

NO EASY SOLUTION:

**Effective Medicaid Cost Control
Must Focus on the Elderly and Disabled**

Citizens Budget Commission

November 2010



INTRODUCTION

Perhaps the biggest fiscal challenge facing newly-elected Governor Andrew Cuomo is controlling Medicaid spending in New York State. Medicaid is one of the largest items in the State budget, and because New York requires a sizeable local share, Medicaid is also a significant burden on local governments.

New York is a big spender overall, but also on a per capita and per enrollee basis. New York's Medicaid program costs \$50 billion annually and average monthly enrollment during 2009 was 4.4 million people. Nationally New York has the fourth highest percentage of the population enrolled in Medicaid; in 2007, fully 26 percent of New Yorkers were enrolled in Medicaid, lower only than California, the District of Columbia, and Maine. Approximately 14 percent of all Medicaid spending in the nation occurs in New York State.

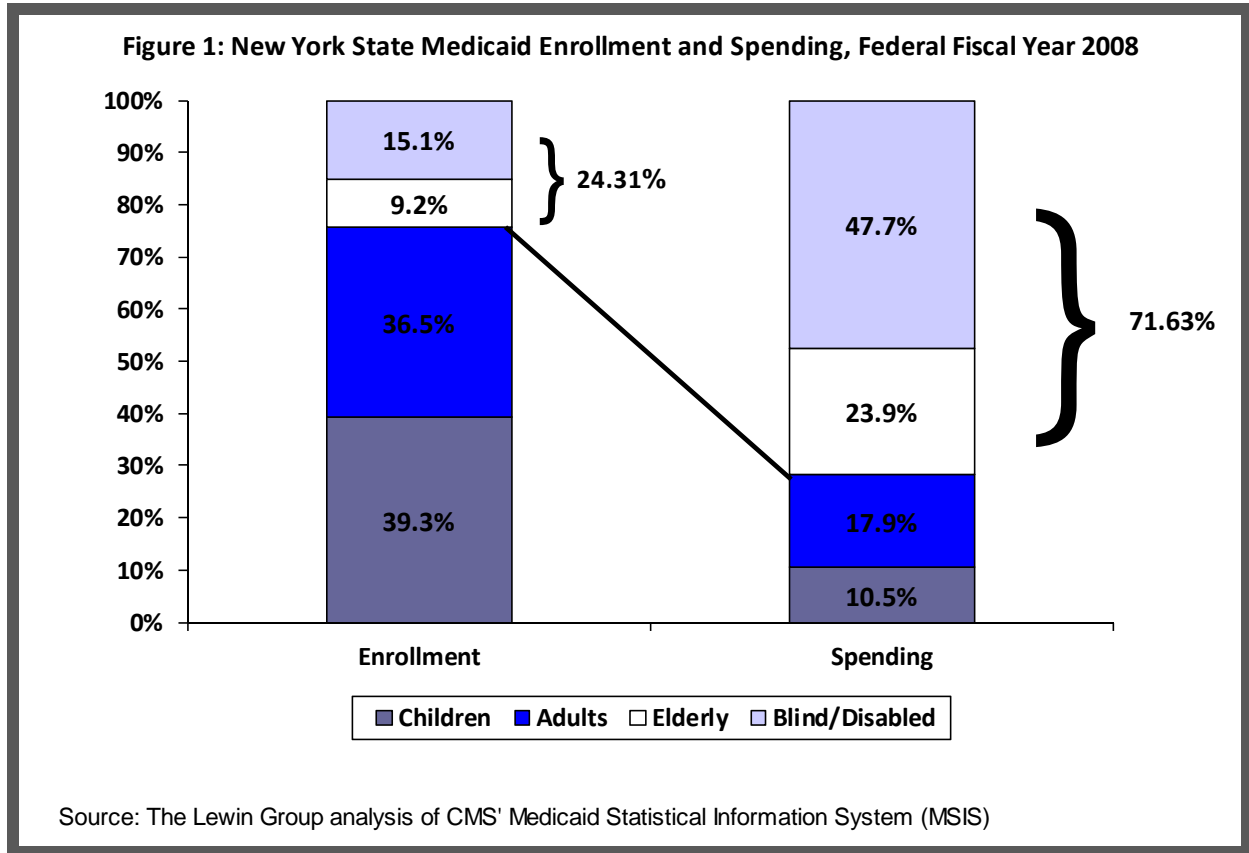
New York's program is big not just because it is a populous state or it covers a lot of people. Spending per enrollee and per capita are significantly higher than in most other states. In federal fiscal year 2007, New York spent approximately \$8,450 per enrollee, the second highest nationally, behind Rhode Island. On a per capita basis New York's Medicaid spending was the nation's highest at \$2,283, more than twice the national average (\$1,026).

