are much higher in California than in most other states (Figure 2). If the Governor's proposed cuts had been in place in 2006-07, California would have ranked last out of all the states by this measure.

  Research suggests that California's low reimbursement rates limit the number of providers who accept Medi-Cal patients. Medi-Cal payments to physicians are 59 percent of what Medicare pays.[10] Not surprisingly, more than nine out of 10 primary care physicians (93 percent) and 100 percent of rural medical and surgical specialists surveyed state that Medi-Cal reimbursement rates are inadequate.[11] Fewer than six out of 10 primary care doctors in California's urban areas (56 percent) had any Medi-Cal patients in their practice in 2001, and fewer than half of some specialists – such as those practicing internal medicine and endocrinology – participated in Medi-Cal. In addition, recent research suggests that low Medicaid payments can lead to poor patient satisfaction.[12]

  Access to physicians may be getting worse in the Medi-Cal Program. The Los Angeles Times reports that doctors are leaving Medi-Cal due to low reimbursement rates, which have not risen for most providers since 2001.[13] The Legislative Analyst's Office (LAO) has recommended that the Legislature reject the Governor's proposal because it "might reduce patient access to care or cause patients to obtain care through other, more costly access points such as emergency rooms."[14]

Figure 2: Only Louisiana and Georgia Spend Less Per Medicaid Recipient Than California



Note: Number of recipients is for June 2006.
Source: Kaiser Commission on Medicaid and the Uninsured and National Association of State Budget Officers

- **The Governor proposes to eliminate needed medical services.** The Governor proposes to discontinue 10 medically necessary services for adults – such as dental, podiatry, optometry, and acupuncture services – for state savings of $134 million in 2008-09.[15] Some of these services can help prevent future health problems and diagnose chronic conditions; discontinuing these services could increase state costs in the future. For example, preventive dental services can reduce the need for more expensive treatment – such as emergency tooth extractions, which Medi-Cal would still cover. In addition, eliminating podiatry services could delay the detection of diabetes, which podiatrists often diagnose because of how the disease affects the extremities.

- **The Governor proposes cuts to counties and to safety net hospitals.** The Governor proposes a number of other cuts that will make it less likely that individuals receive needed health care services. These include reductions in funding for the county human service offices that determine who is eligible for Medi-Cal. The Governor proposes to reduce funding for counties despite the increased workload from processing additional paperwork and from re-enrolling eligible children and adults who would be dropped from the program under the Governor's new paperwork requirement.

  The Governor also proposes sizable reductions in funding for safety net hospitals. The Governor proposes to cut funding to public hospitals by $54.2 million when fully implemented and by $47.3 million for private hospitals that treat a large number of Medi-Cal and uninsured patients. This loss of funding would put further strain on the hospitals that constitute the backbone of the state's trauma network.

New Paperwork Requirements Would Cause More Than Half a Million to Lose Coverage

The Governor's proposal to require additional paperwork for those enrolled in Medi-Cal would increase the number of uninsured Californians, could worsen health outcomes, and would be unlikely to achieve the savings estimated by the Administration.

- **The Governor's proposal would increase the number of uninsured Californians.** The Administration estimates that more than 150,000 children and approximately 15,000 adults would lose coverage in 2008-09 because they would not return the required forms, which would result in state savings of $92.2 million. An estimated 472,000 children and 35,000 adults would lose coverage at full impact – including nearly 300,000 children by 2009-10 – as more families are unable to meet the new requirement. For example, the CBP estimates

