Medicaid 101
Bagels & Briefing

Presented by
Office of Legislative Research and General Counsel
January 30, 2007
What can be done to contain costs?

Cost Drivers
Factors Affecting Growth in Personal Health Care Expenditures

Average Annual Growth, 2000--03 = 8.2%

- Intensity: 40%
- Economy-wide Inflation: 25%
- Medical Inflation: 22%
- Population: 13%

Factors

Significance       Policy Roles       Program Design       Cost       Horizon

National Center for Health Statistics, "Health, United States, 2005 With Chartbook on Trends in the Health of Americans" (Hyattsville, Maryland: 2005), Table 121, p. 362, accessed 6/13/06 at http://www.cdc.gov/nchs/hus.htm. "Intensity" is "the residual percent of growth which cannot be attributed to price increases or population growth [and] represents changes in use or kinds of services and supplies."
What can be done to contain costs?

Cost Drivers
Medicaid vs. Personal Health Care Expenditures Growth

<table>
<thead>
<tr>
<th></th>
<th>Average Annual Rates of Growth, 1980–2004</th>
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<tbody>
<tr>
<td>U.S. Health Expenditures</td>
<td>8.6%</td>
</tr>
<tr>
<td>UT Health Expenditures</td>
<td>9.7%</td>
</tr>
<tr>
<td>U.S. Medicaid</td>
<td>10.5%</td>
</tr>
<tr>
<td>UT Medicaid</td>
<td>12.0%</td>
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**Why is understanding Medicaid important?**

**Medicaid is Growing Rapidly**

Utah Medicaid Expenditures and Annual Growth Rates, 1984-2006

(Total State and Federal Funds, In Millions; Administration Excluded)

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Utah Department of Health, Division of Health Care Financing. October 2004 and September 13, 2005. Data on file at the Office of Legislative Research and General Counsel. FY 07 data from the Governor’s Office of Planning and Budget, June 12, 2006. Rate changes calculated by OLRGC. Following supplemental appropriations during the 2006 Annual General Session, the FY 06 total was revised downward from $1,558M to $1,554M and the FY 06 amount for administration (not included in the total) was revised upward from $63.4M to $69.6M (GOPB). The FY 07 appropriation for administration is $71.4M (GOPB).
Why is understanding Medicaid important?

Medicaid is Growing Faster Than Sales Tax and Combined General and State School Fund Revenues

Five-Year Moving Average Annual Growth in Revenue and Medicaid General Fund Expenditures

Medicaid data: Utah Department of Health, Division of Health Care Financing, October 2004 and September 13 and 19, 2005; data on file at the Office of Legislative Research and General Counsel; administration excluded; 2006 expenditures reflect original appropriations and do not include supplemental appropriations made during the 2006 Annual General Session. Revenue data: State of Utah, "2006 Economic Report to the Governor," pp. 81-82, available at http://governor.utah.gov/dea/ERG2006.html. All growth rates and indices calculated by OLRGC. Graph values for each year are the average annual growth rates for the five most recent years.
Why is understanding Medicaid important?

**Medicaid is Growing Rapidly**
Actual and Projected Medicaid General Fund Expenditures
(In Millions; Administration Excluded)

- **11.1% (15-Year Medicaid Rate)**
- **9.4% (10-Year Medicaid Rate)**
- **4.6% (10-Year NonMedicaid Rate)**

Why is understanding Medicaid important?

Significance Policy Roles Program Design Cost Horizon

Utah Department of Health, Division of Health Care Financing, October 2004 and September 13 and 19, 2005. Data on file at the Office of Legislative Research and General Counsel. 2006 figure does not include supplemental appropriations made during the 2006 Annual General Session. Projections are based on historical expenditure rates only and do not explicitly account for many factors that could affect spending. "10-Year NonMedicaid Rate" refers to the rate of growth in expenditures from the General Fund and School Funds for programs other than Medicaid.
Elderly and Disabled Enrollees Account for 86% of Optional Services Spending
(U.S., 2001)

What can be done to contain costs?

