NORTH CAROLINA CENTER FOR
PUBLIC POLICY RESEARCH INC.

NEWS RELEASE

For release on Friday, January 29, 2010:
May be broadcast Friday a.m. and
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MEDICAID IS FASTEST GROWING PROGRAM IN STATE BUDGET: GROWTH WILL ACCELERATE AS STATE'S POPULATION AGES

A new study by the N.C. Center for Public Policy Research finds that as North Carolina's older population doubles by 2030, the Medicaid program will consume an ever-greater portion of the state budget. Medicaid provides health care for individuals with low incomes, long term care for the elderly, and services for people with disabilities. According to recent estimates from the Fiscal Research Division of the N.C. General Assembly, Medicaid already is the fastest-growing program in the state budget. In the fiscal year ending on June 30, 2009, the authorized state budget for Medicaid was $3.2 billion, or 15 percent of the total state budget – an increase of 9 percent from 2008. And, just last week, N.C. Secretary of Health and Human Services Lanier Cansler told legislators that Medicaid is expected to be $250 million over budget by June 2010, creating a problem for next year's budget, which begins in July 2010.

The Baby Boomers will begin turning 65 in 2011, and by 2030, North Carolina's older population is expected to double from 1.1 million to 2.2 million. Mebane Rash, editor of the Center's journal, *North Carolina Insight,* says, "As North Carolina's population ages, many of our seniors will need long-term care, more people will qualify for Medicaid, and Medicaid costs will rise."

Governor Beverly Perdue went to Washington, DC in December to seek federal relief for the extra costs of the Medicaid program that are due in part to enrollment increases because people are out of work. Perdue said, "We have a lot of people out of work who have no money and who qualify for Medicaid."

Nationally, Medicaid spending is expected to average 8.4 percent growth per year between 2009 and 2018. Medicaid could consume more than 6 percent of the nation's gross domestic product by 2080, says the U.S. Government Accountability Office. National health care reform is nearing passage by Congress, and it includes further expansion of Medicaid. This could make balancing state budgets very difficult and put current levels of spending for public schools at risk, says the national publication *State Policy Reports.* In 2009, the state faced a $4.5 billion deficit, and legislative fiscal analysts do not project state revenue to return to pre-recession levels until 2013.

Medicaid: Providing Services for North Carolina's Elderly Who Are Poor

While ***Medicare*** is the federal government's national health insurance program for citizens aged 65 and older, ***Medicaid*** is the state run program providing health insurance for individuals with low incomes, long-term care for the elderly, and services for persons with disabilities. States are required to provide 16 basic Medicaid services, including hospital services, physician services, and nursing facility services. North Carolina also offers 27 optional Medicaid services allowed by the federal government, including hospice care, eyeglasses, physical therapy, and prescription drug coverage.

Federal law requires states to provide Medicaid services to all individuals who are eligible. Waiting lists are not allowed, nor can enrollment be capped, even if the state is facing a budget shortfall.

More than 18 percent of North Carolina's population is eligible for Medicaid. In 2007, there were 151,763 elderly recipients of Medicaid services, and the average expenditure per recipient was $11,675. While only 10 percent of the recipients of Medicaid services are elderly, more than 20 percent of total Medicaid service dollars in North Carolina are spent on the elderly. In 2007, almost half of the money spent on the elderly through Medicaid was spent on nursing home care.

Medicaid: Almost a $10 Billion Budget Item

Medicaid is funded jointly by the federal government (65 percent) and the state government (35 percent). The county share was phased out completely by the legislature on July 1, 2009. Together, federal and state Medicaid expenditures in North Carolina for state fiscal year 2008-09 totaled $9.9 billion.

North Carolina ranks 10th in population among the 50 states and 9th in total Medicaid spending. The cost of Medicaid is up because of the number of eligible people, expansion in the services provided, increases in life expectancy, and the rise in health care costs generally.

One cost driver is Medicaid's coverage of long-term care, which is compounded by North Carolina's reliance on nursing home care instead of in-home care. North Carolina has more than 400 certified nursing homes. As the Baby Boom generation ages, the demand to build more nursing facilities or expand existing facilities will increase. But, building more facilities will drive up Medicaid costs.

And, the cost of medical care in the United States has risen faster than inflation over the years, as measured by the Consumer Price Index. For the last 20 years, the growth in medical care costs has exceeded inflation by an average of 1.9 percent each year.

Three Innovations May Slow the Rate of Growth in Medicaid

1. The Community Care Program: Providing High-Quality Care Can Save Money

In 1986, North Carolina's Medicaid expenditures were increasing by more than 18 percent per year, compared with the current 9 percent rate of growth. More recipients were relying on emergency rooms because of the difficulty in finding a primary care physician, and the overall eligible population for Medicaid was growing. In response, North Carolina's Community Care program began as a pilot project in Wilson County that expanded statewide over a 15-year period. The key premise of the Community Care program is to manage health care for patients by giving them all a *medical home* to control health care costs and improve care for Medicaid recipients. It now is the state's primary vehicle for controlling the growth of Medicaid spending.

That medical home is typically a family doctor in one of the 14 regional, community-based networks that cover all 100 counties and involve about 90 percent of the state's primary health care providers. About 925,000 of almost 1.7 million Medicaid enrollees are now part of the Community Care networks.

