

MEDICAID MYTHS

Legislators and the general public hear a lot about costs associated with Iowa's Medicaid program and health care spending in general. But the facts surrounding Medicaid—Iowa's program providing health care services for our most vulnerable populations—are widely misunderstood. While Medicaid costs have increased in recent years, that's a result of under-projecting the number of people enrolled in the program and shrinking the obligations of the General Fund to support Medicaid.

This brochure is designed to help you better understand Iowa's Medicaid program and how Iowa has an obligation to protect access to health care services for all citizens.

Medicaid Myth: Medicaid provides health care coverage for all poor people.

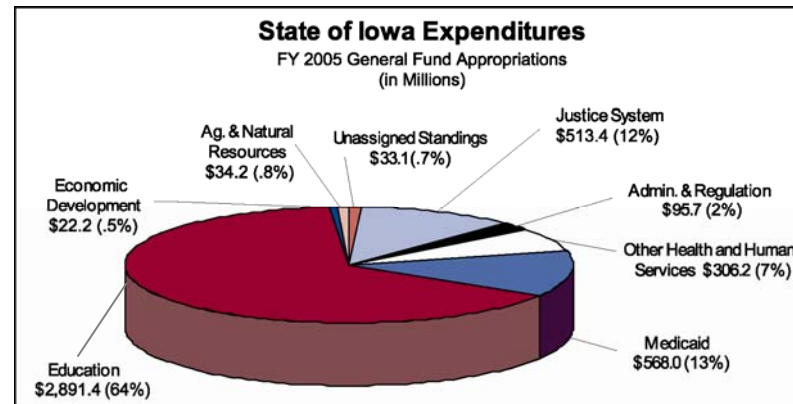
Fact: Medicaid has income limits to allow individuals to qualify for benefits, based upon a relationship with federal poverty levels. Additionally, Medicaid only covers certain categories of individuals. For example, except for the blind and disabled, single adults between the ages of 18-65 are not eligible for Medicaid, regardless of income. The reality is that most people receiving Medicaid services are either the frail elderly in nursing homes and young mothers and children.

Medicaid Myth: Iowa foots the bill for the Medicaid program.

Fact: Medicaid is a state/federal partnership program. For every dollar Iowa spends on Medicaid, the state receives approximately two dollars in matching federal funds. In addition, there are other ways of leveraging Medicaid dollars, meaning that Iowa's current budget investment of about \$550 million in Medicaid results in a program providing nearly \$2.6 billion in health care services for Iowans. For the matching federal dollars, the only restriction the federal government puts on Medicaid is the program can't pay more for the same services than Medicare would...and Medicare reimburses Iowa at the lowest rates in the nation.

Myth: Medicaid is taking over Iowa's state budget.

Fact: Iowa actually has a very conservative Medicaid program. According to the National Association of State Budget Officers, Medicaid represents just over 14 percent of the Iowa state budget, a figure well below that of other surrounding states such as Missouri (32 percent of the budget), Illinois (23 percent), South Dakota (21 percent), Minnesota (20 percent) and Nebraska (19 percent). Iowa's percentage has stayed stable over the past three years, ranking Iowa 47th-lowest nationally by this measure (the average U.S. state spends 21 percent of its budget on Medicaid).



Myth: Health care provider rates go up every year under Medicaid.

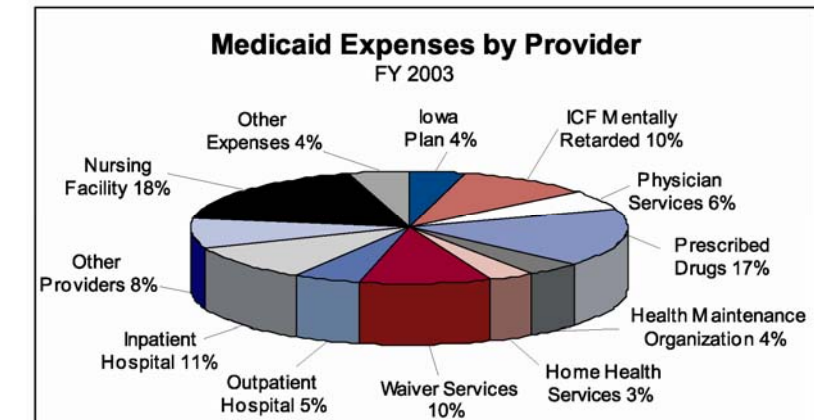
Fact: The Iowa General Assembly sets Medicaid provider payments and those rates have not been increased in recent years. Despite the fact that the General Assembly improves education spending every year (allowable growth), it has not recognized that health care costs also increase annually and has not made corresponding increases in Medicaid payment. Iowa hospitals are now being reimbursed at FY 2000 payment levels, with the last adjustment to Medicaid rates being a three percent cut in 2001! In addition, due to the hospital reimbursement methodology utilized by Iowa Medicaid, hospital payment rates are set prospectively and remain in effect for a three-year period of time. This process does not recognize increased costs incurred by hospitals to provide inpatient and outpatient services. Absent an inflation update by the Legislature, the gap between reimbursement and the cost of providing care grows larger each year.

Myth: Medicaid isn't that big a deal.

Fact: Hospitals rely on Medicaid for about 10 percent of their revenue. When Medicaid doesn't cover the cost of delivering care, those expenses are shouldered by the hospital, county and city governments, and the private sector. Inadequate Medicaid payment makes it difficult for hospitals to attract and retain quality health care professionals who are in high demand all across the nation. Since roughly one-half of all hospital expenses go toward salaries and benefits for 70,000 employees across the state, the impact of the matching federal dollars on revenue and taxes in Iowa is huge. From a purely economic development perspective, there is no where besides Medicaid that Iowa can invest one dollar and get an immediate and guaranteed 200 percent return on investment.

