

Critical Condition

Surging Costs for Medicaid Ravage State, Federal Budgets

In Mississippi, Governor Sees
'Cancer on Our Finances'
Amid \$268 Million Gap

New Pressure From Bush Cuts

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By SARAH LUECK

JACKSON, Miss.—To see how Medicaid is devouring state budgets across the country, take a look at Mississippi.

Over the past five years state and federal spending in Mississippi on Medicaid—the health program for the poor and disabled—has doubled to \$3.5 billion. Fully one-quarter of state residents are in the program. "Medicaid is a cancer on our state finances," says Mississippi Gov. Haley Barbour, the former head of the Republican National Committee and a close ally of President Bush.

In the current fiscal year, which ends June 30, Medicaid is projected to cost \$268 million more than the state budgeted. Officials are now warning that the program will run out of money by the end of this month unless the legislature passes an emergency appropriation. To open up funds for Medicaid, the state has slashed road construction and may delay plans to raise the salaries of public-school teachers who earn an average of about \$35,000 a year.

Forty years ago, Congress, as an afterthought to the Medicare program for the elderly, created Medicaid to help pay for the medical needs of about four million low-income people. Today, the program covers 53 million people—nearly one in every six Americans—and costs \$300 billion a year in federal and state funds, recently surpassing spending on the federal Medicare program. In some states, Medicaid accounts for one-third of the budget.

The benefits offered by Medicaid

have steadily expanded over the decades. The program now pays for 60% of the nation's nursing-home bill. It covers eight million disabled people and 25 million children. At many hospitals that cater to indigent people, Medicaid accounts for more than 40% of the revenue. "It has become a program that takes care of the worst situations," says John Holahan, director of the Urban Institute's Health Policy Center.

Now a state versus federal battle over Medicaid may be looming. President Bush, faced with a swelling federal deficit, will propose Medicaid changes in the budget he sends Congress today. The administration wants to cut about \$60 billion from what it projects it will spend on the program over the next decade, mostly by cracking down on techniques used by states to collect extra federal payments.

Federal officials also are pushing a broader overhaul of Medicaid financing. Currently the federal government and state governments split Medicaid costs, so if states boost benefits or costs go up Uncle Sam has to keep pitching in. One option under discussion with governors would cap federal contributions for certain Medicaid recipients at a set amount each year. They would have to pay 100% of Medicaid costs above the cap, but they would have wider flexibility than they do now to reconfigure benefits and increase costs for the targeted populations.

As states try to slash costs under current rules, they run into many roadblocks. Federal law mandates that states must cover many types of care, such as pregnancy care for certain low-income women. Reducing the number of beneficiaries is hard because they often have nowhere else to turn. What's more, because Medicaid is a "fee for service" program that pays doctors and hospitals every time they treat a fever or patch up a cut, it's difficult to encourage efficiency.

Patients, too, have little incentive to

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ration their own care because they pay at most a small sum to see the doctor. "When something is free, people don't care what it costs," says Mr. Barbour in Mississippi. Advocacy groups for the poor say that even a \$5 fee for a doctor visit can prevent some people from getting needed care.

Last year, the governor tried to move 50,000 Mississippians off the Medicaid rolls, but the state has had to delay the measure twice amid fierce protests and a court battle. Now the legislature is considering other cuts so it can restore the 50,000 people to the program. The state House just passed a law that would limit emergency-room visits, hospital stays and drug prescriptions for Medicaid patients.

Other states are also planning major cuts. Tennessee, long known for its liberal Medicaid eligibility rules, plans to cut off 323,000 recipients this spring. "Our state is already number one in the nation in the proportion of its budget it spends on Medicaid, and we don't remotely have the money to continue on the current path," Democratic Gov. Phil Bredesen said in announcing the cuts last month. Republican Gov. Jeb Bush of Florida is pushing a plan to give more control of Medicaid to private insurers and cap the amount Medicaid spends on each recipient. He warns that Medicaid will "collapse under its own weight" without an overhaul.

In addition to cutting benefits, some states are raising taxes to cover the rising Medicaid tab. Lawmakers in Alabama are considering taxes on soft drinks, Internet purchases and bingo machines. In Indiana, Gov. Mitch Daniels, who was known as a staunch opponent of tax increases when he was President Bush's budget chief, is pushing a temporary income-tax increase.

If the federal government reduces its contributions to Medicaid, Mississippi could be particularly hard-hit because the federal government covers 77% of Medicaid costs in the state. That is the highest proportion in the nation and compares with a national average of 58%. Federal matching rates are determined by states' per capita income.

