

F L O R I D A H O S P I T A L

Health
Issues Brief

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Federal Spending Cuts May Aggravate Uninsured Issue

Federal and state governments spent \$300 billion on Medicaid and \$330 billion on Medicare in 2005. Because of the ever-rising costs, federal and state governments are cutting back on the rate of spending increases for both programs.

At the same time, the number of uninsured increased by 4.6 million last year alone -- to 45 million people. As we noted in the last *Health Issues Brief*, Florida already has the fourth-highest uninsured rate in the nation, at 21%. Another 16 million Americans are underinsured. They lack adequate coverage for chronic conditions, accidents, serious illnesses and the like.

This *Brief* discusses the impact of scheduled government reductions in health care spending. Among others, the Congressional Budget Office has expressed concern that these reductions will shift more of the burden to the private sector and actually create more uninsured and underinsured Americans.

Medicaid Reductions: \$47 billion by 2010

Medicaid is the state-federal partnership that provides medical coverage to 42.5 million low-income adults and children nationwide, and 2.1 million in Florida. It covers over 40% of all children, and pays for 17% of all hospital care and 50% of all nursing home care. Last year, Medicaid spending in Florida topped \$14 billion, up 112% since 1999. Experts say that if it were to grow unchecked, Medicaid would consume almost 60% of the state's budget in 2015.

At the federal level, the 2006 Deficit Reduction Act will reduce cumulative annual increases in Medicaid spending by \$47 billion by 2010. A 2006 Congressional Budget Office report noted that about a fifth of all Medicaid recipients will face new or higher premiums and co-pays. About half will be people with incomes below the poverty level.

These new patient fees will also impact enrollment, predicted the report. "...Some beneficiaries would not apply for Medicaid, would leave the program, or would become ineligible due to non-

payment," it said. Forty-five thousand Medicaid enrollees are predicted to lose coverage in 2010 and another 65,000 in 2015. Sixty percent will be children.

In Florida, new or higher premiums and co-payments will apply to doctors' visits, prescriptions and hospital care. Medicaid clients will be directed to HMOs, which can set annual coverage caps for beneficiaries. These new caps will limit the annual dollars spent per patient, rather than the number of days in the hospital (the current system). This means that sick or injured clients could run out of coverage during the year. The state has also tightened eligibility, closed 26 enrollment centers, and implemented an on-line enrollment process.

Medicare Reductions: \$6.4 billion by 2010

Medicare covers 42.5 million people nationwide, up from 9% in 1984 to 19% in 2004.¹ When the last of the baby-boomers reach 60 years old in 2024, that number could reach nearly 78 million people.

The 2006 Medicare Trustees Report² noted that Medicare payments have already surpassed tax revenues (Social Security payments won't exceed tax revenues until 2017). The 2006 Federal Deficit Reduction Act recently passed by Congress which will reduce the rate of Medicare spending by \$6.4 billion by 2010. Most reductions will be seen in hospital reimbursement, home health, imaging services, nursing home care, and Medicare managed care payments.

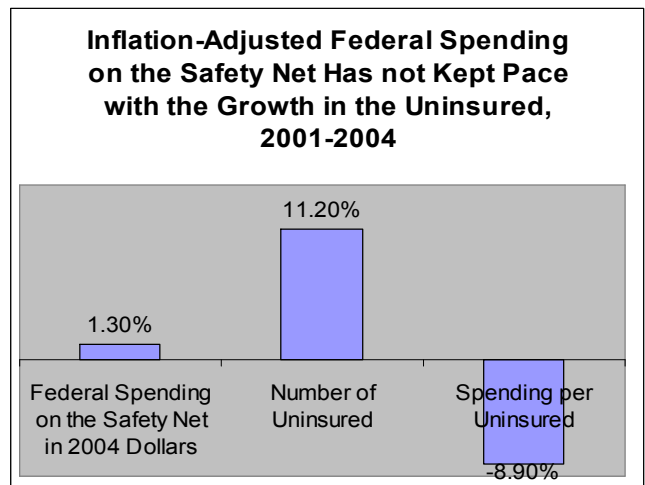
The highest concentrations of Medicare recipients live in California, New York and Florida. Currently, over 40% of Florida Hospital's patients are covered by Medicare. Currently, Medicare pays just 67% of each patient's costs.

