



CALIFORNIA  
HEALTHCARE  
FOUNDATION

# Medi-Cal

## BUDGET AND COST DRIVERS

January 2006

# Introduction

Medi-Cal (Medicaid) is the main source of health care coverage for six-and-a-half million people, or one in six Californians. It draws nearly \$19 billion in federal funds into the state's health care system and accounts for more than 14 percent of General Fund spending in FY2005–06. Medi-Cal is a complex program that pays providers for essential acute and long-term care services delivered to a wide range of beneficiaries. Although many people associate Medi-Cal with welfare, more than half of funds pay for medical and long-term care for the elderly and adults with disabilities. Medi-Cal also provides essential support to California's safety net providers. This document provides important information about the Medi-Cal budget and spending trends and highlights key factors that are influencing these trends.

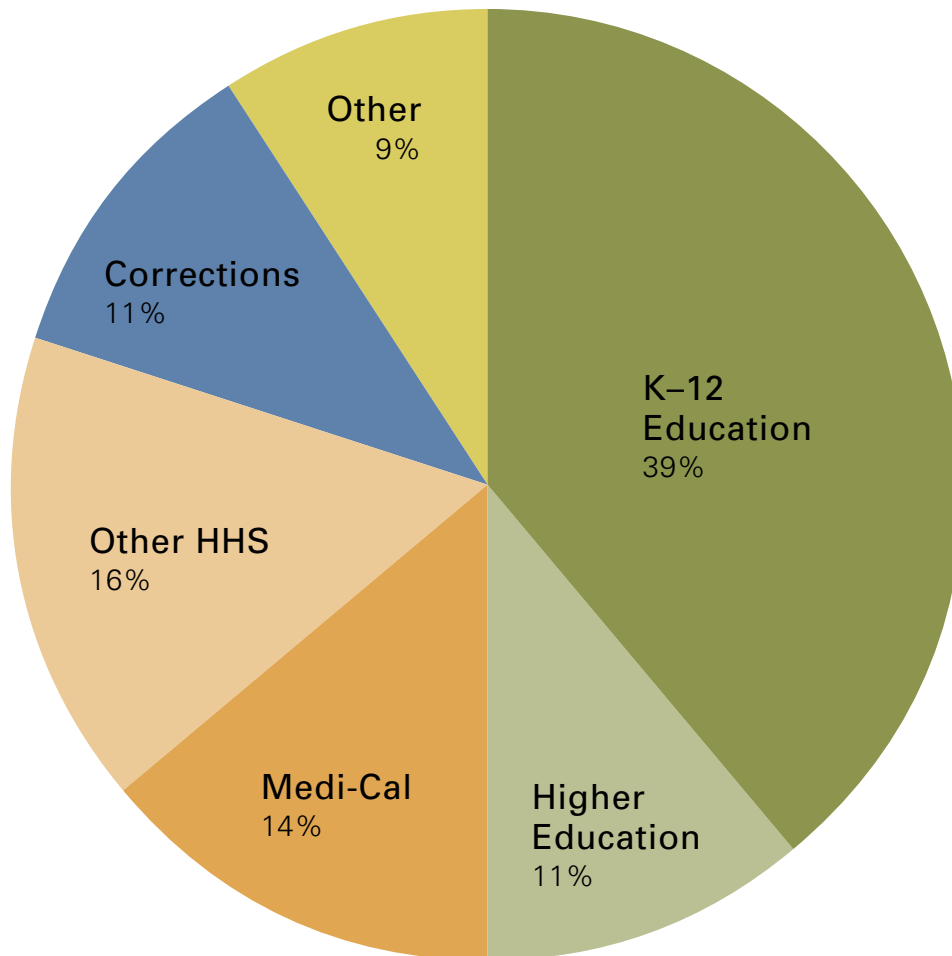
## Medi-Cal Introduction

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Medi-Cal is the main source of health care coverage for 6.5 million people—more than one in six Californians.

# State Budget Distribution

**Projected General Fund Spending: \$90 billion**



Notes: HHS is Health and Human Services.

Source: Legislative Analyst's Office, *California Spending Plan 2005–06: The Budget Act and Related Legislation*, September 2005.

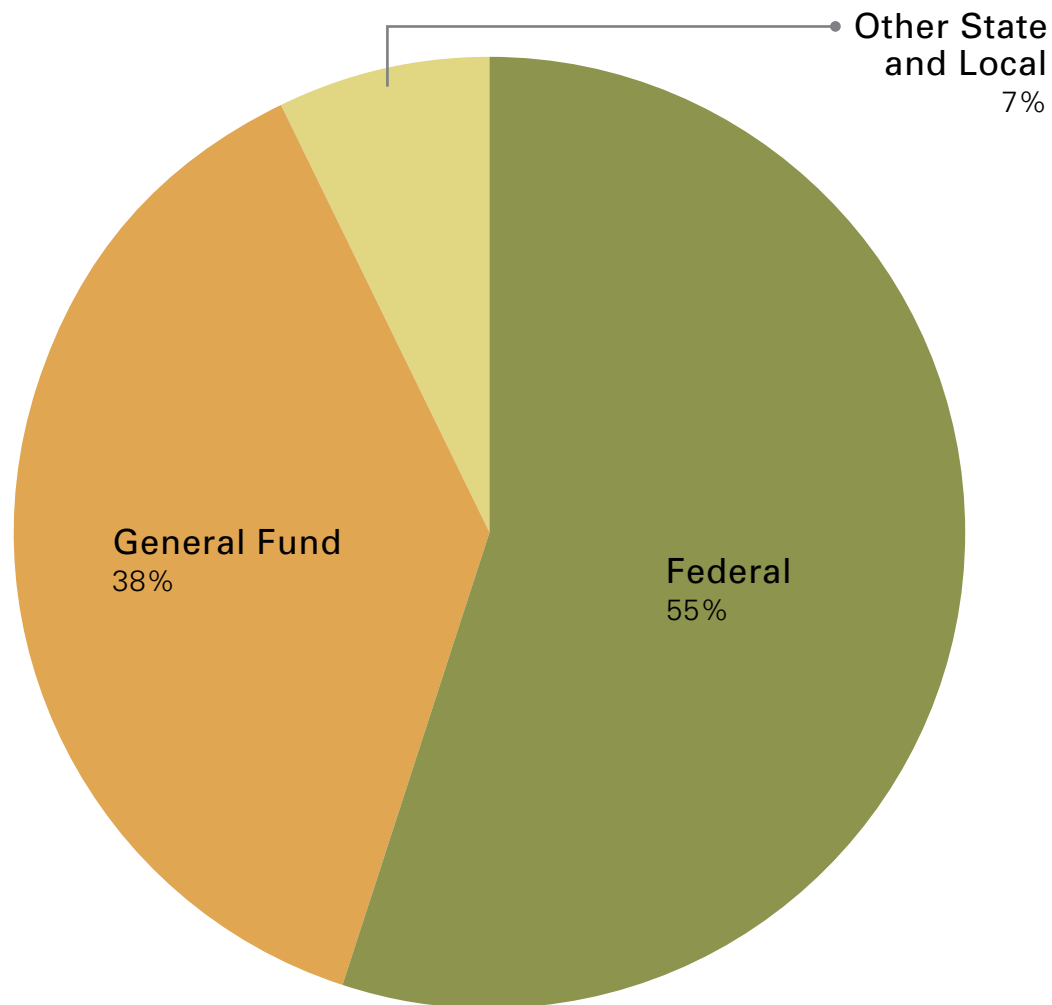
## Medi-Cal

### Budget and Characteristics

Medi-Cal accounts for the third-largest share of the state's General Fund behind K-14 Education and all other HHS programs combined.

# Funding Sources

**Medi-Cal Budget:** \$34.4 billion



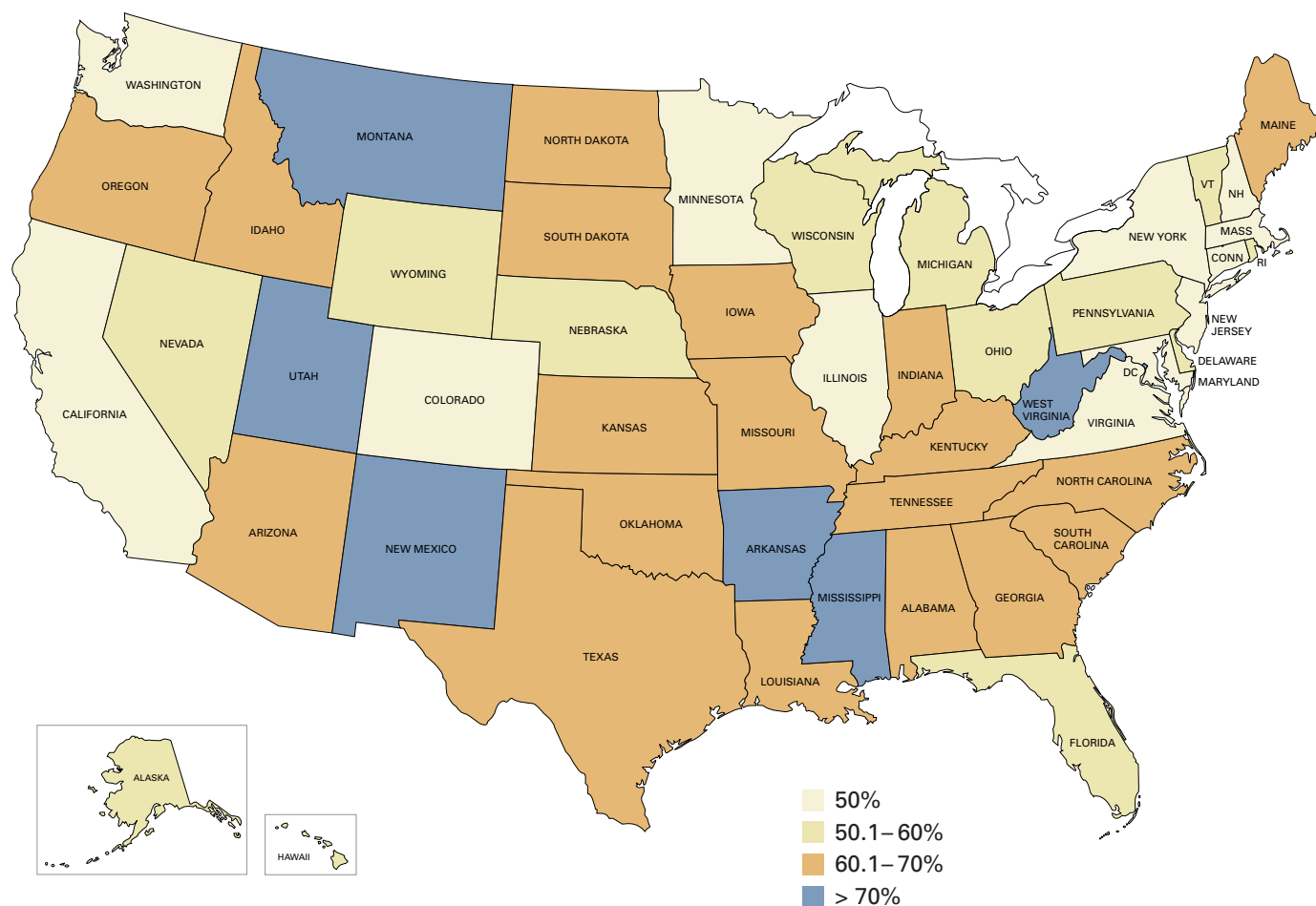
## Medi-Cal Budget and Characteristics

California generally receives one dollar in federal matching funds for every dollar the state spends. Medi-Cal is expected to draw \$19 billion in federal funding in 2005–06.