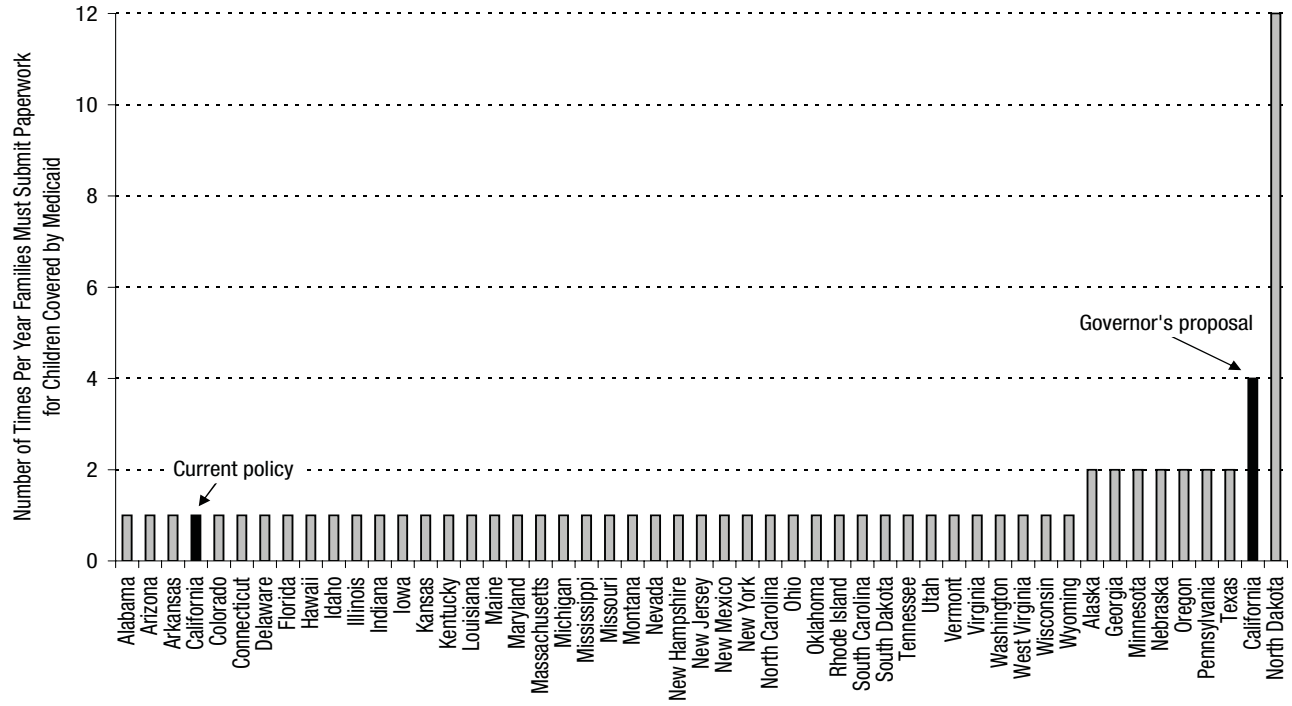
that, at full impact, more than 19,000 children would lose coverage in Fresno County and more than 184,000 children would be dropped from Medi-Cal in Los Angeles County (Appendix A). Nearly all states ask families to return forms only once per year (Figure 3). Only North Dakota asks families for information more frequently than would be required under the Governor's proposal.

Administrative barriers often stand in the way of children accessing and retaining health coverage. For example, researchers note that parents often find the Medicaid enrollment process difficult, complicated, and confusing.[16] A national study found that half the families of children who lost coverage through programs funded with SCHIP funds reported that they had not been told or did not recall being told that they would have to renew their child's coverage. The study also found that 44 percent of families whose children's coverage had lapsed said the renewal process required too much paperwork.[17] Another study found that the administrative requirements to retain coverage cause a large share of children to lose coverage.[18]

- **The proposal could worsen health outcomes for children and adults who do not meet the new requirements.** In 2001, California began to provide "continuous eligibility" to children for a year in order to reduce the number of uninsured children and promote continuity of care. People who are sporadically insured are less likely to get timely access to care.[19] The Administration has suggested that those dropped from coverage could receive care at emergency rooms or community clinics when they are sick and re-enroll in the program.[20] However, research suggests that children with gaps in coverage are more likely to miss preventive care and are less likely to get prescriptions filled.[21]

- **Most who would be dropped from the program remain eligible for coverage.** A survey of families whose children lost SCHIP coverage in New York indicated that two-thirds (66 percent) re-enrolled within a year.[22] Similarly, data from California's county human services offices indicate that the recent requirement that adults report twice a year instead of once per year to stay enrolled in Medi-Cal has resulted in substantial "churning" – moving in and out of coverage. Two-thirds (65.5 percent) of adults who were dropped from the program as a result of the midyear reporting requirement returned to the program within nine months.[23] Children – the vast majority of those affected by the Governor's paperwork proposal – are even more likely than adults to be eligible for coverage after being dropped. Specifically, children are likely to be eligible for Healthy Families coverage even if their families' incomes increase above the Medi-Cal limit.