Budget Crunch

Even though it pays for only 23% of its Medicaid bill, Mississippi faces a budget crunch brought on in good measure by Medicaid. Over the past two years, the state has cut more than \$200 million in transportation funds, delaying plans to widen a heavily used highway that heads toward New Orleans. Because it can't get enough state work, Columbia-based T.L. Wallace Construction recently sold \$10 million worth of bulldozers and other equipment. "It's bad times right now in the state of Mississippi," says company founder Tommy Wallace.

The crunch poses a challenge to Mr.

Barbour, who returned to his home state after a high-profile career in Washington that included a stint as a lobbyist. During his 2003 campaign for governor, Mr. Barbour blasted his Democratic opponent, incumbent Gov. Ronnie Musgrove, for letting Medicaid overspend its budget by hundreds of millions of dollars. "When I'm elected governor, I'll make state agencies live within their budgets," Mr. Barbour said in one campaign speech.

Mr. Barbour won, and brought in Warren A. Jones, a family doctor and former medical director of the military health-care system, to revamp Medicaid. Dr. Jones started looking for people who could be cut from Medicaid and still be eligible for health coverage elsewhere.

The search led his team to a group known as PLADs, for "poverty-level aged and disabled." States generally are required to cover people in this category if their incomes are so far below the poverty level that they receive federal cash assistance. But in 1999, Mississippi went beyond that. It was flush with money for health care after a settlement with tobacco companies in a suit that sought recovery of health costs, particularly in Medicaid, related to smoking. The state expanded coverage to elderly and disabled with annual incomes up to 135% of the poverty level.

Ultimately, Gov. Barbour's plan called for cutting off 50,000 people, most of whom were also covered by Medicare because they were over 65 or had long-term disabilities. The plan triggered fierce opposition. The biggest complaint: Patients, many of whom had multiple illnesses or used wheelchairs, would be left without prescription-drug coverage, which isn't yet provided by Medicare.

The plan was passed by the state legislature in May 2004 and was supposed to take effect in July. But the public furor grew stronger. Phones at the Capitol and the Medicaid office rang incessantly. Protesters decamped to the halls of the state Capitol, some in wheelchairs or carrying signs that said, "Why are you trying to kill us?"

Rebecca Covington, a 61-year-old Jackson resident who has mental disabilities and a seizure disorder, is one of the 50,000 people targeted to lose Medicaid. Her income is \$1,000 a month from her deceased father's Social Security check. She depends on Medicaid to pay for her four prescriptions. The poverty level in 2004 was \$9,310 for an individual. If she bought the drugs, the cost would be \$900 a month. She's covered by Medicare because she's permanently disabled.

Ms. Covington is cared for by her sister, 66-year-old Jean Barnett, who manages the apartment building where the two live. When Ms. Covington got the letter saying she was going to lose Medicaid coverage, Ms. Barnett looked for other ways to get cheap medicine. She contacted a Canadian pharmacy, but couldn't afford to buy two months of prescriptions at once, as the outfit wanted.

And she checked with drug-company programs for the poor, but couldn't find any that gave away the medicines her sister needed.

Sitting in her sister's living room, Ms. Barnett says she doesn't know what she'll do if her sister is thrown off Medicaid. "She'll have to live with me, but I don't know," she says. "How can I feed both of us and afford both our medications?"

Mr. Barbour says all of the 50,000 people were eligible for other programs that would give them access to discounted or free drugs. He accuses activists of "fear mongering and scare tactics." Still, he delayed the cut until September and tried to mollify the angry PLADs by encouraging state Medicaid officials to wear a plaid ribbon—a symbol, he said, of the state's commitment to help people find other programs. He also sent them reassuring automated telephone messages: "Don't be afraid. We will make sure you have what you need."

Meantime, advocacy groups filed suit to block the cuts, and won a temporary injunction in October. A judge has ruled that the PLADs can keep getting Medicaid benefits until the end of February, and the legislature is debating whether to restore them permanently.

'Show Me the Money'

If that happens, it will bring the state right back to where it started. Mr. Barbour put it succinctly last fall when some state lawmakers started to press for restoring the 50,000. "Show me the money," he said.

Legislators are trying to do exactly that. The Democratic-controlled House has passed a 50-cent-a-pack tax on cigarettes. The bill seeks to raise about \$40 million this fiscal year, enough to cover some of the estimated \$90 million cost of covering the 50,000 Medicaid beneficiaries for the current fiscal year. But it faces opposition in the Senate and possibly from Mr. Barbour, a former tobacco-industry lobbyist.