Source: Legislative Analyst's Office, *Analysis of the 2005–06 Budget Bill*, February 2005; Governor's Budget FY2005–06.

# Federal Matching Rates

## Medical Assistance Percentage



Source: Kaiser Family Foundation ([www.statehealthfactsonline.org](http://www.statehealthfactsonline.org)), 2006 data.

### Medi-Cal

#### Budget and Characteristics

For every dollar California spends on Medi-Cal, the federal government contributes 50 cents.

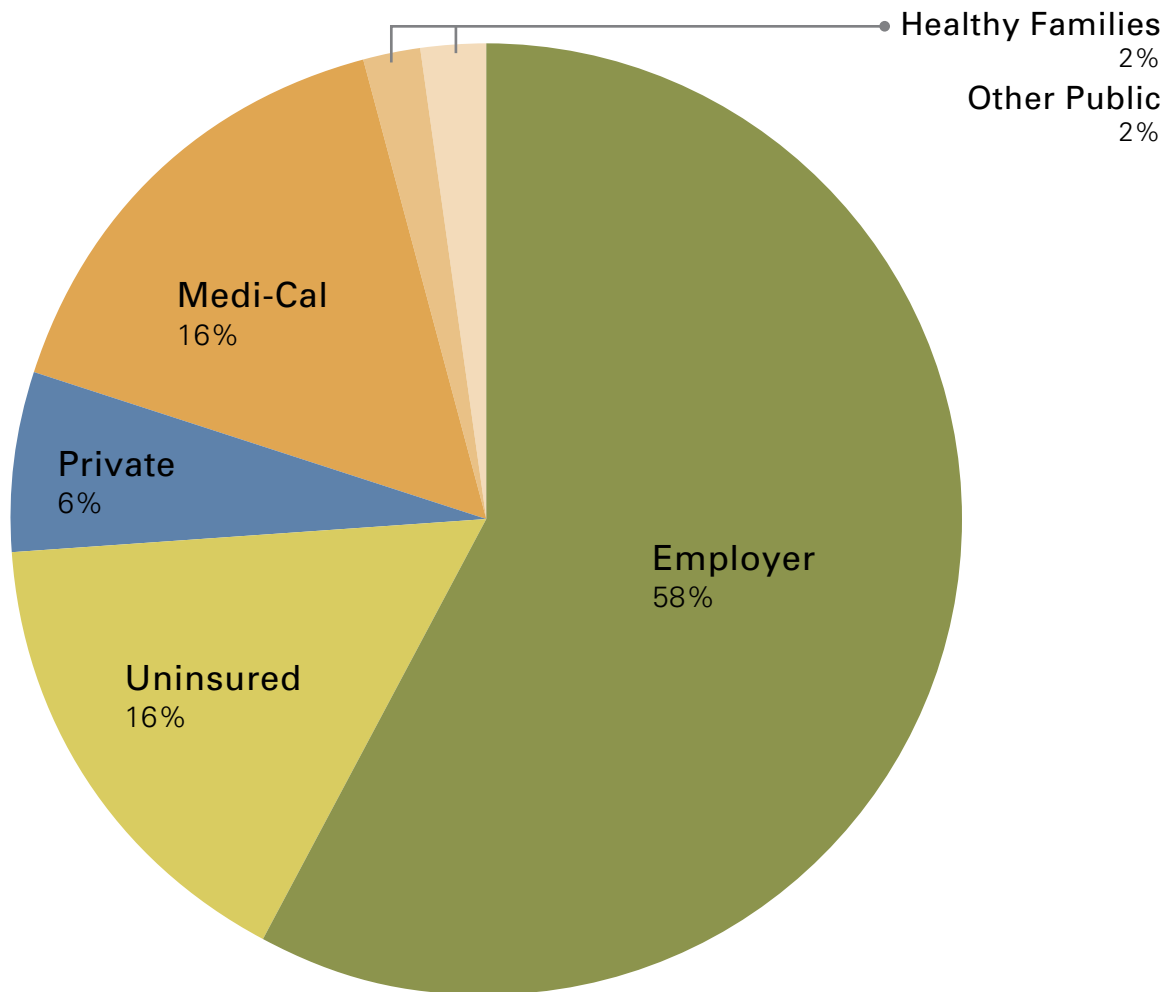
The federal matching rate takes into account a state's resources to fund Medicaid (per capita income), but not a state's need (percent of population below poverty).

According to the GAO,\* this formula is unfavorable to states like California that have a high percentage of population below the poverty level relative to the national average.

\*GAO is the U.S. Government Accountability Office.

# Non-Elderly Coverage

California Population Age 65 and Under: 31.3 million

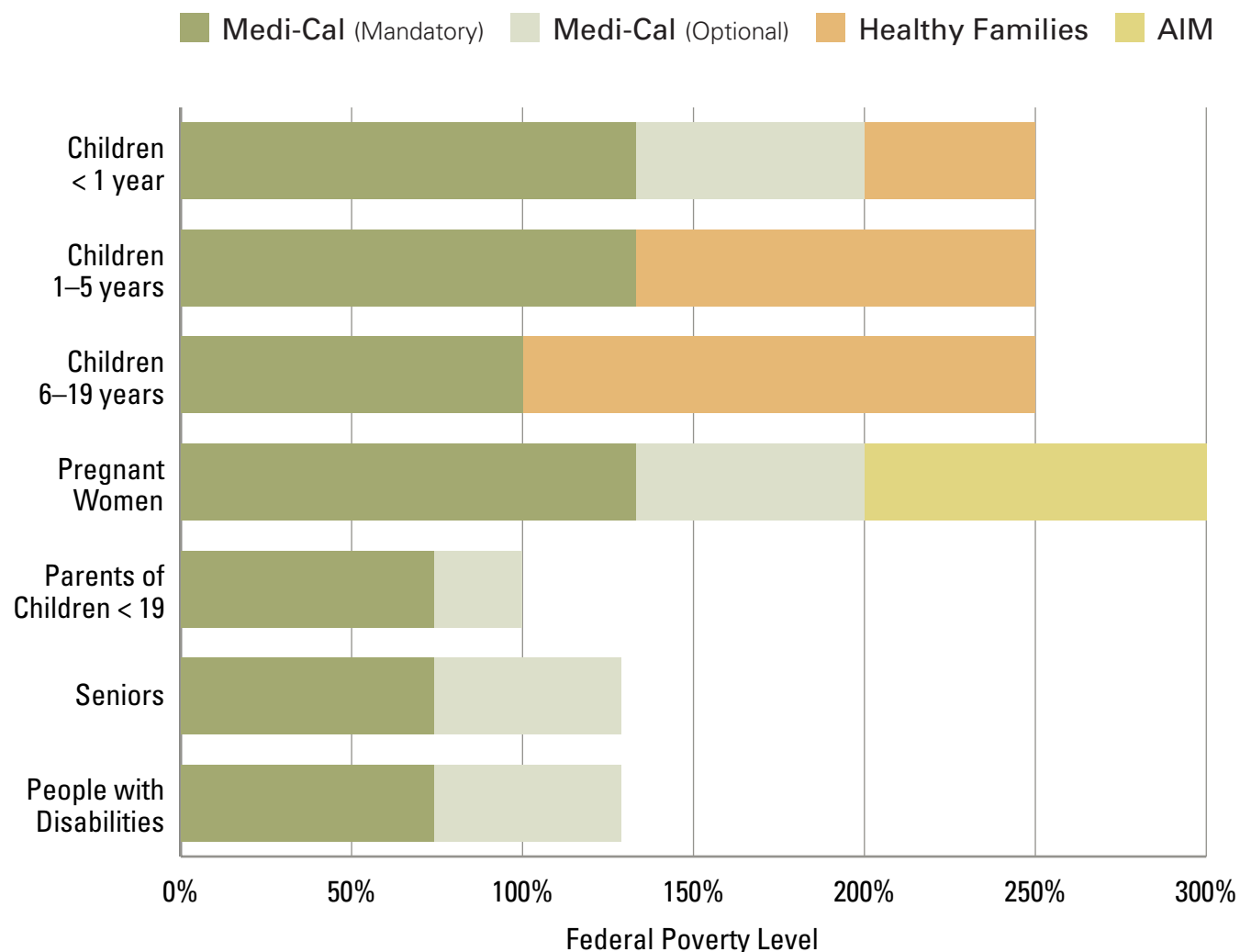


Source: California Health Interview Survey (2003 data).

## Medi-Cal Budget and Characteristics

One in six individuals  
under age 65 is covered  
by Medi-Cal.