Figure 3: Governor's Paperwork Proposal Would Be More Burdensome Than Requirements in 48 States



Source: The Kaiser Commission on Medicaid and the Uninsured

- **Savings from the proposal are overstated.** Savings from the proposal may be much lower than estimated by the Administration due to churning and other related costs. The LAO estimates that the savings are overstated by more than $20 million because of increased costs that would result from individuals returning to the program soon after being dropped.[24] In addition, the Administration does not account for the cost of processing the additional paperwork and determining eligibility for those who re-enroll. A recent study estimates that the cost of enrolling eligible individuals is approximately $180 per person.[25] Consequently, re-enrolling 100,000 children could cost $18 million, further reducing the savings from the new paperwork requirement.

  The savings from the Governor's proposal could also be overstated because the additional paperwork could actually increase the cost of coverage for those who remain in the program. Longer periods of coverage tend to decrease the cost of coverage. A budget committee analysis notes that the cost of Medi-Cal coverage per person fell in 2001-02 after the state reduced paperwork requirements for children and adults, provided one year of continuous eligibility for children, and made other changes to cover people for longer periods of time.[26] In addition, an analysis of national data finds that the monthly cost of coverage falls by $6.49 for each additional month that a person stays in Medicaid.[27] To the extent that the paperwork requirement disrupts coverage, costs would tend to increase because those who remain in Medi-Cal would be likely to use more services.[28] That could occur because those who have lower health care needs may perceive that the hassle of the added paperwork outweighs the benefits of the program, and many who return would do so because of a costly health care need. As a result, managed care rates likely would need to increase since a larger proportion of plans' enrollees would use health care services.

California Would Lose More Than $1 Billion in Federal Funds Under Governor's Proposal

California would lose $1.2 billion in federal matching funds for Medi-Cal and Healthy Families under the Governor's proposals. The state generally loses one federal dollar for every dollar it cuts in the Medi-Cal Program, and it loses nearly two dollars for every state dollar that is cut in the Healthy Families Program. Medi-Cal and Healthy Families represent less than one-seventh (13.7 percent) of the state budget, but they brought in nearly two-fifths (38.5 percent) of the federal funds that supported state spending in 2006-07.

Most economists believe that the US is either in or near a recession, and state spending cuts will make it harder – not easier – for the state to recover from the current downturn. Dollar for dollar, spending cuts to Medi-Cal and Healthy Families would be more harmful to local economies than other reductions because they also would cause the loss of federal funds. As a result, the loss to local communities would far exceed the state's savings.

Conclusion

The Governor proposes deep reductions to state-funded health coverage programs that provide access to needed health services to more than 7 million Californians. The proposals would cause more than half a million Californians covered by Medi-Cal and Healthy Families to lose coverage, reduce access to services for those who keep their coverage, and increase the amounts families must pay. The proposals would result in state savings of $1.1 billion, but the total loss to local communities would be approximately twice as high due to the loss of federal matching dollars.

David Carroll prepared this Budget Brief. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at www.cbp.org.

ENDNOTES

[1] These estimates assumed that the Legislature enacted the changes by March 1, which did not occur.

[2] Premium contributions would remain unchanged for families with incomes at or below 150 percent of the poverty line. In addition, premiums would be lower for families who enroll their children in "community provider" plans or who pay three months' worth of premiums in advance.

[3] Leighton Ku and Victoria Wachino, *The Effect of Increased Cost-Sharing in Medicaid: A Summary of Research Findings* (Center on Budget and Policy Priorities: Revised July 7, 2005).