Myth: Hospitals are part of the problem.

Fact: Actually, Iowa hospitals have a historic role of being part of the Medicaid solution for Iowa. Whether working collaboratively to develop the first Medicaid outpatient prospective payment system in the nation or bringing forward concepts for the Hospital Trust Fund in 2002 which has generated more than \$50 million in increased federal funds since that time, Iowa hospitals have worked toward innovative solutions for Medicaid. At the same time, hospital expenses have been a shrinking component of the Medicaid budget, now accounting for less than one-sixth of overall Iowa Medicaid expenditures.



Myth: Iowa's Medicaid program is losing money.

Fact: Iowa has had Medicaid budget surpluses in each of the last two years, meaning the state hasn't spent everything it planned for Medicaid. In FY 2003 \$28 million was returned to the general fund; in FY 2004 Governor Vilsack transferred \$15 million of "excess" Medicaid revenue to fund state salaries.

Myth: Iowa has to make \$130 million in Medicaid cuts in order to preserve the program in FY 2006.

Fact: Iowa does have to wean reliance on Medicaid funding away from the Senior Living Trust Fund that (at current levels) will be tapped out in FY 2006. But Iowa's overall Medicaid budgets have been flat for the past three years, with the only spending increases coming from higher numbers of eligible citizens. The real problem is that the Iowa Legislature reduced General Fund expenditures for Medicaid by \$65 million from FY 2003 to FY 2005.

Myth: Iowa can preserve Medicaid through program cuts.

Fact: Cutting optional services or Medicaid eligibility doesn't reduce the need for those services, which ultimately will be met in hospital emergency rooms. Cutting payment rates actually triples the effect on providers as they also lose the corresponding federal funds. The fact is that no "silver bullet" exists for establishing Medicaid savings as Iowa has already exhausted most of those options in recent years. In fact, recently-compiled figures from the Department of Human Services (DHS) indicates that if Iowa decimated the Medicaid program though every conceivable cut, it still wouldn't achieve \$130 million in program savings.

Myth: Iowa doesn't have enough resources to sustain Medicaid.

Fact: Preserving Medicaid is all about legislative priorities. It's difficult for the health care provider community to take cries of a Medicaid crisis seriously when the General Assembly takes other actions such as \$87 million tax cut for businesses in the form of accelerated depreciation write-offs (special session 2004) or a \$65 million premium tax reduction for insurance companies (legislative action 2002).

Myth: But Iowa just can't find the money.

Fact: Iowa has the opportunity to join more than 40 other states that have raised tobacco taxes as a means of improving public health and supporting health care programs. It's time for our politicians to act on this important initiative. A \$1 per pack increase in Iowa's tobacco taxes would generate more than \$210 million in the first year and would have a profound effect on the health status of Iowans. Just a 10-cent per pack tobacco tax increase dedicated to hospital Medicaid payment would bring those payment rates near Medicare levels.

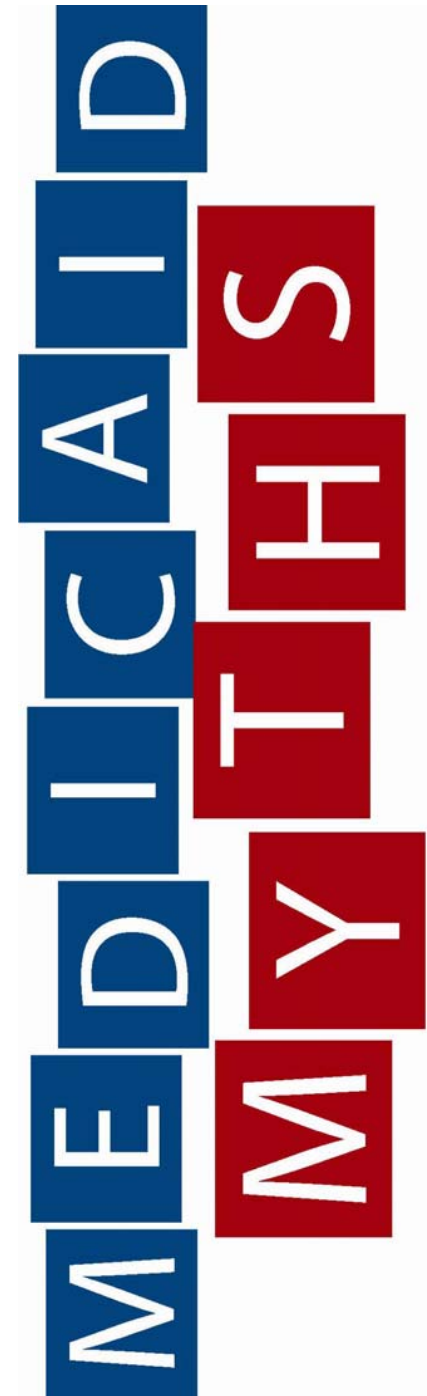
Iowa's Medicaid program is essential to providing health care services for our poorest citizens and is an important tool for economic development in the state. While health care costs and Medicaid utilization continue to increase, Medicaid must not be viewed in isolation of the total Iowa state budget. If the legislative priorities of education, health care, and economic development are to be met, the General Assembly must make the commitment to adequately fund its own health insurance program for the poor, make the appropriate budget priorities to sustain Medicaid, and improve provider payment rates to ensure the continued availability of health care services in Iowa communities.



I O W A H O S P I T A L A S S O C I A T I O N

100 EAST GRAND • SUITE 100 • DES MOINES, IA 50309-1835

515.288.1955 • WWW.IHAONLINE.ORG



Facts you need to know about Iowa's Medicaid program!