

New York City's \$4 Billion Medicaid Bill: What Is Driving The Rise in Costs?

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Changing Composition of The Medicaid Caseload

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The city's Medicaid expenditures have increased dramatically in recent years, rising 32 percent from 1999 through 2002. An additional 13 percent increase is anticipated during the current fiscal year, with Medicaid expenditures expected to reach \$3.9 billion—13 percent of all city-funded spending. And in 2004 Medicaid spending is projected to grow another \$330 million and total \$4.2 billion.

There are a number of factors that contribute to New York's high Medicaid bills. Some of these factors, such as the high cost of providing medical care in the city and the large number of uninsured people help explain why New York has long spent more on average for each Medicaid beneficiary than other states. But these longstanding factors do not explain the recent surge in spending. Some observers have pointed to the rapid rise in enrollment, which has grown from 1.8 million in 2000 to nearly 2.4 million in October 2002. While enrollment growth has pushed up spending, the cost of prescription drugs, which swelled from \$157 million in 1996 to an estimated \$639 million this year, is a large factor as well. And last year's agreement to increase the pay of certain health care workers also has increased costs.

Sharing the Medicaid Burden. A joint federal-state program created in 1965, Medicaid pays for a wide range of health and long-term care services for specific low-income populations including: children, individuals with disabilities, and the elderly poor. The federal share varies by state and New York State, at 50 percent, is one of a handful of states receiving the lowest possible federal medical assistance percentage. Each state's federal percentage is determined by per capita income, with lower income states receiving a bigger share.

New York State is also one of only a handful of states that require localities to pay a major portion of the nonfederal Medicaid expenses; of these states, New York demands by far the largest contribution. Localities across the state, including New York City, pay 25 percent of most acute care expenditures and 10 percent of long-term care expenses. New York City's share averages about 18 percent of total Medicaid expenditures for its resident beneficiaries.

New York State's Medicaid program is by far the most expensive in the nation. In 2000, the average per enrollee cost was \$7,688. Some point to New York's package of optional benefits—a package determined in Albany—as a leading factor for this high cost. While it is true that New York is among the states that provide the most optional services, other states with similar service levels have considerably lower average costs per enrollee. For example, California and New Jersey, with similar service levels to New York's, have Medicaid costs of \$2,116 and \$5,500 per enrollee, respectively.

New York City Medicaid Expenditures and Enrollment, Fiscal Years 1996-2003

Dollars in millions, Enrollment in millions

	1996	1997	1998	1999	2000	2001	2002	2003
Hospital Inpatient	\$1,406	\$1,369	\$1,206	\$1,023	\$1,106	\$1,131	\$1,222	\$1,236
Hospital Outpatient	260	282	254	231	230	234	260	257
Skilled Nursing Facilities	219	232	245	263	272	275	288	311
Clinic	170	191	181	184	215	220	237	228
Personal Care	116	115	119	129	133	139	144	149
Drugs	157	165	234	285	353	422	523	639
HMO	191	139	143	163	175	183	234	440
All Other	371	423	367	376	404	475	584	683
Total	\$2,890	\$2,919	\$2,749	\$2,654	\$2,888	\$3,079	\$3,492	\$3,943
Annual Change		0.9%	(5.7)%	(3.5)%	8.8%	6.6%	13.4%	12.9%
Enrollment	1.95	1.91	1.85	1.79	1.77	1.82	2.10	2.34
Annual Change		(2.1)%	(3.1)%	(3.2)%	(0.8)%	2.5%	15.8%	11.6%

SOURCES: IBO, MARS 39, New York State Department of Health, Fiscal Management Group.

NOTES: Fiscal year 2003 estimated from data through November 2002. Parentheses indicate negative.

Enrollment Trends and Costs. After four years of declining enrollment, the city’s Medicaid rolls began to rise rapidly in 2001. While the increases in enrollment have consistently been matched by a rise in Medicaid spending, in two of the four years that enrollment fell spending still grew.

Medicaid enrollment in the city began a four-year decline after 1996, when the federal welfare reform act separated Medicaid eligibility from public assistance enrollment. The city’s Medicaid rolls fell from 1.95 million enrollees in 1996 to 1.77 million in 2000, a drop of 180,000 people.

This decrease in enrollment did not lead to a proportional decline in city Medicaid spending. In 1997, a 2 percent decline in enrollment was matched by a nearly 1 percent increase in costs. Over the next two years, both Medicaid enrollment and spending fell. But in 2000 the enrollment and spending trends diverged widely—although enrollment fell by nearly 1 percent, expenditures jumped by almost 9 percent, or \$234 million. Among the key increases in city spending were an \$83 million rise in inpatient hospital care, \$68 million more on drugs, and an additional \$31 million on care provided at clinics.

Beginning in 2001, Medicaid enrollment began a steep climb upwards and IBO projects enrollment to total 2.34 million this year—an increase of 570,000 people since 2000. This rise has been propelled by new city and state policies, including the city’s creation of HealthStat and the state’s Disaster Relief Medicaid and Family Health Plus programs. Another factor driving enrollment up was a state court decision that required New York to provide full benefits to legal immigrants who entered the

country after 1996 (without a federal match since welfare reform made these same immigrants ineligible for federal assistance).