# Income Limits



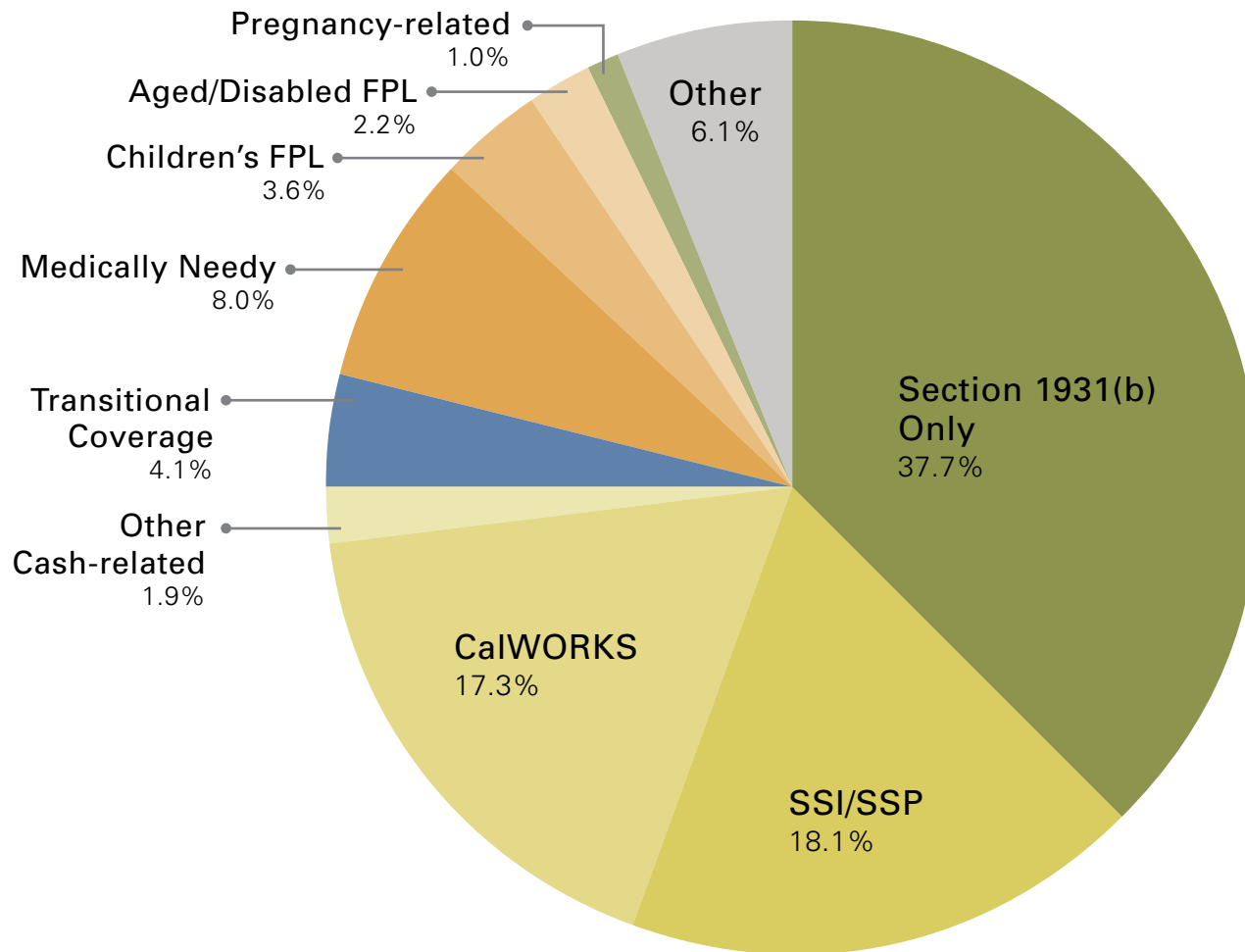
Notes: AIM is Access for Infants and Mothers. Reflects Full-scope Medi-Cal only. Excludes Medically Needy and the 250 Percent Working Disabled Program. Federal poverty level (FPL) for a family of three is \$16,090 through March 2006. Individuals must also meet other eligibility requirements (e.g., assets, deprivation, residency, immigration status); California is required to cover pregnant women and children up to 185 percent FPL. Medi-Cal provides coverage to seniors and people with disabilities with monthly incomes up to 100 percent FPL plus \$230 (for an individual).

## Medi-Cal Budget and Characteristics

Medi-Cal income limits  
vary by population.

# Enrollment by Program

**Total Enrollment:** 6.5 million



Note: Cash-related programs include people who receive cash assistance through programs such as CalWORKS, SSI/SSP, Foster Care, Adoption Assistance, In-Home Supportive Services, or Entrant and Refugee Cash Assistance. Section 1931(b) Only includes parents and children with incomes below the AFDC threshold in July 1996.

Source: Medstat analysis of Medi-Cal MIS/DSS data updated through August 2005 (May 2005 data).

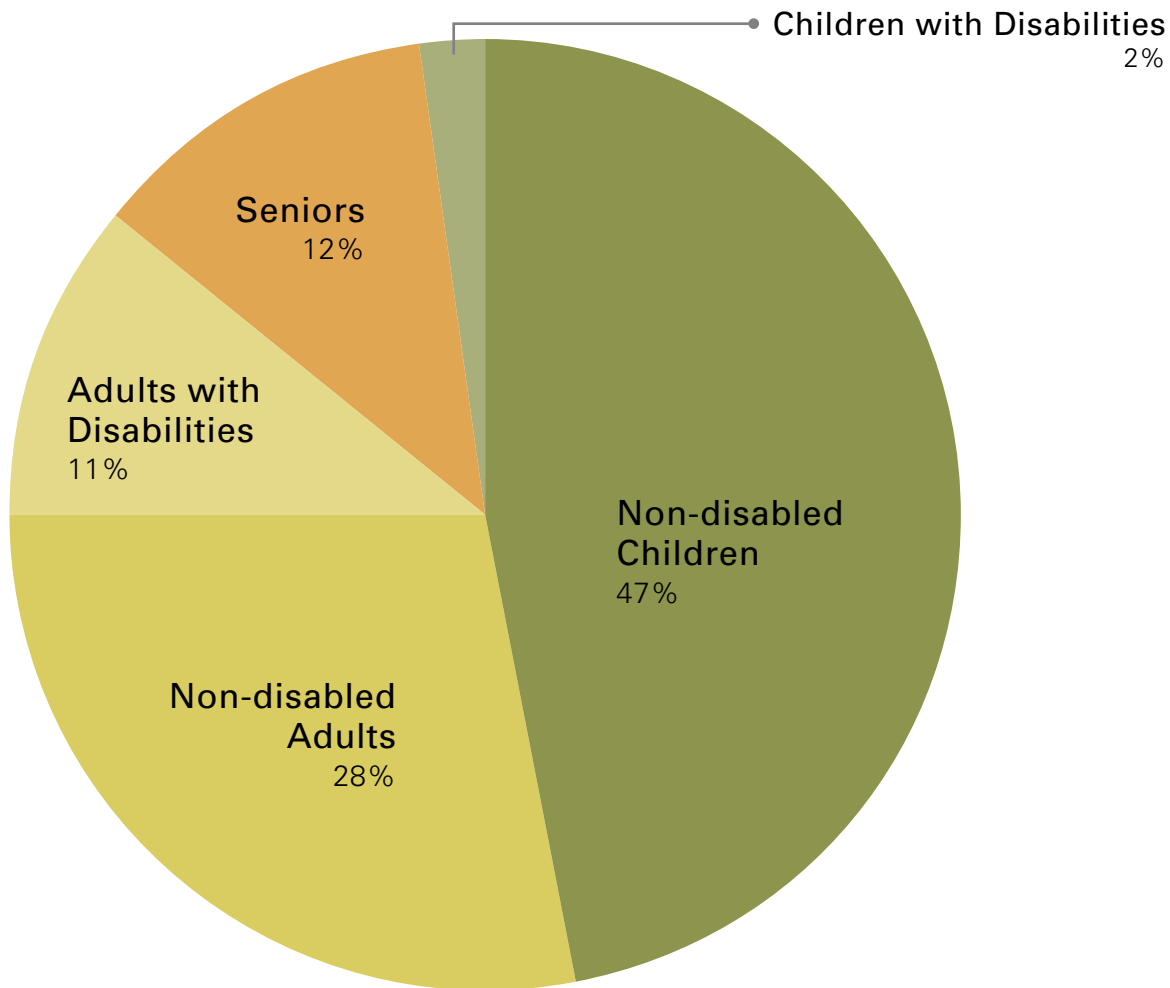
## Medi-Cal Budget and Characteristics

Cash-related programs and Section 1931(b) account for 75 percent of Medi-Cal beneficiaries.



# Enrollment by Major Population

**Total Enrollment:** 6.5 million



## Medi-Cal Budget and Characteristics

Children account for nearly one-half of Medi-Cal beneficiaries.

Seniors and adults with disabilities constitute 23 percent.

Source: Medstat analysis of Medi-Cal MIS/DSS updated through August, 2005 (May 2005 data).

# Medi-Cal Benefits

## Required Services\*

- In/outpatient hospital
- Physician visits
- Lab tests and x-rays
- Early and Periodic Screening, Diagnosis and Treatment (EPSDT) for children under 21
- Family planning and supplies
- Clinic in Federally Qualified Health Centers (FQHC)
- Certified midwife
- Certified nurse practitioner
- Nursing home care for adults over 21

## Optional Services\*

- Prescription drugs
- Vision services and eyeglasses
- Dental care and dentures
- Medical equipment and supplies
- Targeted case management
- Adult day health
- Personal care services
- Physical therapy
- Intermediate Care Facilities for Mentally Retarded (ICF-MR)
- Inpatient psychiatric for children under 21
- Rehabilitation for mental health and substance abuse
- Home health care
- Hospice
- Occupational therapy
- Chiropractic

\*Partial lists.

Source: Department of Health Services, 2003.