In any case, the cigarette tax would address only part of the problem. After the furor over the PLADs, Mr. Barbour has shied away from proposing new Medicaid cuts. The legislature doesn't have that luxury. It has to pass a budget for the fiscal year beginning in July.

The House last week passed a bill that would cut about \$200 million from Medicaid, by reducing the number of prescription drugs a patient can get each month from seven to five. The legislation also would reduce the number of inpatient hospital days and emergency-room visits Medicaid will cover each year. The measure is now with the Senate, where some are pushing a bigger tax on nursing-home beds.

Meanwhile, the state is starting visits with Medicaid recipients in person to root out those who don't qualify. "I don't know if it's one person, 1% or 100,000,"

says Mr. Barbour. "But we owe it to the taxpayers to find out." The state also plans to give each beneficiary the option of a "medical home"—a doctor who can conduct an annual physical and coordinate care to reduce unnecessary emergency-room visits and other waste.

Daniel S. "Steve" Holland, a Democratic legislator who heads the House Public Health and Human Services Committee, is targeting drug costs. At a recent meeting, state Medicaid officials said there had been a big jump in the wholesale cost of Eli Lilly & Co.'s Zyprexa, an antipsychotic medication that Mississippi Medicaid spends more on than any other drug—\$24 million in the year ended June 30, 2004.

"Where'd the Lilly people go?" Mr. Holland asked, searching the faces of lobbyists seated in the audience. "I want someone in the industry to speak up. Explain how you price drugs."

The Lilly lobbyists weren't there, but they stopped by Mr. Holland's office later in the day to say they would check on whether the price of Zyprexa had changed. Anne Griffin, a Lilly spokeswoman, said the price jump discussed in the meeting may have occurred because of inflation and probably didn't include rebates that drug makers are required by federal rules to pay the states. She said the drug's effectiveness in treating schizophrenia and other illnesses accounts for its popularity in state Medicaid programs.

Still, Mr. Holland, who is a funeral-home owner and longtime backer of the Medicaid program, says he'd rather cut drug spending than throw people off the Medicaid rolls. As legislators debate all the cuts, he says, "it's a helluva lot like planning your own funeral."

2-2-05

New post proposed for state department

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HELENA — As some people question the credentials of the new head of the state Department of Public Health and Human Services, Gov. Brian Schweitzer is creating another second-in-command position under the controversial director, Dr. Robert Wynia.

John Chappuis has served as the lone deputy director of the state Department of Public Health and Human Services since August 2001, but Schweitzer wants to create a second deputy director position to oversee three divisions within the agency that are currently under the direct supervision of the director.

The second deputy position would pay somewhere between \$60,000 and \$80,000 annually, plus benefits.

"The agency has over 3,000 employees, the programs it oversees are complex and are of paramount importance to the people of Montana," said Sarah Elliott, the governor's spokeswoman. "Additionally, there are increasing demands on management. We feel those factors fully justify adding another deputy director."

But not everyone agrees. Senate Minority Leader Bob Keenan, R-Bigfork, said the \$100,000 it will cost to give the second deputy a salary and benefits would be better spent on services for the poor and the sick.

"I just don't see the need for it," Keenan said. "I think it's a waste of money that should be going to people who need human services."

The department has not had a second deputy director since the early 1980s and worked

without any deputy at all through the 1990s, Chappuis said. He came on as deputy in 2001, when the state reinstated one of the deputy positions.

The second deputy will take over three of the seven divisions the director now oversees. The new hire will head the Child and Family Services Division, the Child Support Enforcement Division and the Public Health and Safety Division.

Wynia, a retired 72-year old Great Falls physician, will then have direct oversight over four divisions, instead of seven.

"We support what the governor wants to do," Chappuis said, adding that the \$1.2 billion agency is growing.

Wynia has come under scrutiny recently, after senators and the governor's office received more complaints about him than any other gubernatorial appointment. The Montana Nurses' Association questioned Wynia's administrative experience, and the Montana Public Health Association questioned his privatization medical philosophy.

Wynia, however, said he would work to help the state's uninsured and underinsured and wouldn't let his anti-abortion position stand in the way of his public health mission.

The Senate must approve of any appointment the governor makes, and Wynia's hearing before the Senate State Administration Committee is scheduled for Monday.

The ad for the newly created job was posted in the Helena Independent Record on Sunday. Applications will be accepted through Feb. 9 and the position will likely start up in the next month.