Facing State budget gaps that are expected to grow from \$9 billion to \$17 billion in two years, New York's leaders will need to restructure this critical program. To aid the discussion about the kinds of changes that are needed the Citizens Budget Commission is studying critical trends in Medicaid expenditure growth, and engaged The Lewin Group, a nationwide health care consulting firm, to help. The background paper prepared by The Lewin Group is available at www.cbcny.org.

KEY FINDINGS

It is a fiscal reality that in Medicaid the most expensive services are those provided to the elderly and disabled, including long-term care. Most of the money spent in the program is for this population, and reducing spending on them has so far been an insurmountable political challenge. A multi-year agenda to restructure service provision and the cost of care for the elderly and disabled should be developed in the first six months of the new Administration. Short-run savings from the most effective measures will be minimal, but restructuring institutions and altering the continuum of care can produce results over a four-year financial plan.

The elderly and disabled comprise fewer than one in four (24 percent) Medicaid enrollees, but they consume nearly three of every four (72 percent) dollars spent. (See Figure 1.) Although health care spending generally is allocated toward the sickest population groups, New York's Medicaid program is more concentrated than the national norm. Nationally Medicaid spends 64 percent of its funds on these categories of eligibility versus New York's 72 percent.¹ The monthly average enrollment for the elderly in New York is 400,000, and their care cost approximately \$11.9 billion annually.² The disabled (including the blind) monthly enrollment is 710,000, and their care costs approximately \$23.8 billion.³