The recent enrollment growth has been matched by a steady rise in costs. But most

of the enrollment growth has been among children and non-senior adults, who together consume a relatively small share of Medicaid spending. The number of non-senior adults has grown by 293,000 and children by 184,000. The increase in the enrollment of senior citizens and the disabled has been more modest, 28,000 over the same time period. But it is seniors and the disabled who have the highest costs for care.

Seniors and the disabled comprised about one-third of the city’s Medicaid population in 2001, but consumed about two-thirds, or \$11.5 billion, of the combined city, state, and federal spending. Children and adults under age 65, who are a much larger portion of the new enrollees and the majority of Medicaid beneficiaries, consumed a far smaller share of expenditures. Forty-one percent of the city’s Medicaid enrollees in 2001 were children, but spending on them totaled \$2.2 billion, or just 6 percent of the Medicaid dollars spent here. Adults comprised 24 percent of the Medicaid population and spending on them amounted to \$2.8 billion, or about 17 percent of Medicaid spending.

Other Factors Driving Medicaid Costs. There are a number of other factors that affect the cost of Medicaid in the city. Some are driving the recent costs upwards and others just make Medicaid more expensive to provide here in the first place.

Since 1996, the cost of prescription drugs has risen at a faster rate than any other Medicaid expenditure. From 1996 through 2002 the city’s share of drug costs has more than tripled, growing from \$157 million to \$523 million. IBO expects drug costs to reach \$639 million this year.

In 2001, the state Court of Appeals ruled in the case of *Aliessa v.*

Novello that the state must provide full Medicaid benefits to legal immigrants who entered the United States after 1996 when federal welfare reform legislation withdrew coverage for newly arrived immigrants. Because these individuals remain ineligible for federal benefits, the state and localities must fund the entire cost of coverage. Since the court's decision, this has added \$28 million to the city's annual Medicaid spending.

In January 2002, New York State's Health Care Reform Act (HCRA) was amended through the Workforce Recruitment and Retention Act. Medicaid reimbursement rates and direct payments to public hospitals were increased in order to fund higher wages and training for certain health care workers. The increase in rates will cost the city \$198 million over the next three years in the likely event that help from the federal government is not forthcoming.

In an effort to reign in Medicaid costs, the city sought and received federal approval to shift Medicaid beneficiaries into managed care plans beginning in 1999. The transition has proceeded more slowly than anticipated, although the program continues to be expanded. Payments to managed care firms have risen from \$163 million in 1999 to \$234 million in 2002, and are expected to total \$440 million this year. Given the current double-digit increase in managed care premiums for private-sector employers, it is unclear the extent to which large savings can be realized through this effort.

One of the reasons that Medicaid costs are high in New York City to start with is the concentration of medical schools and research centers here. While these centers play an important role

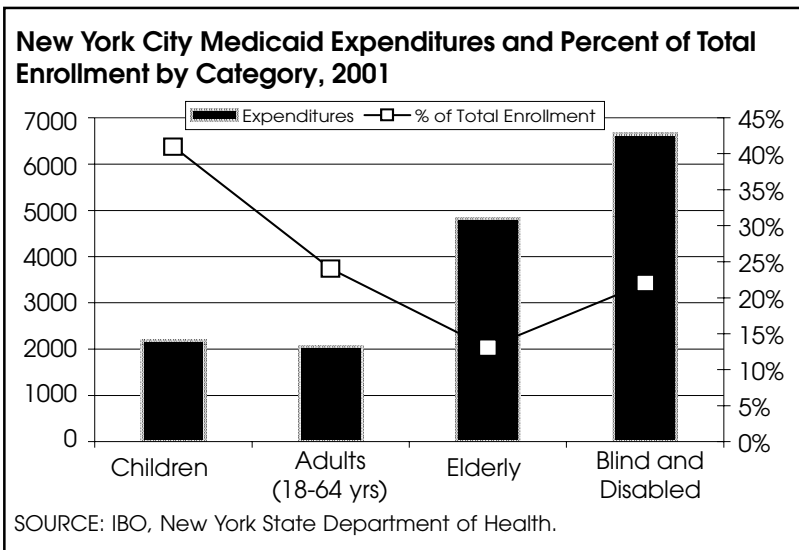
in the local economy, they also consume a significant share of Medicaid spending because these facilities provide care to patients who are generally sicker; require more intensive, and expensive, treatment for longer periods of time; and are more likely to be uninsured than those at community hospitals. Medicaid rates paid to teaching hospitals are adjusted to compensate for the extra expenditures associated with medical education and add to the city's Medicaid costs.

Another factor contributing to the underlying high-cost of Medicaid here is the large number of uninsured—an estimated 1.7 million residents in 2001. Medicaid spending includes special payments to hospitals serving a disproportionate number of uninsured patients. These so-called DSH payments amount

to about 7 percent of total New York State Medicaid spending, or over \$2 billion in 2000.

Help on the Horizon?
Unless the state takes over all or part of the city's Medicaid burden or the federal government increases its share of the costs in New York, the city's spending on Medicaid is likely to continue to climb. The Bush Administration is

proposing a plan to turn Medicaid into a block grant that could result in surpluses much like those that materialized after welfare went from an entitlement to a block grant in 1996. But those surpluses materialized largely because the welfare rolls were falling. In the case of Medicaid, enrollment is rising. Given the enrollment surge as well as the rising costs of providing medical care and the high-cost of care for the elderly, surpluses from the lump-sum payment are likely only if the state were to cut back its coverage of individuals and benefits not required under federal law.



Written by James Doyle