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Budget Cutters Face Medicaid Challenge

By Jim Nowlan

Republican gubernatorial candidate Bill Brady has pledged to cut 10 percent from the Illinois operating budget, or about $2.6 billion, while incumbent governor Pat Quinn has vowed to cut another billion from the present budget. Either way, the amounts represent a fraction of the $13 billion deficit Illinois faces.

Even so, the candidates face their biggest challenges in cutting into the massive state Medicaid program, which resists reductions tenaciously. Much of a future governor's success in stabilizing the Illinois budget situation depends upon his capacities to rein in health care spending.

Medicaid is the federal-state program that provides health care for 2.5 million Illinois residents, about 20 percent of the state's population. Most of the participants are low income, although many in our nursing homes came from middle-class backgrounds. (Many of us know of families that have transferred assets from an elderly relative to qualify the person for Medicaid nursing home care.) The federal and state governments share the costs of $15 billion annually for Illinois, roughly 60-40 federal to state.

The program has been growing at about 10 percent a year since 1990 (7.6 percent between 2004-2007), and now the state's component in Medicaid funding surpasses the amount the state spends on public education. Children make up the majority of those covered by Medicaid, yet by far the greatest costs are imposed by adults with disabilities

and seniors in nursing homes. The disabled population of 241,000 cost about $18,386 per enrollee annually, and the 160,000 elderly in nursing homes cost about $9,600 per enrollee. In contrast, children impose about $2,600 a year in costs per youngster.

Many of the disabled are ventilator dependent and others would also die without 24-7 care, some of whom cost up to $20,000 a month.

So how do you cut spending on these vulnerable populations?

If Illinois' reimbursement rates for hospitals, doctors and nursing homes were more than adequate, cutting could begin there. But the Illinois rates are low compared with other states; many doctors refuse to take Medicaid patients because of the low reimbursement rates. In 2002, for example (the latest year figures are available), Illinois reimbursed nursing homes $90 a day, which ranked the state 48th among the states, much less than the $110 per day in Wisconsin and $172 in New York.

Illinois could remove certain services from the coverage and still qualify for federal participation. For example, Alabama denies coverage for dental, chiropractor, podiatry, physical therapy and several other services that Illinois provides.

Illinois has a largely fee-for-service reimbursement system for paying Medicaid claims. If a participant becomes sick, he or she often goes to the emergency room for treatment and then maybe into the hospital, and the state reimburses for each service provided. There is little concern for the overall health maintenance of the patient, and soon after release the person might be back in the emergency room.

Almost none of Illinois' 2.5 million enrollees are in managed care (often known as health maintenance organizations [HMOs]), where a company is responsible for the overall health care of a person. The company is reimbursed on per capita basis, so

company profits are related to the outcomes of the patient, that is, in how effective the managed care system is in keeping their enrollees out of expensive emergency rooms, hospitals and nursing homes.

James Fossett, a Medicaid expert at the Rockefeller Institute of Government in New York, calls managed care the low-hanging fruit for Illinois cost savings. But thte powerful Illinois hospital and doctors' associations have been resistant to managed care, saying it was tried here in the 1970s and failed.

Now, however, there are national managed care companies that specialize in Medicaid programs and could do the job, if they felt they would be compensated adequately.

According to Fossett, the key to reducing Medicaid costs is to keep enrollees out of expensive institutions like hospitals and nursing homes by monitoring the health of patients to prevent the development of serious problems. He cites the example of calling the Orkin man to kill the cockroaches in a home to prevent the exacerbation of an asthma patient's condition, which cockroach poop apparently does. This is not something the emergency room would be sensitive to but a managed care system might be.

Development of assisted living and community-based recovery facilities as options to more expensive nursing home care would be another cost saver for Medicaid. Unfortunately, Illinois has relatively few of these facilities at present.

The point of this column is that there are ways to reduce Medicaid costs, but they are probably years from full implementation. In the meantime, there are pressures to increase spending on Medicaid. For example, the present recession pushes more people into the low-income eligibility pool for Medicaid enrollment.

Medicaid represents almost one-third of overall state spending. The challenges to cutting its budget by 10 percent are daunting, certainly in the short-term. I don't envy the next governor.

Suggestions for editing cuts, if necessary:

Cut paragraphs on page 2 that begin with "If Illinois' reimbursement rates. . . ." and following paragraph as well: "Illinois could remove. . . ."

Cut paragraph on page 3: "According to Fossett, ..."