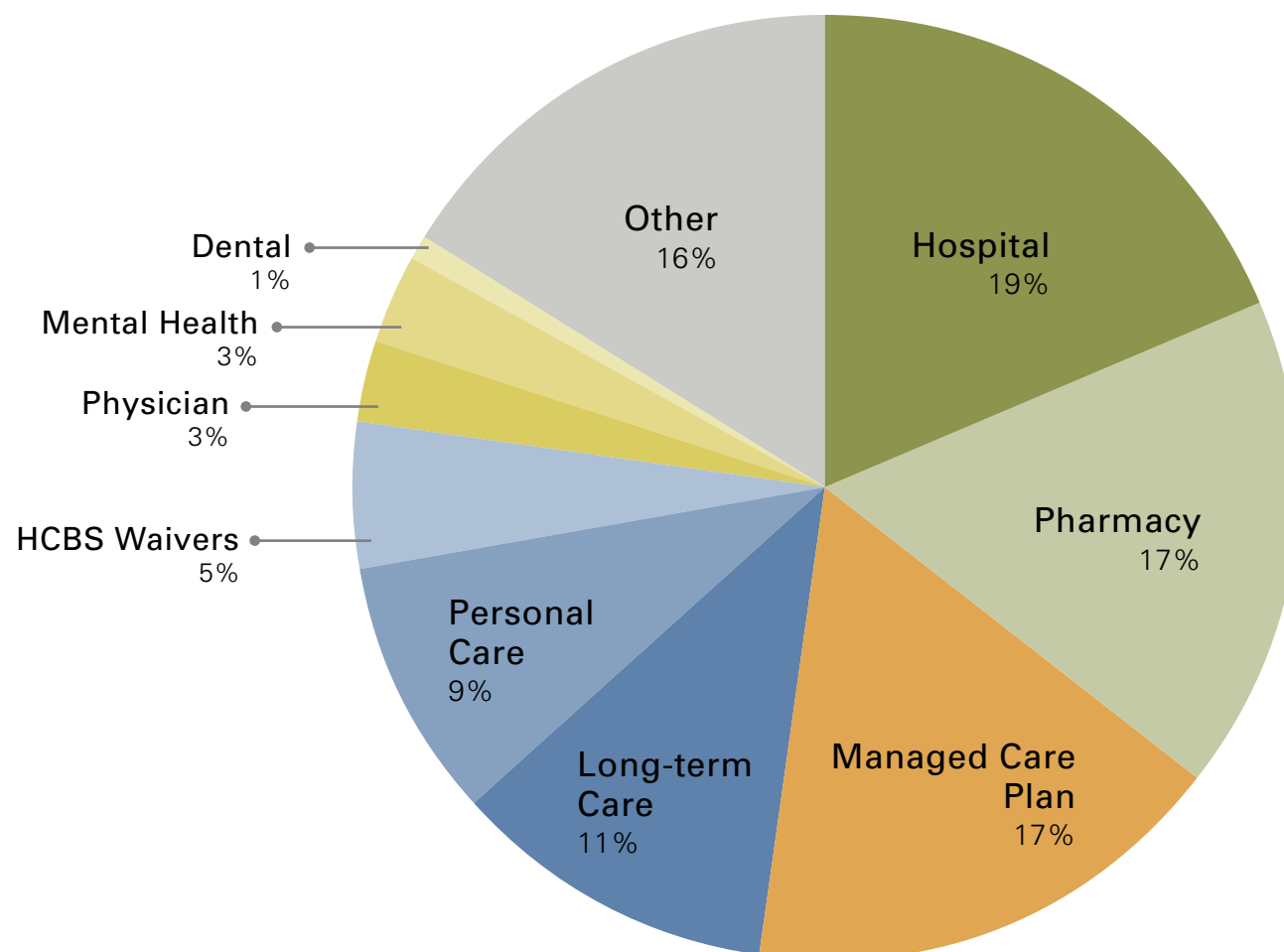
## Medi-Cal

### Budget and Characteristics

All states are federally required to provide certain benefits. California offers a number of additional benefits. Partial lists of both are shown here.

# Distribution of Expenditures

**Medi-Cal Service Expenditures: \$28 billion**



Note: Hospitals includes inpatient and outpatient services. HCBS is Home and Community-Based Services.

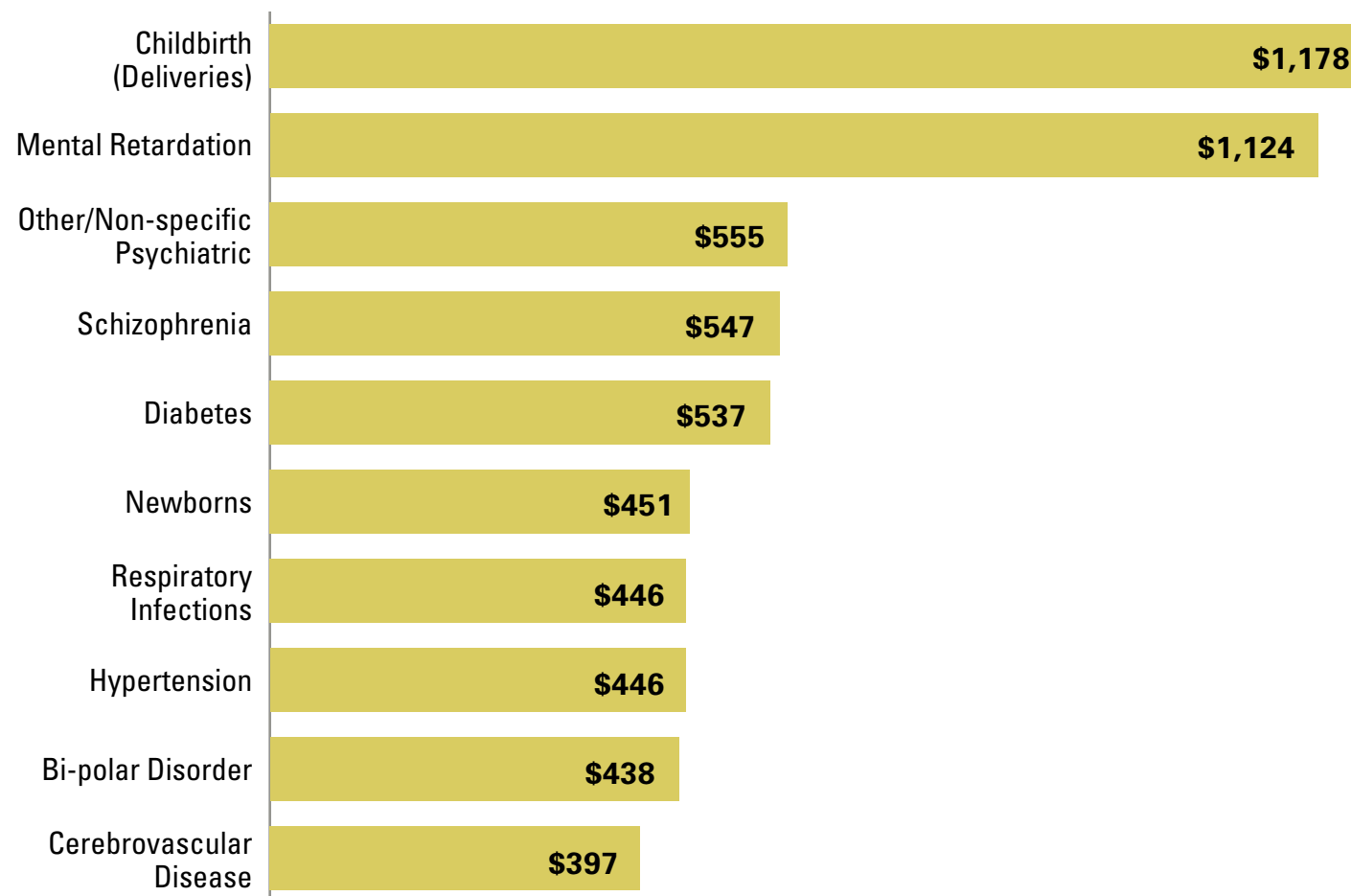
Source: Medstat analysis of Medi-Cal MIS/DSS data updated through August 2005. Expenditures include only claims and capitation payments for Medi-Cal beneficiaries (e.g., exclude administrative expenses and DSH payments).

## Medi-Cal Budget and Characteristics

Payments to hospitals, pharmacies, and managed care plans account for the largest share of Medi-Cal expenditures.

# Most Expensive Conditions

## Fee-for-Service Payments (millions)



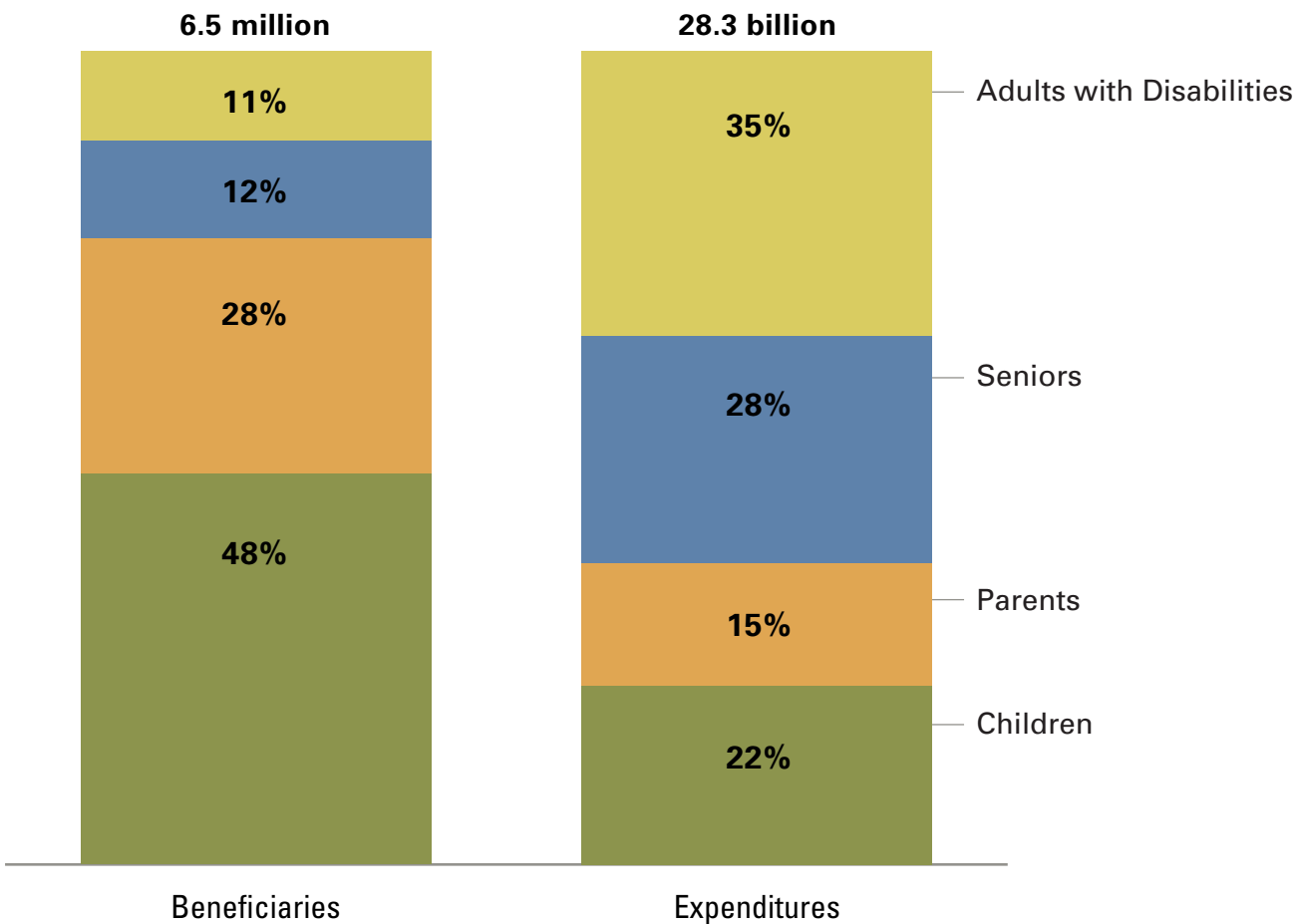
Notes: Reflects ten most costly episode of care categories among over 200 total categories. Based on fee-for-service payments for episodes of care initiated in 2004; episodes and payments may continue beyond 2004. Deliveries includes vaginal deliveries and C-sections; Other/Non-specific Psychiatric does not include depression or anxiety disorders. Payments for all episodes of care totaled \$13.3 billion.