[4] MRMIB estimates that 954,252 children will be enrolled in Healthy Families by the end of 2008-09. Data on the number of children with incomes above 150 percent of the poverty line are not available; however, MRMIB staff have suggested that approximately two-thirds of children enrolled in Healthy Families have incomes above this level.

[5] Janette Lopez, chief deputy director of the Managed Risk Medical Insurance Board, at the Covering Kids & Families Statewide Coalition meeting (March 11, 2008). Ms. Lopez indicated that the MRMIB estimates coverage declines of 17 percent for children with incomes between 151 percent and 200 percent of the poverty line and of 7 percent for children with incomes between 201 percent and 250 percent of the poverty line.

[6] Leighton Ku, Elaine Deschamps, and Judi Hilman, *The Effects of Copayments on the Use of Medical Services and Prescription Drugs in Utah's Medicaid Program* (November 2, 2004).

[7] See Jonathan Gruber, Ph.D., *The Role of Consumer Payments for Health Care: Lessons From the RAND Health Insurance Experiment and Beyond* (The Henry J. Kaiser Family Foundation: October 2006).

[8] Lesley Cummings, executive director of the Managed Risk Medical Insurance Board, testimony to Senate Committee on Budget and Fiscal Review, Subcommittee No. 3 on Health, Human Services, Labor & Veterans Affairs (April 7, 2008) and Lesley Cummings, executive director of the Managed Risk Medical Insurance Board, testimony to Assembly Committee on Budget, Subcommittee No. 1 on Health and Human Services (April 14, 2008).

[9] All estimates in this section assume that the Legislature enacted the changes by March 1, which did not occur.

[10] California HealthCare Foundation, *Medi-Cal Facts and Figures: A Look at California's Medicaid Program* (May 2007).

[11] Andrew B. Bindman, M.D., et al., *Physician Participation in Medi-Cal, 2001* (Medi-Cal Policy Institute: May 2003).

[12] Yu-Chu Sen and Stephen Zuckerman, "The Effect of Medicaid Payment Generosity on Access and Use Among Beneficiaries," *Health Services Research* 40 (June 2005).

[13] Evan Halper, "An Exodus From Medi-Cal," *Los Angeles Times* (March 24, 2008).

[14] Legislative Analyst's Office, *Analysis of the 2008-09 Budget Bill* (February 2008), p. C-34.

[15] These restrictions would not apply to children or to individuals who live in nursing homes.

[16] Michael Perry, et al., *Medicaid and Children: Overcoming Barriers to Enrollment, Findings From a National Survey* (The Kaiser Commission on Medicaid and the Uninsured: January 2000).

[17] Trish Riley, et al., *Why Eligible Children Lose or Leave SCHIP: Findings From a Comprehensive Study of Retention and Disenrollment*, (National Academy for State Health Policy: February 2002).

[18] Andrew W. Dick, et al., "Consequences of States' Policies for SCHIP Disenrollment," *Health Care Financing Review* 23 (Spring 2002).

[19] See, for example, E. Richard Brown, et al., *County Residency and Access to Care for Low- and Moderate-Income Californians* (UCLA Center for Health Policy Research: March 2004).

[20] Toby Douglas, deputy director of the Department of Health Care Services, testimony to Assembly Committee on Budget, Subcommittee No. 1 on Health and Human Services (April 14, 2008).

[21] Lynn M. Olson, Suk-fong S. Tang, and Paul W. Newacheck, "Children in the United States With Discontinuous Health Insurance Coverage," *The New England Journal of Medicine* 353 (July 28, 2005).

[22] Michael Birnbaum and Danielle Holahan, *Renewing Coverage in New York's Child Health Plus B Program: Retention Rates and Enrollee Experiences* (United Hospital Fund: 2003).

[23] Frank J. Mecca, executive director of the County Welfare Directors Association of California, memo to the Honorable Elaine Alquist, Chair, Subcommittee No. 3, Senate Committee on Budget and Fiscal Review (April 2, 2008).