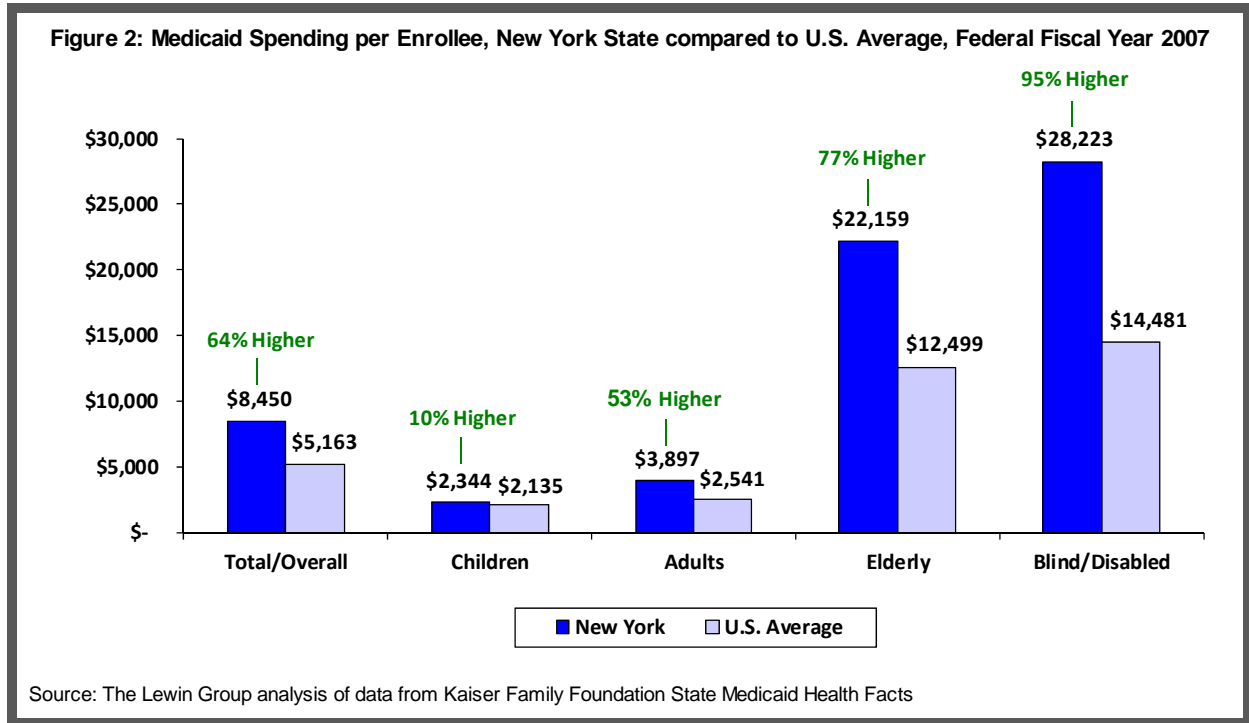


Conversely, children and non-elderly adults who are not disabled represent 76 percent of the enrollment, but 28 percent of Medicaid expenditures. During calendar year 2009 monthly enrollment totaled about 3.3 million such adults and children, and about \$14.2 billion was spent for them.

New York's spending per enrollee is higher than national norms across all categories of eligibility, but per enrollee costs for non-disabled children and non-elderly adults are not far out of line. In federal fiscal year 2007 (the latest data available to The Lewin Group), New York spent \$2,344 per child enrollee. This cost was 10 percent above the national average (\$2,135), ranking New York 22nd among the states. (See Figure 2.) For adults New York's cost per enrollee (\$3,897) was 53 percent higher than the national average (\$2,541), and ranked 5th among states.

Of greater concern is that spending per enrollee for the elderly and disabled populations is nearly double the national average. New York's spending for the elderly and disabled is 77 and 95 percent more than the U.S. averages, respectively, and New York ranks as the top spender per enrollee in both categories. For elderly enrollees New York spends \$22,159 compared to a national average of \$12,499. For the disabled, the figures are \$28,223 in New York and \$14,481 nationally.

Analysis by service type rather than category of eligibility shows that the long-term care services that many of the elderly and disabled receive are extremely expensive and growing rapidly. Total costs for long-term care services are \$12.5 billion annually.



The cost of long-term care in an institutional setting—a nursing home or other facility—averages \$47,909 per recipient. (See Table 1.) For the 132,620 recipients in nursing homes in calendar year 2008 the cost is higher, averaging \$50,563. Non-institutional care—personal care services such as housekeeping, meal preparation, bathing, toileting, and grooming; certified Home Health Agency

Table 1: Long-term Care Spending Per Recipient by Program, Calendar Year 2008

	Spending (in millions)	Number of Recipients	Spending per Recipient*
Institutional Long-Term Care	\$7,119.2	148,600 **	\$47,909
Nursing Homes	6,705.6	132,620	50,563
Other Institutional Care***	413.6	18,869	21,919
Non-Institutional Care	\$4,299.9	170,662 **	\$25,195
Personal Care	2,336.1	77,861	30,004
Certified Home Health Agencies	1,185.5	82,007	14,456
Long-term Home Health Care	691.5	26,470	26,122
Other Non-institutional Long-term Care****	86.8	26,774	3,241
Managed Long-Term Care	\$1,078.9	29,979	\$35,988