Source: Medstat analysis of Medi-Cal MIS/DSS data updated through September 2005

## Medi-Cal Budget and Characteristics

Among fee-for-service payments, Medi-Cal spends more on childbirth and mental retardation than on any other condition.

# Beneficiaries and Cost

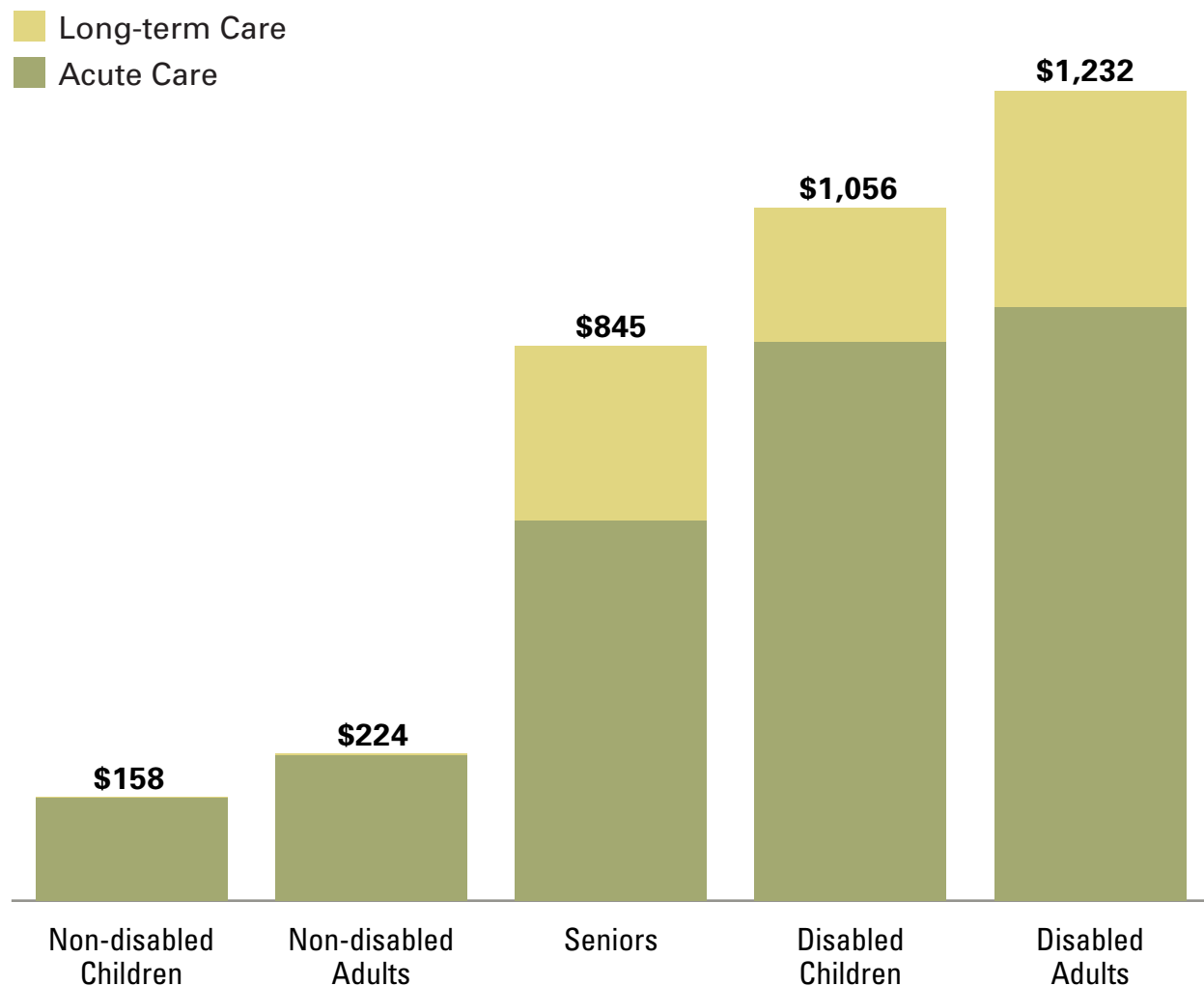


## Medi-Cal Budget and Characteristics

Seniors and adults with disabilities account for one-fourth of enrollees, but nearly two-thirds of Medi-Cal expenditures.

Source: Medstat analysis of Medi-Cal MIS/DSS data updated through August 2005; these expenditures include only claims and capitation payments for Medi-Cal patients (e.g., exclude administrative expenses and DSH payments).

# Monthly Cost per Beneficiary



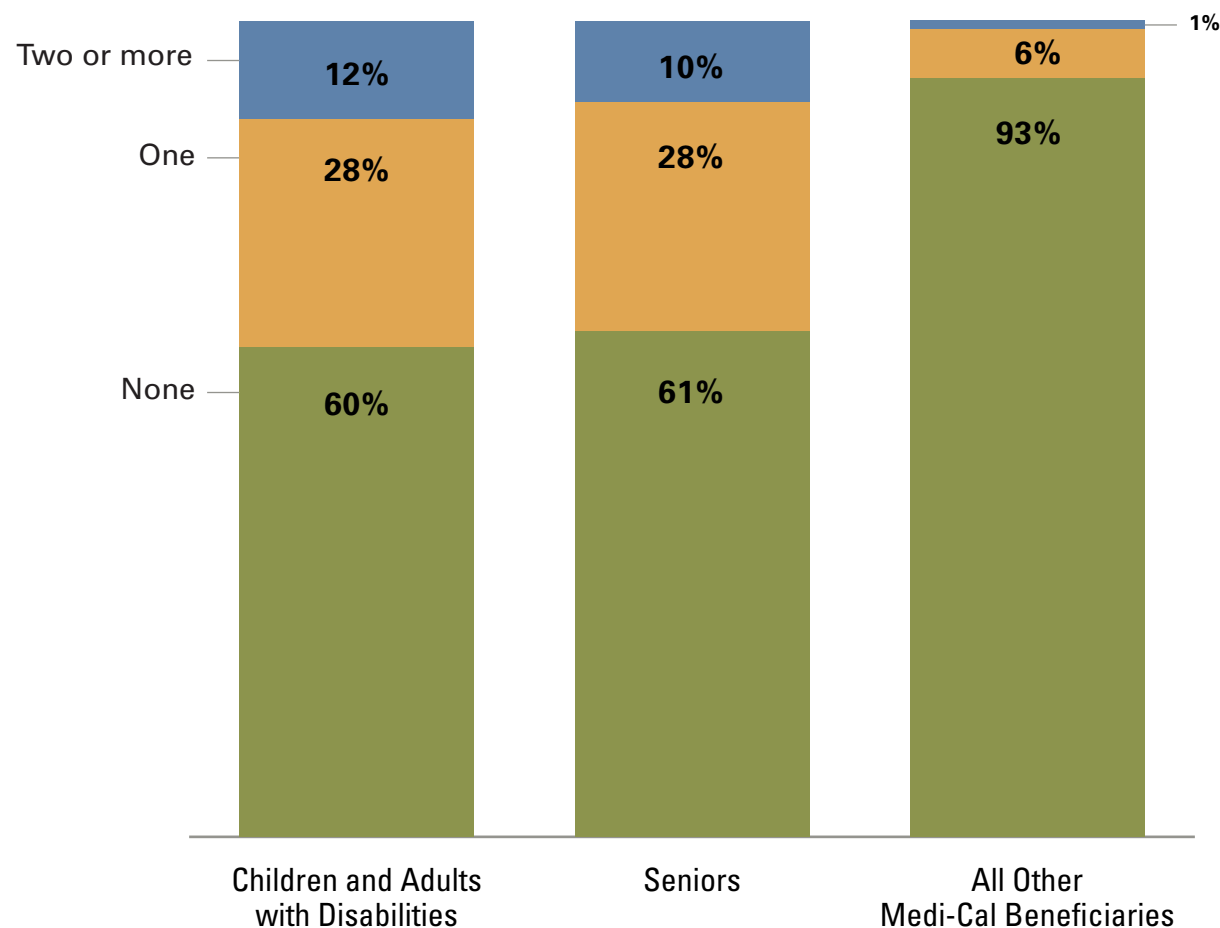
Source: Medstat analysis of Medi-Cal MIS/DSS data updated through October 2005. Fee-for-service payments and eligibles only. Long-term care (LTC) includes nursing facilities, home and community-based waiver service and intermediate care facilities.

## Medi-Cal Budget and Characteristics

Children and adults with disabilities are five to seven times more expensive than those without disabilities.

# Prevalence of Chronic Conditions

## Number of Chronic Conditions



Notes: Includes fee-for-service patients only. Among episodes of care initiated in 2004.