Other health professionals such as nurses, certified nursing assistants, social workers, and lay health advisors work with the physician or provider to maintain and coordinate services. Teams of case managers work with patients on improving their health. A lack of reliance on insurance companies sets North Carolina's Community Care program apart from other state Medicaid programs. The model works in urban and rural settings with both public and private providers. The medical home model saves money by replacing fragmented health care visits to multiple doctors for individual illnesses with a lifelong, coordinated approach to primary health care. The program tries to avoid emergency room use.

The Community Care program has a concrete record of awards and accomplishments. The program won an Innovations in Government Award from Harvard University's Kennedy School of Government. It also received an Annie E. Casey Innovations Award in Children and Family Systems Reform.

The program saves the state money. In 2003, Community Care's successes included a 35 percent decrease in hospitalization rates for asthma, a 13 percent decrease in emergency room utilization, and $6 million in savings from a nursing home pharmacy project that examined multiple medications taken by nursing home patients. The Cecil Sheps Center for Health Services Research at UNC-Chapel Hill reported $3.3 million in savings for the asthma management program and $2.1 million in savings for the diabetes management program in fiscal year (FY) 2001–02. Mercer Government Human Services Consulting also has been tracking estimated cost savings from the Community Care program since 2002. An actuarial study by the group estimates that the program saved North Carolina about $135 to $149 million in FY 2006–07.

2. The Program for All-inclusive Care for the Elderly (PACE): Controlling Costs By Helping the Elderly Stay in Their Homes

PACE, the Program of All-inclusive Care for the Elderly, also contains Medicaid costs for the state by serving frail elderly patients in their homes. The costs of in-home care usually are lower than nursing home care and health outcomes often are better. There are currently 61 PACE projects in 29 states, including three in North Carolina in Burlington, Southern Pines, and Wilmington. Nationally, studies show that fewer than 10 percent of PACE participants go into nursing homes, and they have fewer emergency room visits.

The Center's Mebane Rash says, "Less time spent in nursing homes saves Medicaid money, and fewer emergency room visits saves Medicare money."

3. The N.C. Attorney General's Medicaid Investigations Unit: Fighting Fraud, Recovering Millions

The Medicaid Investigations Unit in the N.C. Attorney General's Office also is cutting Medicaid costs by fighting fraud. For the federal fiscal year that ended in September 2008, the unit won 17 criminal convictions and 15 civil settlements that recovered more than $52 million. More than $300 million has been recovered over the last seven years. Charles Hobgood, the director of the unit, says the majority of cases involved personal care aides and mental health community support providers billing for more hours of service than they actually provided and recruiting recipients who did not need services; drug manufacturers engaged in improper off-label marketing of drugs and offering kickbacks to doctors to prescribe drugs; and billing for ambulance transportation that was not provided or not medically necessary.

In summary, Rash says, "North Carolina is using innovative programs to control Medicaid costs, but the rapid growth in our elderly population, our heavy reliance on nursing home care instead of in-home care, and the rise in health care costs threaten both the quality of care provided and the state's ability to balance its budget."

About the N.C. Center for Public Policy Research

The Center's report on Medicaid and the three efforts to contain Medicaid costs is part of a larger study of key issues facing the state's aging population to be published later this year in the Center's journal, *North Carolina Insight*. Last year, the Center released research on the growth in the elderly population and on fraud committed against the elderly. The larger study also will include reports on the crisis in the number of caretakers for the elderly, the civic contributions of the aging, the impact of the growing aging population on the state budget, and the need for an aging policy plan for the future. Reports will be released as they are completed.

The N.C. Center for Public Policy Research is an independent, nonpartisan, nonprofit research organization created in 1977 to evaluate state government programs and to study public policy issues facing North Carolina. The Center is supported in part by a grant for general operating support from the Z. Smith Reynolds Foundation in Winston-Salem, with additional support from 12 other private foundations, 120 corporate contributors, and about 500 individual and organizational members. This research on key issues facing the aging population in North Carolina is funded by grants from the Kate B. Reynolds Charitable Trust of Winston-Salem, The Hillsdale Fund of Greensboro, and Mission Health System of Asheville.

The Center publishes a journal called *North Carolina Insight*, a citizens' guide to the legislature, and in-depth research reports such as a study of governance of the state's public universities. The Center recently has conducted studies of the history of mental health reform in North Carolina, key issues facing community colleges in North Carolina, how to prevent high school dropouts, and ways to reduce domestic violence. Upcoming studies will examine other key issues facing the state's aging population and policies on financial aid for students in public and private colleges and universities.

The Center's 37-page study of Medicaid and North Carolina's aging population is available to download electronically for $10. If you become a Center member at $36, you will receive other articles in the Center's study of aging as they are completed, future issues of *North Carolina Insight*, and the Center's quarterly newsletters for a year as part of your membership. To order or join the Center, call Tammy Bromley at (919) 832-2839 or send an email to *tbromley@nccppr.org*.

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FASTEST GROWING PROGRAMS IN THE STATE BUDGET, RANKED BY PERCENTAGE INCREASE

	Total Authorized State Budget, FY 2008-09	% of Authorized State Budget, 2008-09	% Increase from FY 2007-08
1. Medicaid (including administration)	$3.20 billion	15.0 %	9.04 %
2. Debt Service	$0.64 billion	3.03 %	5.40 %
3. Education	$12.30 billion	57.38 %	4.06 %
Total Authorized State Budget	$21.20 billion		

Source: Fiscal Research Division, N.C. General Assembly, Dec. 9, 2009.