Elderly and Disabled Enrollees Account for 86% of Optional Services Spending
(U.S., 2001)

Optional Expenditures

- Elderly: 44%
- Disabled: 42%
- Children: 6%
- Adults: 9%

Mandatory Expenditures

Enrollees

- Optional: 29%
- Mandatory: 71%

COST CONTAINMENT

WHY
- Budget Adequacy
- Demographics

31%
Increase in ratio of 65+ to under 65
2005--20

Governor's Office of Planning and Budget, "2006 Economic Report to the Governor" (Salt Lake City, UT: January 2006), 24. Change calculated by Office of Legislative Research and General Counsel.
COST CONTAINMENT

WHY
- Budget Adequacy
- Demographics

6.4
Increase in nonworkers per worker
2005--2020

Governor's Office of Planning and Budget, "2006 Economic Report to the Governor" (Salt Lake City, UT: January 2006), 27.
COST CONTAINMENT

WHY
- Adequacy
- Budget
- Demographics

HOW
- Relative Limit

X% of General Fund or state-funded budgets

| State-funded Medicaid as a Percentage of State-funded Budgets |
|---------------------------------|--------------------------|
| Range                          | States |
| 3% -- 5%                       | 3       |
| 6% -- 8%                       | 14 UT (6%) |
| 9% -- 11%                      | 12      |
| 12% -- 14%                     | 13 US (13%) |
| 15% -- 17%                     | 2       |
| 18% -- 20%                     | 5       |
| 21% +                          | 1       |

Includes state funds only

Congressional Research Service. Memo from Christine Scott to the Honorable Jeff Bingaman, June 13, 2005 (Washington, D.C.), 3-5, from data by the National Association of State Budget Officers, "State Expenditure Report." CRS memo accessed 11/2/06 at http://www.apse.org/documents/CRSMedicaid.pdf. Figures are the state-funded portion of Medicaid as a percentage of the state-funded portion of the total state budget.
MEMORANDUM

TO: Senator Sheldon L. Killpack  
Representative Merlynn T. Newbold

FROM: Mark Andrews, Policy Analyst

DATE: November 14, 2006

SUBJECT: Medicaid Growth Trends

As requested, I am providing a summary of information presented at the Medicaid Interim Committee's November 10, 2006 meeting along with some additional estimates.

THE PAST

Although Medicaid grows at various rates from year to year, the long-term growth rate in General Fund appropriations is 11%. On the other hand, the long-term growth rate in total General Fund appropriations is 5.5%.

Given this difference in growth rates, Medicaid is doubling as a percentage of total General Fund appropriations every 14 years. In FY 91, Medicaid appropriations accounted for 6.6% ($59M) of General Fund appropriations. By FY 07 that figure had more than doubled to 14.5% ($316M).

THE FUTURE

No Change  Projected forward at these growth rates, Medicaid will account for 31% ($1,500M) of total General Fund appropriations in FY 22. If these assumptions held in the very long term (which is not likely for various reasons), by 2045 (38 years) Medicaid would account for 100% of total General Fund appropriations.

1% Point Reduction  If the long-term average annual rate of growth in General Fund appropriations for Medicaid were reduced by one percentage point from 11% to 10%, in FY 22 Medicaid would account for 27% ($1,300M) of total General Fund appropriations and the FY 22 appropriation would be 13% lower than it would be otherwise. This would amount to a total reduction in payments over the period FY 08–22 of as much as ($1,000M).

Medicaid Constant at 14.5% of the General Fund  If the long-term average annual rate of growth in General Fund appropriations for Medicaid were reduced by ½ from 11% to 5.5%, in FY 22 Medicaid would still account for 14.5% ($706M) of total General Fund appropriations and the FY 22 appropriation would be 53% lower than it would be otherwise. This would amount to a total reduction in payments over the period FY 08-22 of as much as ($4,600M).