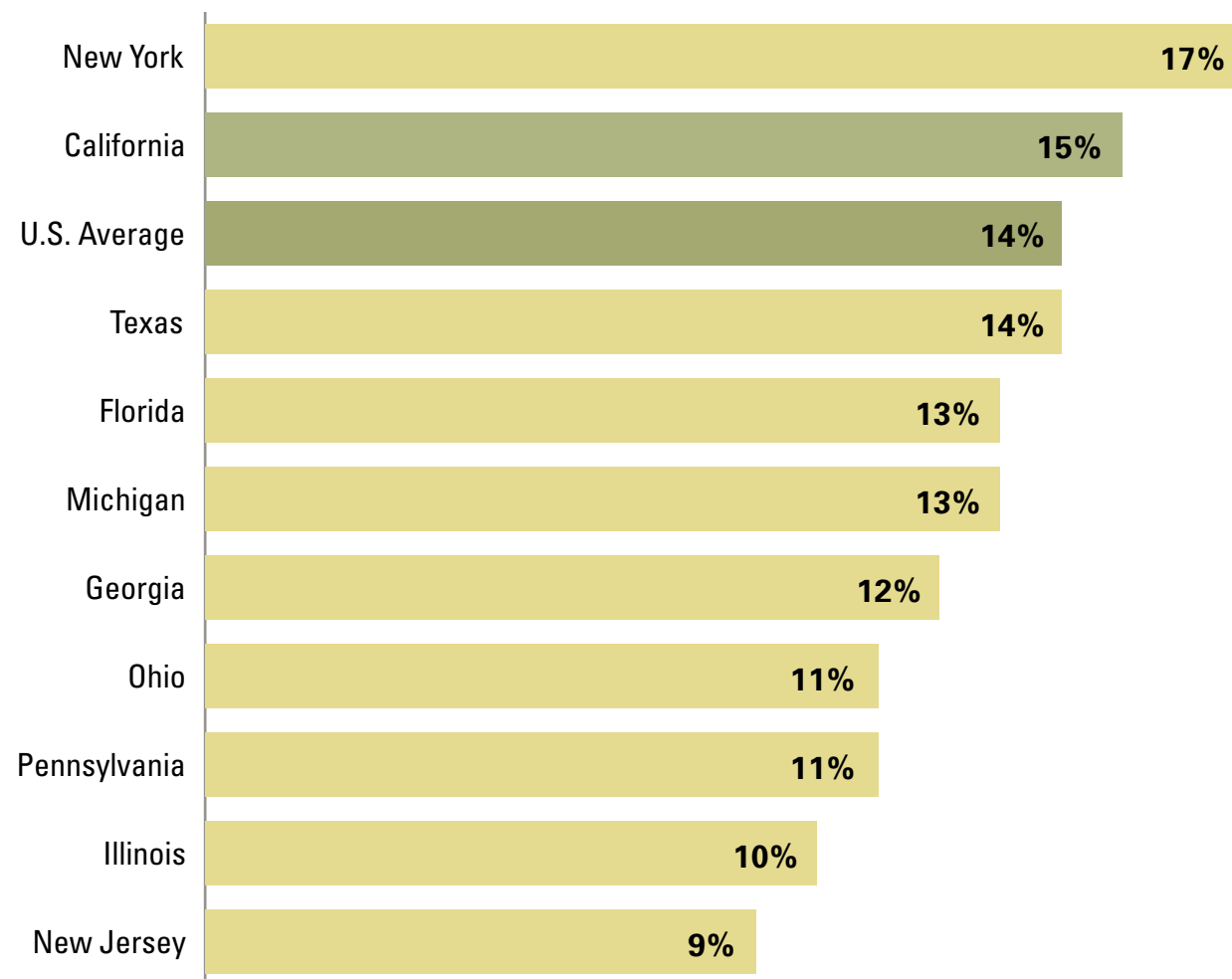
Source: Medstat analysis of Medi-Cal MIS/DSS, CY2004.

## Medi-Cal Budget and Characteristics

Seniors and people with disabilities are nearly six times more likely than other Medi-Cal beneficiaries to have a chronic condition, and ten times more likely to have multiple chronic conditions.

# Enrollment

## Non-elderly Population Covered by Medicaid



Note: The ten most populous states are represented along with the national average.

Source: Kaiser Family Foundation ([www.statehealthfactsonline.org](http://www.statehealthfactsonline.org)), 2003 data.

## Medi-Cal State Comparison

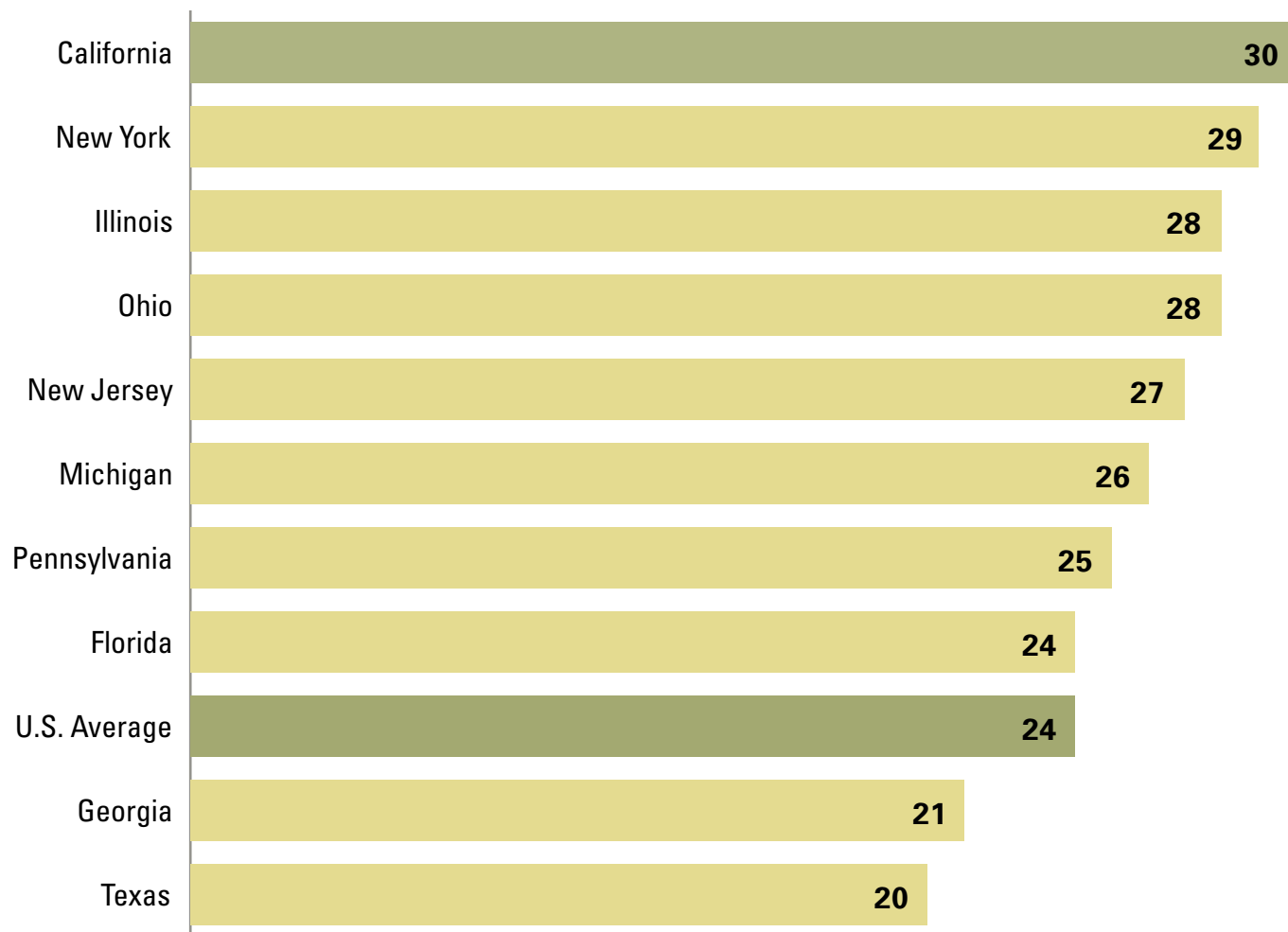
California covers a slightly higher proportion of the non-elderly population than the national average.

California also has a slightly higher proportion of its non-elderly residents with incomes below the FPL than the national average\* (not shown).

\*For example, percent of non-elderly adults with incomes below the poverty level is 16 percent for California and 17 percent for the U.S.



# Optional Benefits Covered (of 31 total)



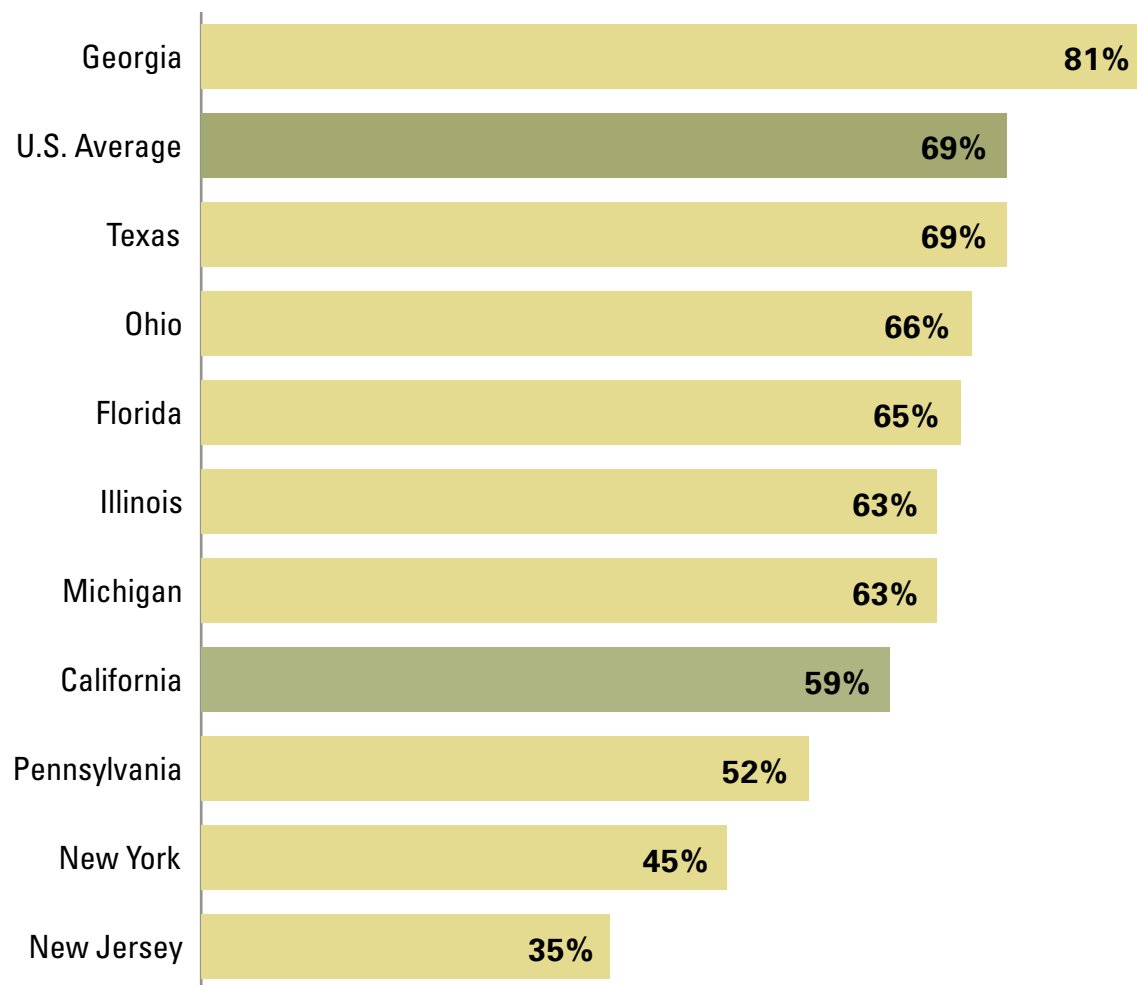
Notes: The ten most populous states are represented along with the national average. Of the 31 optional benefits examined, Medi-Cal does not cover direct billing for Private Duty Nursing.

