CALIFORNIA BUDGET PROJECT

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GOVERNOR'S PROPOSED MEDI-CAL REDUCTIONS WOULD HARM ENROLLEES, PROVIDERS, AND LOCAL ECONOMIES

Governor Davis' 2003-04 Proposed Budget includes significant reductions to the Medi-Cal program to help address the state's unprecedented budget deficit. The Governor proposes to achieve General Fund savings of $1.35 billion in 2003-04 by denying Medi-Cal coverage to as many as 555,000 adults, eliminating 18 benefits, and reducing Medi-Cal provider payments.[1] These changes would require the state to forfeit an additional $1.34 billion in federal funds, thereby doubling the impact on local economies and the state's health care system.

The Legislature had not acted on most of the Governor's 2003-04 Medi-Cal proposals by the first week of May 2003. However, on May 1 the Legislature passed a package of bills aimed at reducing the state's deficit by an estimated $3.6 billion. The package, signed by the Governor on May 5, imposes cost-saving measures on Medi-Cal dental benefits for General Fund savings of $50.8 million. It also requires certain adult Medi-Cal enrollees to submit forms twice a year verifying their continued eligibility. Approximately 97,000 adults who fail to return the forms could lose Medi-Cal coverage in 2003-04 for General Fund savings of $42.5 million.[2]

THE GOVERNOR'S CASELOAD REDUCTION PROPOSALS

The Governor's Proposed Budget would deny coverage to as many as 555,000 adults for a reduction of $533.5 million ($266.8 million General Fund) in 2003-04. The Governor proposes to:

- ***Reduce eligibility for certain aged, blind, and disabled persons.*** Currently, these individuals qualify for Medi-Cal if their incomes do not exceed 133 percent of the federal poverty level (FPL), or $11,943 per year for an individual. The Governor's proposal lowers the income limit to 94.6 percent of FPL ($8,496 per year for an individual) and assumes savings of $127.6 million ($63.8 million General Fund) by terminating 68,840 individuals from "no-cost" Medi-Cal in 2003-04.[3]
- ***Reduce eligibility for working parents in low-income families.*** Low-income working parents currently qualify for Medi-Cal if their incomes do not exceed 100 percent of FPL ($15,260 per year for a family of three).[4] The Governor's proposal lowers the income limit to approximately 61 percent of FPL ($9,309 per year for a family of three) for savings of $236.0 million ($118.0 million General Fund).[5] This proposal assumes that 292,890 adults who would have applied and previously been eligible for Medi-Cal in 2003-04 would be denied coverage.[6]
- ***Require families to submit quarterly forms in order to retain Medi-Cal eligibility*** for savings of $170.0 million ($85.0 million General Fund).[7] This proposal assumes that 193,123 adults would be dropped from coverage in 2003-04 due to failure to return the required forms.[8] The vast majority of adults who lose coverage would be otherwise eligible for Medi-Cal at the time of their termination from the program.[9] In contrast, the Legislature passed SB 26X on May 1, which requires families to submit forms twice yearly starting August 1, 2003. The Legislature estimates that

921 11th St., Ste. 502 ■ Sacramento, CA 95814-2820
(916) 444-0500 ■ FAX (916) 444-0172

What Is Medi-Cal?

Medi-Cal is California's version of Medicaid, a federal-state health insurance program for certain low-income families and individuals. Medi-Cal provides health care services to children, parents, and aged, blind, and disabled persons who receive public assistance or meet income and other eligibility criteria. Federal law requires states to provide coverage to certain populations, including children and pregnant women who meet income guidelines and Supplemental Security Income (SSI) recipients. In addition, Medi-Cal covers individuals and families with incomes that exceed the minimum federal guidelines. State Medicaid programs are also required to offer a core set of benefits, such as doctor visits, hospital care, and laboratory services. California additionally offers more than 30 federally optional benefits through Medi-Cal, including prescription drugs and adult dental services. Nearly one in five Californians, or 6.5 million individuals, will be enrolled in Medi-Cal each month in 2002-03. The state will spend an estimated $10.9 billion (General Fund) on Medi-Cal in 2002-03.

semi-annual reporting will achieve half of the savings ($42.5 million General Fund) assumed in the Governor's quarterly reporting proposal. This suggests that approximately 97,000 enrollees could lose Medi-Cal coverage in 2003-04 due to semi-annual reporting.