Medicare Safety Net Funding Reductions: down \$1.2 billion by 2010

Medicare also provides "Federal Safety Net" funding for the poor. These dollars partially supplement providers like Florida Hospital who provide large amounts of Medicaid and charity care.

Over the past four years, safety net spending per uninsured person has dropped by 8.9%, from \$546 per person to \$498.³ The drop reflects the growing number of uninsured.

The Budget Deficit Reduction Act will further reduce safety-net spending by \$1.2 billion by 2010. More and more costs will be absorbed by the private sector.



¹ Office of Management & Budget

² Centers for Medicare and Medicaid Services, 05-01-06

³ Modern Healthcare, November 28, 2005

High Deductible Health Plans and HSAs

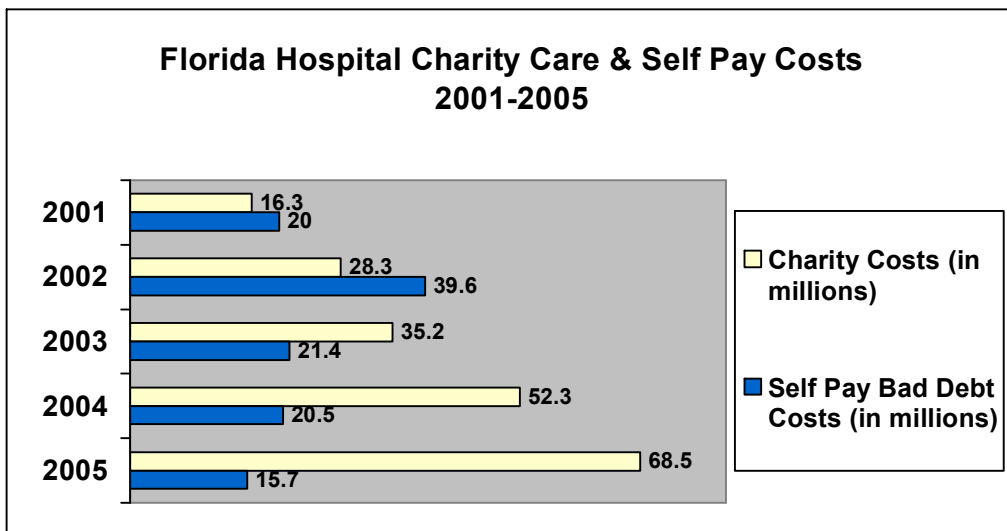
Medicare officials and other policy makers (as well as employers) are considering high-deductible plans to lower premiums. HSAs allow members to set aside pre-tax dollars for future medical expenses. Like IRAs, funds are invested and can be rolled over from year to year. Workers can take the money with them when they change jobs, or enroll independently if their employer does not offer coverage.

The theory is that policy-holders will have coverage for catastrophic medical costs, and will use the savings account for non-covered items. Proponents suggest that these plans provide incentives for using health services you really need and for shopping carefully for care.

Opponents question whether HSAs will be successful for the uninsured and low-income workers. Some suggest that HSAs could create a new category of uninsured: those who cannot or do not maintain their savings accounts. They say that delays in care leading to more expensive care later could trigger large medical debts and personal bankruptcies.

The Impact Today

Florida Hospital's charity care and bad debt rose 307% between 1999 and 2004. Charity care alone jumped to \$68 million in 2005. Hospitals and other providers are deeply concerned that more uninsured combined with government reductions will aggravate an already severe burden.



"As a not-for-profit hospital, it is our mission to provide care to all those who come to us," said Lars Houmann, CEO of Florida Hospital. "But, the decreased payments from Medicare and Medicaid combined with the rising tide of uninsured may make this practically impossible."