Source: Kaiser Commission on Medicaid and the Uninsured Medicaid: An Overview of Spending on “Mandatory” vs. “Optional”, Populations and Services June 2005 and Kaiser Commission on Medicaid and the Uninsured Medicaid: Medicaid Benefits Online Database.

## Medi-Cal State Comparison

California covers more optional benefits than any large state. Among those services least likely to be covered by other states are: chiropractic, dental, dentures, hearing aids, occupational therapy, and physical therapy.

# Physician Payment Rates as Share of Medicare Rates



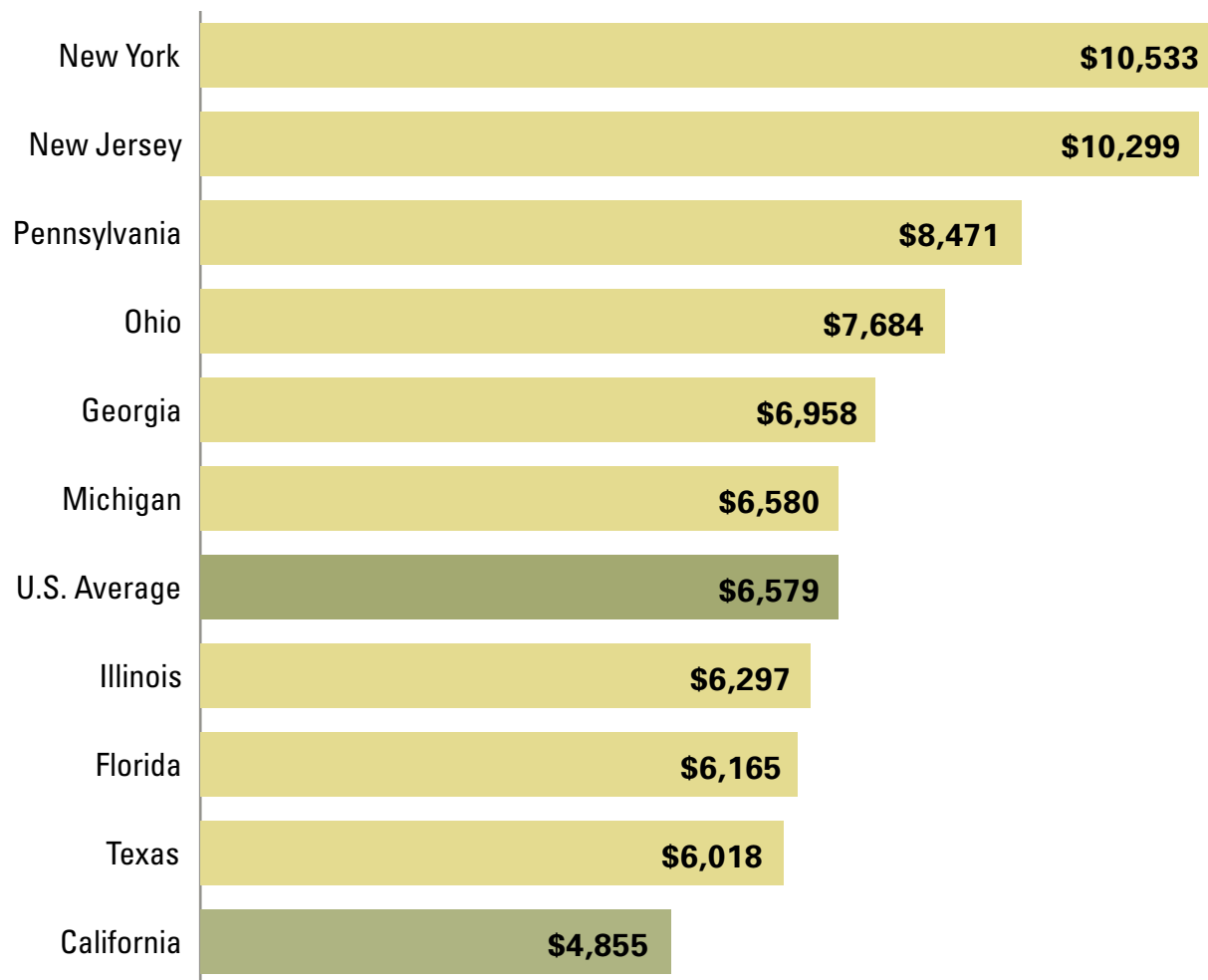
Notes: The ten most populous states are represented along with the national average. Medicaid physician reimbursement in each state reflects the unique characteristics of that state's delivery systems and may not be directly comparable to other states. In New York, for example, most physician payments flow through clinics and outpatient hospitals using higher, bundled per visit rates.

Source: Urban Institute/Health System Change 2003 Medicaid Physician Fee Survey.

## Medi-Cal State Comparison

Medi-Cal pays physicians 59 percent of Medicare rates. This is less than most other large states, and 10 percentage points below the national Medicaid average.

# Spending per Beneficiary

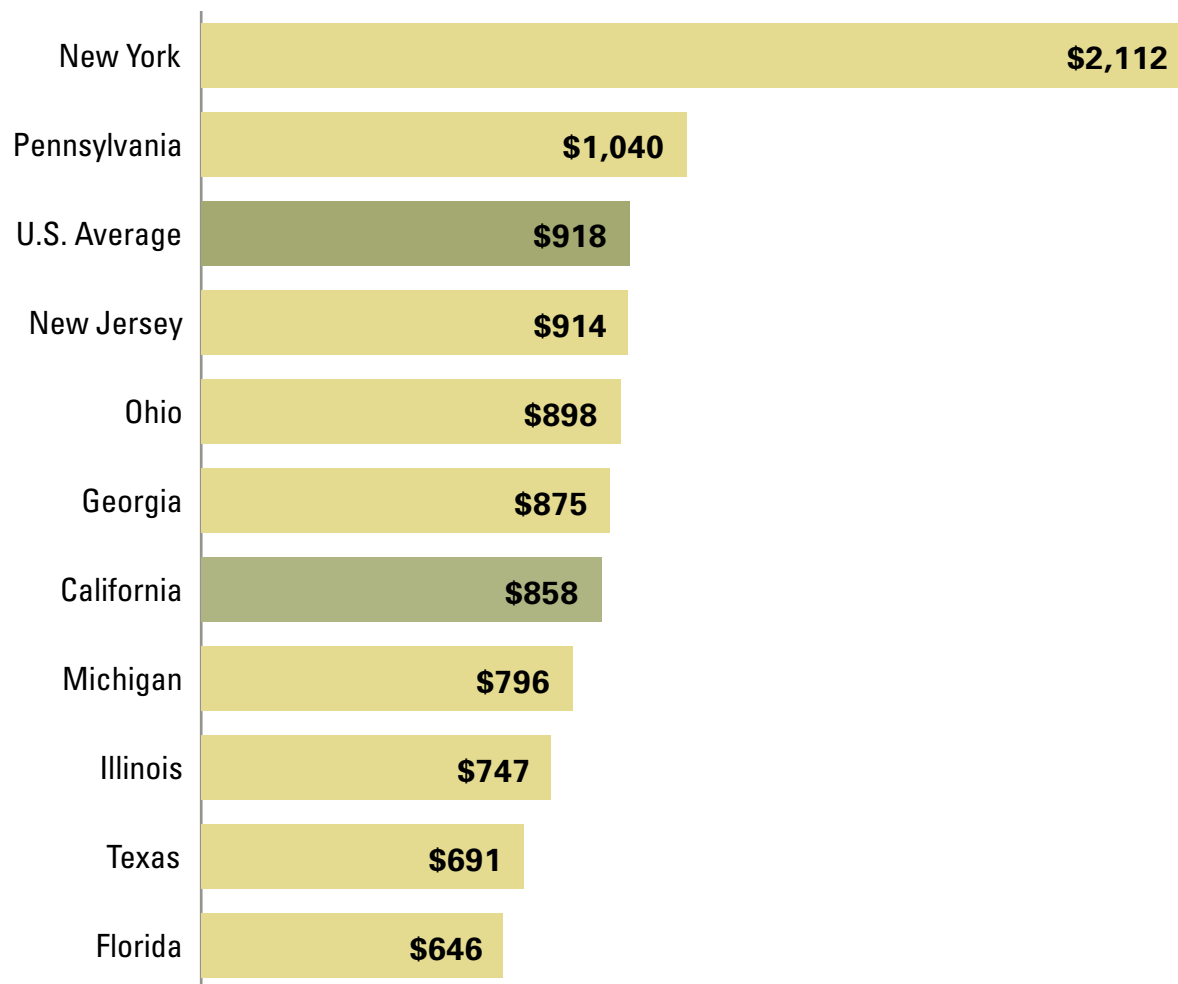


Note: The ten most populous states are represented along with the national average.  
Source: Kaiser State Health Facts. (Federal FY2004 expenditures; June 2004 enrollment).

## Medi-Cal State Comparison

California spends nearly 30 percent less per beneficiary than the national average and the least per beneficiary among the ten largest states.

# Spending per Resident



Note: The ten most populous states are represented along with the national average.