The Governor's Benefit and Rate Reduction Proposals

These proposals would eliminate medical benefits and reduce provider reimbursement rates for savings of $2.2 billion ($1.1 billion General Fund) in 2003-04. The Governor proposes to:

- Eliminate 18 Medi-Cal benefits that are currently provided to adults, but which are not required by federal law, for savings of $723.7 million ($361.8 million General Fund).[10] This proposal would eliminate basic benefits, such as adult dental services and certain medical supplies, to an estimated 2.9 million adult Medi-Cal enrollees in 2003-04. The package of bills passed by the Legislature on May 1 preserves Medi-Cal dental benefits, but mandates cost-saving measures, such as requiring documentation for certain claims and limiting the use of laboratory-processed crowns, for General Fund savings of $50.8 million.
- Reduce Medi-Cal provider rates by 15 percent for savings of $1.4 billion ($720.5 million General Fund).[11] Some doctors and other providers may stop accepting Medi-Cal patients if this proposal is enacted, thus limiting Medi-Cal enrollees' access to health care services.

Proposals Would Affect Low-Income Californians and Local Economies

The federal government matches almost every dollar that California invests in Medi-Cal.[12] If California reduced General Fund spending on Medi-Cal by $1.35 billion in 2003-04, it would lose $1.34 billion in federal funding, resulting in a total reduction of $2.7 billion. A reduction of this magnitude would jeopardize the health care safety net for millions of low-income Californians.

Moreover, state and federal Medi-Cal dollars are spent in communities where services are provided. The loss of these funds would affect local economies at a time when the state has yet to emerge fully from the economic recession (Appendix 1). Los Angeles County, for example, would lose nearly $1.1 billion in state and federal funds in 2003-04. More than 250,000 people who qualify for Medi-Cal in Los Angeles County would be denied coverage, and 1.1 million adult enrollees would lose benefits, such as dental services, that are provided through Medi-Cal.

Scott Graves prepared this 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. The California Endowment provides dedicated support for the CBP's analyses of health policy issues. Support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's web site at www.cbp.org.

ENDNOTES

[1] In his 2003-04 Budget, the Governor also proposed to require counties to conduct more timely reviews of Medi-Cal enrollees' eligibility by establishing performance standards and providing increased funding for county administration. The Governor assumed that these changes would terminate about 563,000 ineligible enrollees from Medi-Cal for savings of $388.0 million ($194.0 million General Fund). The Legislature included this proposal in SB 26X, passed on May 1.

[2] The Governor's Proposed Budget requires Medi-Cal enrollees to submit eligibility reports four times per year. The Governor estimates that 193,123 adults would lose Medi-Cal coverage in 2003-04 for savings of $170.0 million ($85.0 million General Fund) if quarterly reporting were adopted. The Legislature estimates that semi-annual reporting will achieve half of the savings ($42.5 million General Fund) assumed in the Governor's quarterly reporting proposal. This suggests that approximately 97,000 enrollees could lose Medi-Cal coverage in 2003-04 as a result of semi-annual reporting.

[3] The Governor estimates that a monthly average of 26,000 individuals who lose no-cost Medi-Cal during 2003-04 will be eligible for Medi-Cal with a share of cost, which is the amount by which one's income or assets exceed the applicable Medi-Cal limits. However, the required share of cost may be too burdensome for many low-income individuals. Department of Finance, *Governor's Budget Summary 2003-04* (January 10, 2003), p. 115.

[4] This category of Medi-Cal coverage for low-income families was created by Congress in 1996 under Section 1931 of the Social Security Act, and is known as the "1931(b)" eligibility category. It includes families that receive cash assistance through the state CalWORKs program (Cash-based 1931(b)) and families that do not participate in CalWORKs, but have low incomes (1931(b)-Only). In March 2000, California expanded the 1931(b) category to cover non-CalWORKs families with incomes up to 100 percent of FPL.