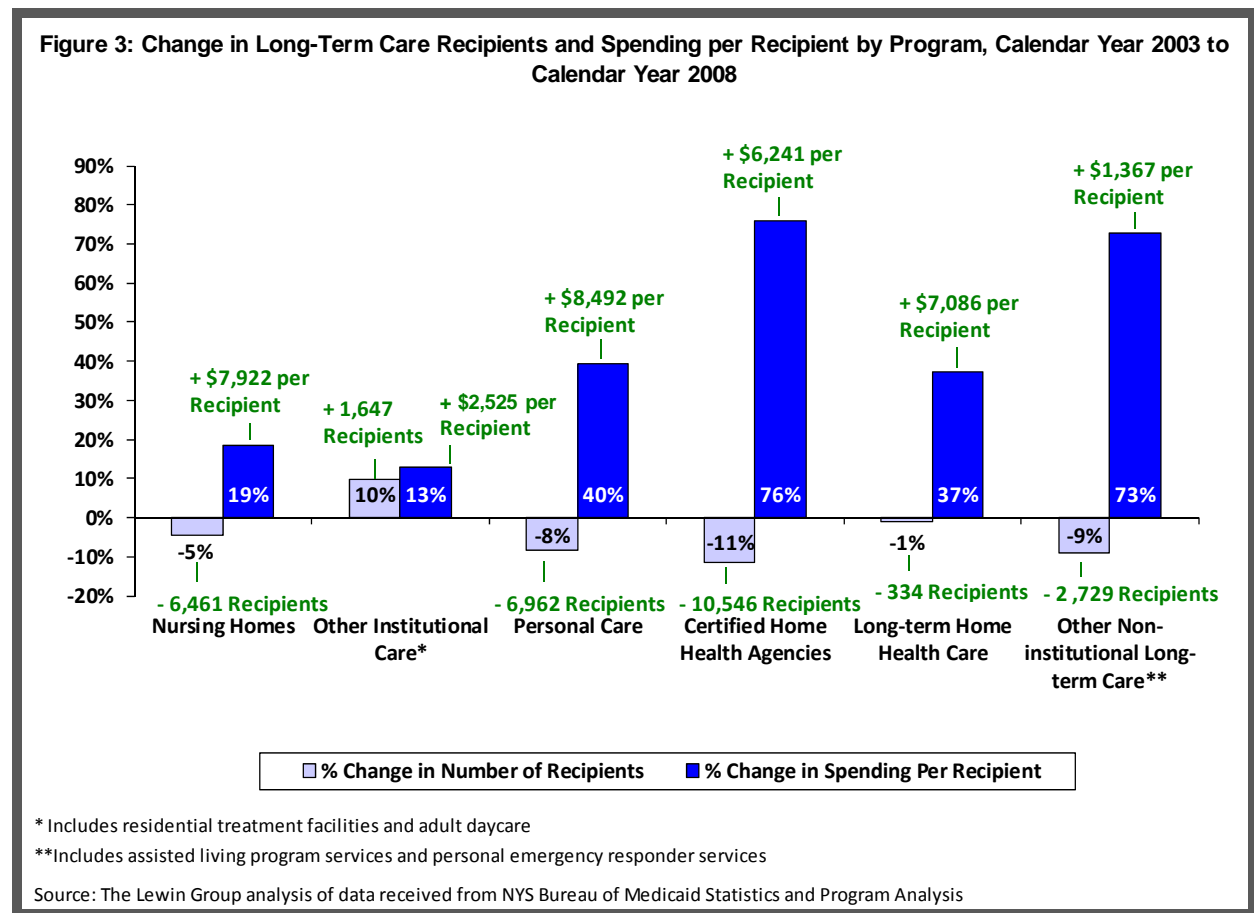
*Spending per recipient figures may be off by one to two dollars due to rounding
 ** Recipient counts do not total because a recipient may have received more than one service during a calendar year
 ***Includes residential treatment facilities and adult daycare
 ****Includes assisted living program services and personal emergency responder services

Source: The Lewin Group analysis of data received from NYS Bureau of Medicaid Statistics and Program Analysis

services such as part-time, intermittent health care services, as well as long-term nursing and home health aide services; and long-term home health care through a coordinated plan of medical, nursing, and rehabilitative care provided at home to disabled persons—averaged \$25,195 per recipient. For those receiving personal care the average cost for the services was \$30,004. Annual average costs for services from certified home health agencies are lower, \$14,456 per recipient.

Also disturbing is that five-year trends in long-term care services show sizeable growth in spending, yet a decline in the population served. The result is staggering growth in per recipient spending. From calendar year 2003 to calendar year 2008, for example, the total spent on nursing home care increased from \$5,931 million to \$6,706 million, or 13 percent. Over the same period the number of recipients of this service decreased from 139,081 to 132,620, or 5 percent. These trends translated into a per recipient spending increase of \$7,922, or 19 percent. (See Figure 3.)