[24] Legislative Analyst's Office, *The 2008-09 Budget: Perspective and Issues* (February 2008), p. 156.

[25] Gerry Fairbrother, Ph.D., *How Much Does Churning in Medi-Cal Cost?* (The California Endowment: April 2005).

[26] Assembly Committee on Budget, Subcommittee No. 1 on Health and Human Services, agenda for April 14, 2008 hearing.

[27] Leighton Ku and Donna Cohen Ross, *Staying Covered: The Importance of Retaining Health Insurance for Low-Income Families* (The Commonwealth Fund: December 2002).

[28] In part due to these reasons, the cost of covering children in Medi-Cal is much higher after a gap in coverage. The cost of covering children after a coverage gap of at least three months was 71.2 percent higher in the six months following the gap than in the six months before the gap. The costs are even higher after longer gaps. Gerry Fairbrother, Ph.D., and Joseph Schuchter, M.P.H., *Stability and Churning in Medi-Cal and Healthy Families* (The California Endowment: March 2008).

Appendix A: Estimated Number of Children Who Would Lose Medi-Cal Coverage Due to Increased Paperwork Requirements							
County	Number of Children Losing Coverage in 2008-09	Total Number of Children Losing Coverage by 2009-10	Total Number of Children Losing Coverage at Full Impact	County	Number of Children Losing Coverage in 2008-09	Total Number of Children Losing Coverage by 2009-10	Total Number of Children Losing Coverage at Full Impact
Alameda	3,660	6,660	10,950	Orange	10,130	18,450	30,360
Alpine	5	10	10	Placer	480	880	1,450
Amador	70	130	220	Plumas	50	80	140
Butte	860	1,560	2,560	Riverside	7,710	14,040	23,090
Calaveras	100	180	300	Sacramento	4,860	8,840	14,550
Colusa	120	220	370	San Benito	200	360	590
Contra Costa	2,410	4,380	7,210	San Bernardino	8,350	15,200	25,010
Del Norte	110	210	340	San Diego	7,620	13,870	22,810
El Dorado	320	590	970	San Francisco	1,750	3,180	5,230
Fresno	6,370	11,610	19,090	San Joaquin	2,860	5,210	8,570
Glenn	150	280	460	San Luis Obispo	670	1,230	2,020
Humboldt	510	920	1,520	San Mateo	1,570	2,850	4,690
Imperial	970	1,770	2,920	Santa Barbara	1,850	3,380	5,560
Inyo	80	150	240	Santa Clara	4,790	8,720	14,340
Kern	4,840	8,810	14,490	Santa Cruz	930	1,690	2,770
Kings	810	1,480	2,430	Shasta	600	1,100	1,810
Lake	280	510	840	Sierra	10	10	20
Lassen	90	17	270	Siskiyou	170	320	520
Los Angeles	61,590	112,140	184,490	Solano	1,170	2,130	3,510
Madera	1,000	1,820	3,000	Sonoma	1,150	2,100	3,460
Marin	370	670	1,110	Stanislaus	2,690	4,900	8,060
Mariposa	50	90	150	Sutter	450	830	1,360
Mendocino	450	830	1,360	Tehama	310	570	930
Merced	1,550	2,820	4,650	Trinity	50	100	160
Modoc	40	80	130	Tulare	3,730	6,800	11,180
Mono	40	70	110	Tuolumne	120	220	360
Monterey	1,900	3,460	5,690	Ventura	2,970	5,410	8,900
Napa	300	540	890	Yolo	580	1,050	1,730
Nevada	170	310	520	Yuba	350	640	1,050
				Statewide	**157,400**	**286,600**	**471,500**

Note: Estimates are based on the number of children enrolled in Medi-Cal in July 2007 whose families likely would be affected by the additional paperwork requirements in each county. Estimates reflect each county's share of the number of children who would lose aid statewide under each proposal, as estimated by the Department of Health Care Services. All figures are rounded to the nearest 10, except for one estimate for Alpine County. County estimates do not sum to totals due to rounding.
Source: CBP analysis of Department of Health Care Services data