[5] The Governor also proposes to reinstate the so-called "100-hour rule" for two-parent families applying for Medi-Cal, under which the principal wage earner must work less than 100 hours per month. Families applying for Medi-Cal that do not meet these more stringent 1931(b) eligibility requirements may qualify for Medi-Cal through the Medically Needy category. Two-parent families that meet the 100-hour rule and single-parent families could qualify under the Medically Needy category for no-cost Medi-Cal if their incomes are between 61 and 75 percent of FPL or for share-of-cost Medi-Cal if their incomes are above 75 percent of FPL. Senate Committee on Budget and Fiscal Review, *Analysis of Health & Human Services Issues as Proposed in the Governor's 2003-04 Budget Bill* (February 2003), p. 19.

[6] Low-income parents who are currently enrolled in Medi-Cal through the 1931(b) category would not lose their Medi-Cal coverage under the Governor's proposal. However, there could be an interaction between the Governor's 1931(b) proposal and the proposal to require Medi-Cal enrollees to submit quarterly forms (discussed below). Many 1931(b) adults who fail to return the quarterly forms and thereby lose their Medi-Cal coverage would likely no longer qualify for the 1931(b) category under the more stringent income limit and the 100-hour rule. However, single-parent families that meet income guidelines and two-parent families that meet both income guidelines and work requirements may qualify for Medi-Cal through the Medically Needy category at no cost or with a share of cost.

[7] The 2000 Budget Act eliminated quarterly reporting while retaining the requirement that families report changes in income or other specified circumstances within 10 days. The proposal to reinstate quarterly reporting would primarily affect adults in the 1931(b) eligibility category.

[8] In addition, while children would not be directly affected by quarterly reporting, children could lose Medi-Cal coverage along with their parents due to county processing errors. Center on Budget and Policy Priorities, *Quarterly Status Reporting Could Jeopardize the Health Coverage of Hundreds of Thousands of Eligible Low-Income Californians* (December 23, 2002).

[9] Medi-Cal enrollees are currently required to report changes in income or other specified circumstances within 10 days and counties remove enrollees who have become ineligible. In addition, counties use the state's automated wage reporting system to monitor changes in Medi-Cal enrollees' earnings. Moreover, adult enrollees whose family income exceeds the 1931(b) limit as a result of increased earnings are eligible for Transitional Medi-Cal. Therefore, the overwhelming majority of enrollees who would be dropped from Medi-Cal coverage due to failure to return the required form would in fact be eligible. Center on Budget and Policy Priorities, *Quarterly Status Reporting Could Jeopardize the Health Coverage of Hundreds of Thousands of Eligible Low-Income Californians* (December 23, 2002).

[10] Children under the age of 21 and residents of long-term care facilities are exempt from this proposal. Benefits slated for elimination include adult dental services, medical supplies (such as diabetic and asthma supplies), hospice, optician services, and prosthetics. Department of Finance, *Governor's Budget Summary 2003-04* (January 10, 2003), p. 116.

[11] This proposal would affect nursing home facilities, facilities for the developmentally disabled, physician services, pharmacies, dental services, and other health care providers. Services that would be exempt from the rate reduction include hospital inpatient and outpatient services and state operated facilities, such as state hospitals for the mentally ill. Senate Committee on Budget and Fiscal Review, *Analysis of Health & Human Services Issues as Proposed in the Governor's 2003-04 Budget Bill* (February 2003), pp. 22-23.

[12] The federal government's share of Medicaid expenditures is known as the Federal Medical Assistance Percentage (FMAP) and is based on a state's per capita income. California's FMAP for 2003 is 50.0 percent. However, the federal government does not match some state Medi-Cal expenditures and contributes more than 50 percent for others. As a result, the federal portion of California's Medi-Cal expenditures is not precisely 50 percent.