

Medicaid spending jumps sharply

By Dennis Cauchon, USA TODAY

Medicaid spending has started to soar again, a sharp reversal from last year when costs unexpectedly fell for the first time since the program began in 1965.

The state-federal health care program for the poor experienced a 10.7% jump in costs during the first six months of the year, according to a USA TODAY analysis of Bureau of Economic Analysis data. That's the biggest increase since 2001 and puts Medicaid on pace to spend a record \$330 billion in 2007.

"States are going to have to make some tough decisions on who receives care, what care they get and what the limitations are," says Robert Campbell, vice chairman of Deloitte & Touche USA, an accounting and consulting firm that works with state and local governments.

He expects costs to continue to rise for the foreseeable future as states try to reduce the number of the uninsured amid rising medical costs.

Higher Medicaid spending could squeeze state finances at a time when revenue growth in many states is being slowed by the slumping housing market. State tax collections have grown about 5% this year, down from 9% growth in 2005, according to Bureau of Economic Analysis data. Medicaid recently surpassed education as the biggest item in state budgets.

The Medicaid spending burst may signal the end of a two-year period when costs seemed to be coming under control. Costs grew 5.1% in 2005 and declined 1.7% in 2006.

Spending fell last year because a variety of cost controls – such as moving patients from nursing homes to lower-cost home health care – produced unexpectedly large savings. Also, Medicaid shifted some costs into the new Medicare prescription-drug benefit program. Medicare, the federal program for the elderly, will cost about \$440 billion this year.

Medicaid and the related Children's Health Insurance Program are state-run health insurance plans for the poor. States pay 43% of the cost. The federal government pays the rest and sets broad rules. Medicaid pays nursing home costs for seniors who have exhausted their savings.

It's not clear why Medicaid costs have started to rise again. Possible causes:

- Efforts to cover the uninsured.** States have won federal approval to expand coverage to groups that don't normally qualify for Medicaid, Campbell says. These high-profile efforts to reduce the uninsured population rely heavily on the federal government paying costs through the Medicaid and children's health programs. The Bush administration

had encouraged these efforts until recently but now is expressing concerns about costs. President Bush last week vetoed expanding the child health program, saying it has gone too far beyond its mission of insuring low-income children.

- Enrollment growth.** Medicaid temporarily bumped tens of thousands of qualified people from the program last year because Congress imposed tougher proof-of-citizenship requirements. Now, the application backlog is being cleared and retroactive payments made for medical costs incurred in 2006.

- Paying doctors and hospitals more.** Boosted by strong tax collections, many states have increased what they pay for Medicaid services. In most states, Medicaid pays less than private insurance or Medicare.