The greatest increases are in non-institutional long-term care. Personal care spending from calendar year 2003 to calendar year 2008 rose 28 percent—from \$1,825 million to \$2,336 million—while the number of recipients declined from 84,823 to 77,861, a drop of 8 percent. Per recipient costs rose 40 percent, or \$8,492 per recipient. The most dramatic per-recipient spending growth, 76 percent, is for certified home health agencies, which experienced an 11 percent decrease in the number of recipients and yet a 56 percent increase in spending. Spending for recipients of this service increased by \$6,241 per recipient.



The one bright spot among long-term care services is managed long-term care, under which providers receive a “capitated” rate (adjusted for typical care needs and risk profile for the population) per person enrolled. Despite the high per recipient cost for the program of \$35,989, the costs per recipient from calendar year 2003 to calendar year 2008 declined by \$158. Program expenses grew from \$444 million to \$1,079 million, or 142.8 percent, but this is attributable entirely to the growth in enrollment.⁴

For disabled recipients receiving community rehabilitation services the trend is dramatic, exponential growth. Both the number of recipients and the cost per recipient are exploding. In calendar year 2008 the cost of community rehabilitation services reached \$5,222 million, up 74 percent from \$3,011 million in calendar year 2003. The number of recipients increased nearly one-third from 61,990 to 82,277. Per recipient cost was a whopping \$63,467 in calendar year 2008. (See Table 2.)

Table 2: Community Rehabilitation Services Spending Per Recipient by Program, Calendar Year 2008

	Spending (in millions)	Number of Recipients	Spending per Recipient*
Community Rehabilitation Services	\$5,221.9	82,277 **	\$63,467
Office of Mental Health Individualized Programs	362.5	17,774	20,394
Office of Mental Retardation Individualized Programs	4,748.2	60,585	78,372
Other Services***	111.2	4,043	27,504

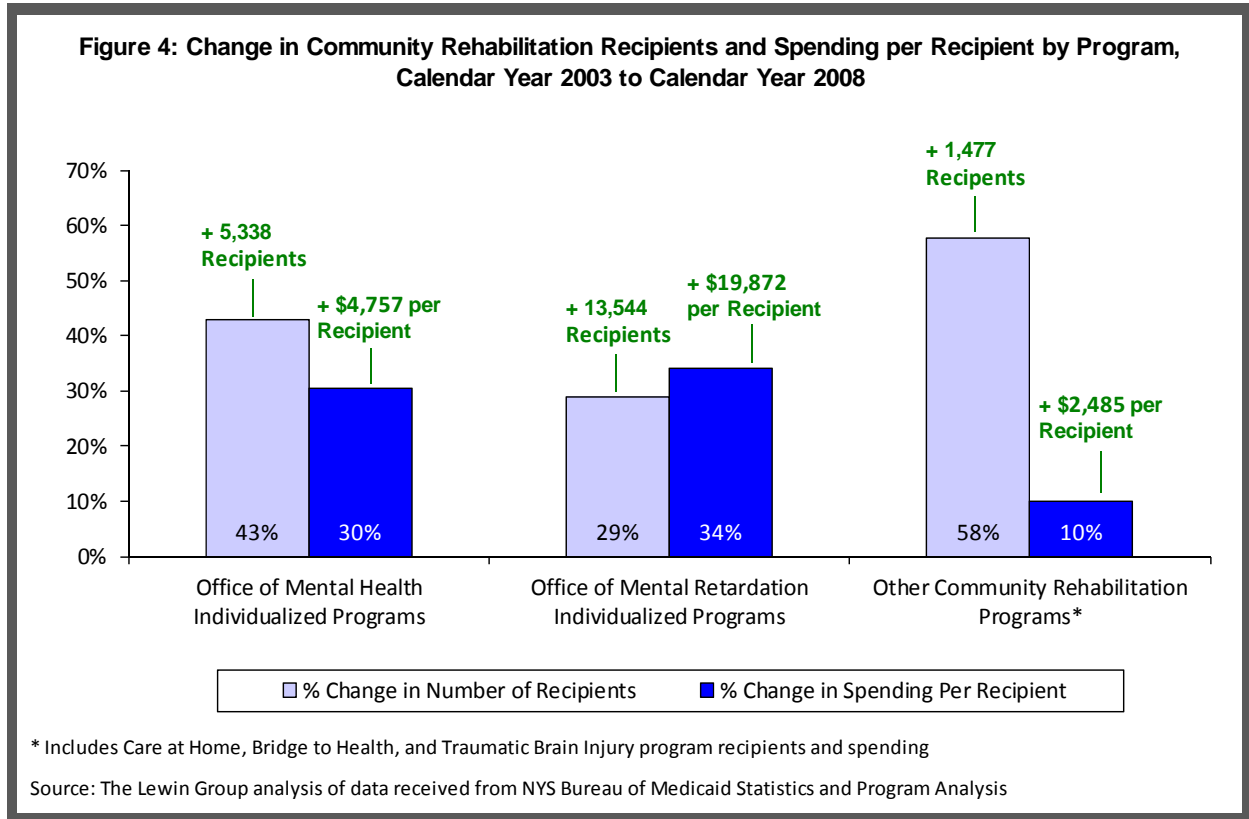
*Spending per recipient figures may be off by one to two dollars due to rounding

** Recipient counts do not add up because a recipient may have received more than one service during a calendar year

***Includes Care at Home, Bridge to Health, and Traumatic Brain Injury program recipients and spending

Source: The Lewin Group analysis of data received from NYS Bureau of Medicaid Statistics and Program Analysis

The most expensive service category by far is individualized services authorized under a Medicaid Waiver overseen by the Office of Mental Retardation and Developmental Disabilities. Waivers are used to provide nontraditional services that are outside the federal template for Medicaid services. These Waiver programs include, for example, small residential facilities that provide personal care aides and adaptive technologies that facilitate independent living for the physically disabled. These community rehabilitation services are growing significantly in cost *and* enrollment; spending was \$4,748 million for 60,585 recipients. In this category spending per recipient increased \$19,872, or 34 percent, and the number of recipients grew 13,544, or 29 percent. (See Figure 4.)



RECOMMENDATION

Three factors drive Medicaid costs—enrollment, provider payment rates, and utilization. These factors should be addressed in any cost containment proposals. The Patient Protection and Affordable Care Act—made law with President Obama’s signature on March 23, 2010—prohibits changes to Medicaid eligibility until 2014 if states want to retain their federal funding for the program. That leaves rates and utilization as levers by which to bring New York’s Medicaid costs down.

Rates and utilization—specifically in long-term care and other services for the elderly and disabled—are a major factor in New York’s extraordinarily high costs. These should be the primary focus for future cost control initiatives. A multi-year plan that takes this politically powerful bull directly by the horns—restructuring the system to provide better health, better outcomes and lower costs—should be developed. A proposal that addresses only the fringes of program expenses— the ever unpopular examples of fraud and the already limited costs of healthy mothers and children—will not yield significant serious fiscal relief.

ENDNOTES

¹ See Figure 14 on page 14 of the The Lewin Group Report for the U.S. averages. Available at www.cbcny.org.

² The calculation is 23.9 percent elderly spending proportion shown in Figure 1 times \$50 billion total spending. Average monthly enrollment figures are from Figure 3 in the The Lewin Group report shown on page 5 for calendar year 2009 available at www.cbcny.org.

³ Same method described in note 2 is used except that the proportion applied in the calculation is for the blind and disabled category, 47.7 percent.

⁴ See The Lewin Group report, Figure 6, p. 9. Available at www.cbcny.org.

The Citizens Budget Commission is a nonprofit, nonpartisan civic organization devoted to influencing constructive change in the finances and services of New York State and City governments.

A major activity of the Commission is conducting research on the financial and management practices of the State and City.

This report was prepared by Elizabeth Lynam, Deputy Research Director, based on research conducted by The Lewin Group.

For more information on the CBC, visit www.cbcny.org.

For more information on The Lewin Group, visit www.lewin.com.

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