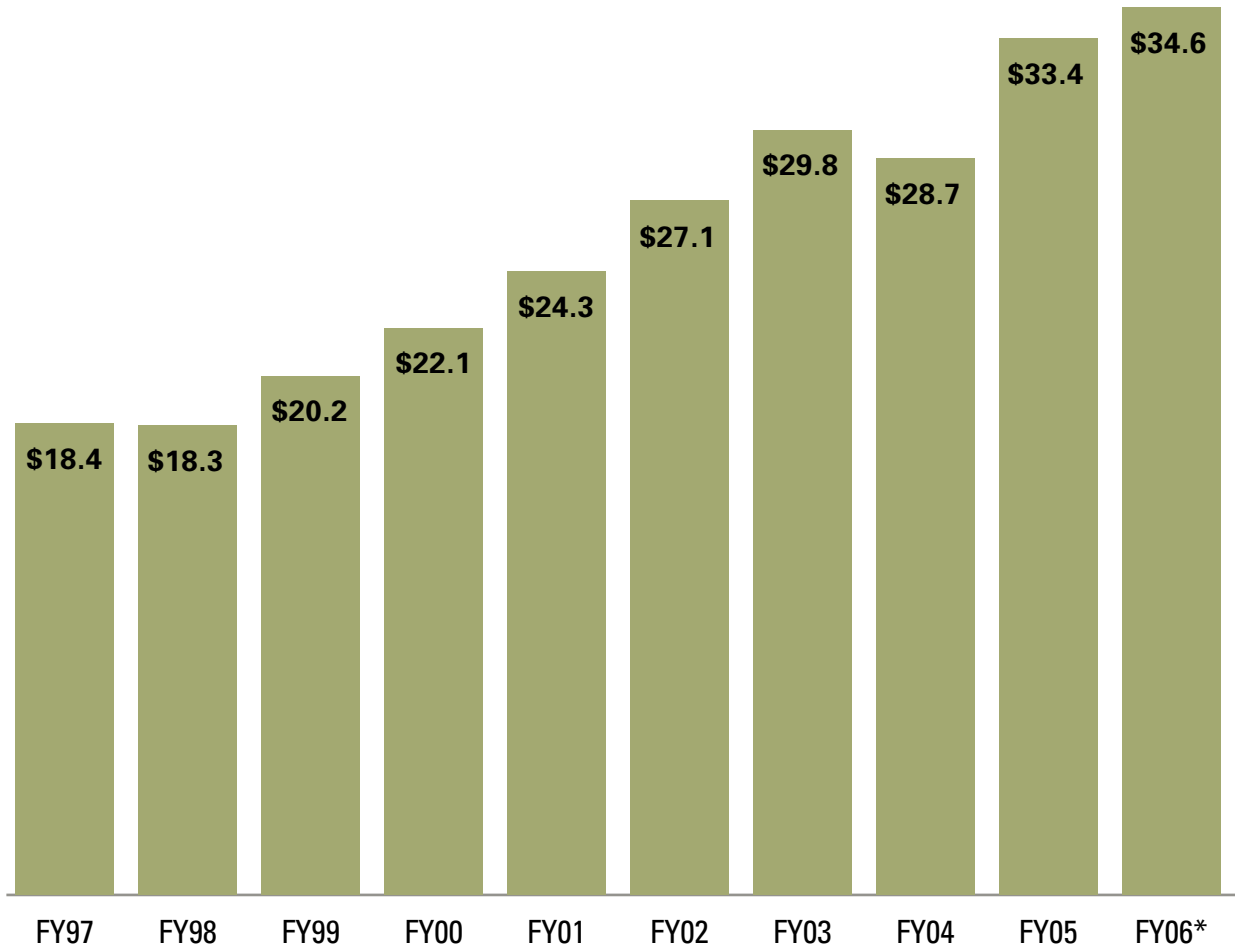
Source: Kaiser, State Health Facts (Total Medicaid Spending, Federal FY2003) and U.S. Census Bureau, Table NST-EST2004-01 (State Population Estimates, July 1, 2003).

## Medi-Cal State Comparison

California spends 7 percent less per state resident on Medicaid than the national average.

# Medi-Cal Spending Trends

(billions)



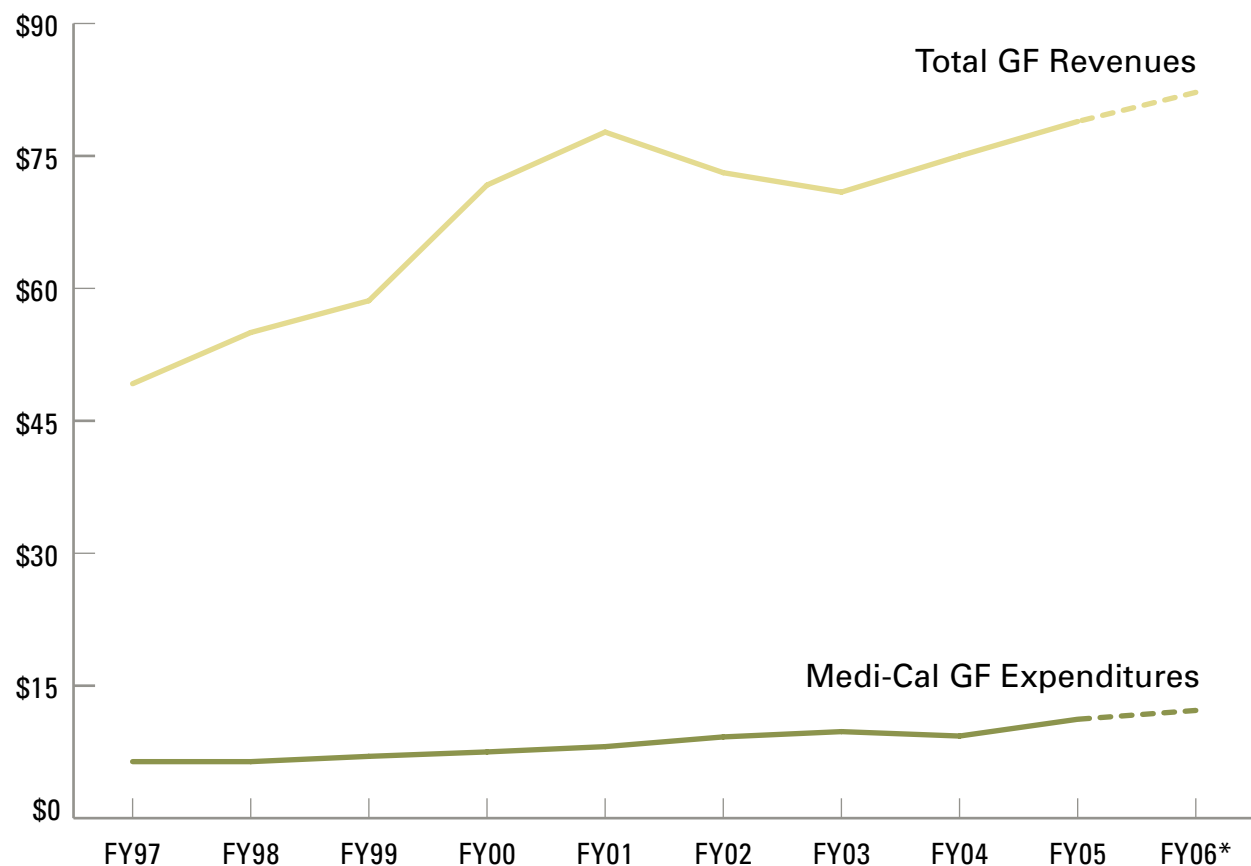
\*Estimate.  
Source: Department of Health Services, Medical Care Statistics Section, May Medi-Cal Estimates, 1997 through 2005. Spending dip in FY04 is due to change from accrual to cash accounting.

## Medi-Cal Trends and Cost Drivers

Over the past 10 years, Medi-Cal expenditures grew at an average annual rate of 7 percent.

# General Fund Trends

(billions)



\*Estimate.

Note: Medi-Cal spending dipped in FY04 due to change from accrual to cash accounting.

Source: Legislative Analyst's Office, *California's Fiscal Outlook* (through FY05).

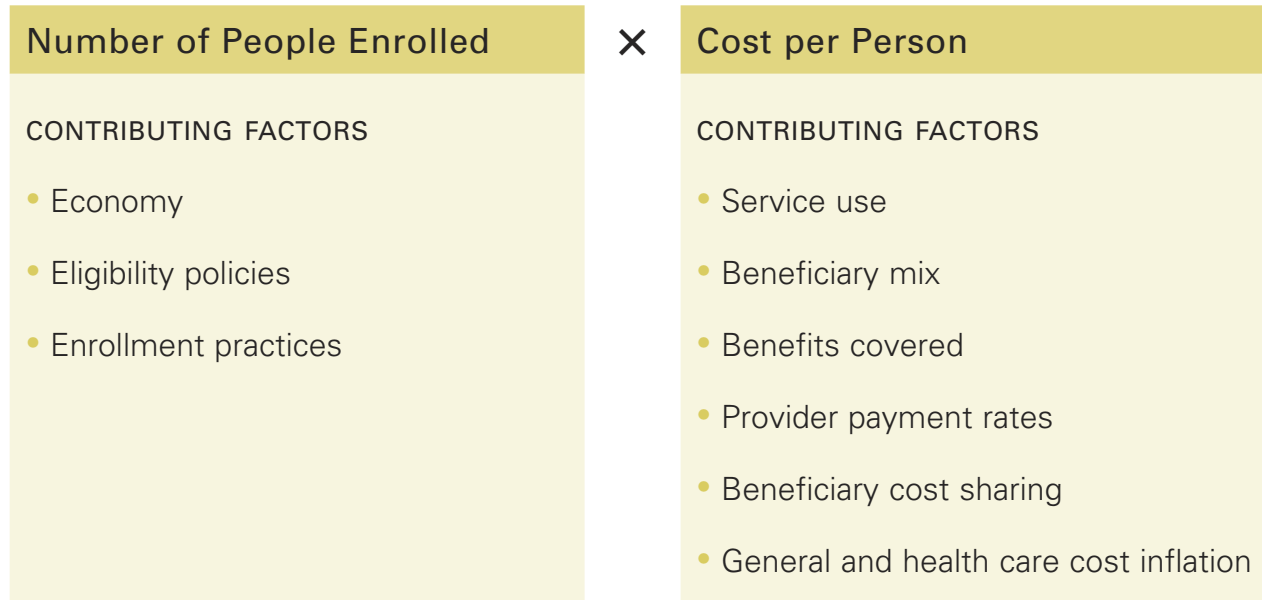
## Medi-Cal

### Trends and Cost Drivers

Over the past decade, Medi-Cal expenditures have increased faster than General Fund revenues (7.2 and 6.1 percent, respectively).

Medi-Cal expenditures as a share of total General Fund revenues have grown from 13 percent to over 14 percent during this period.

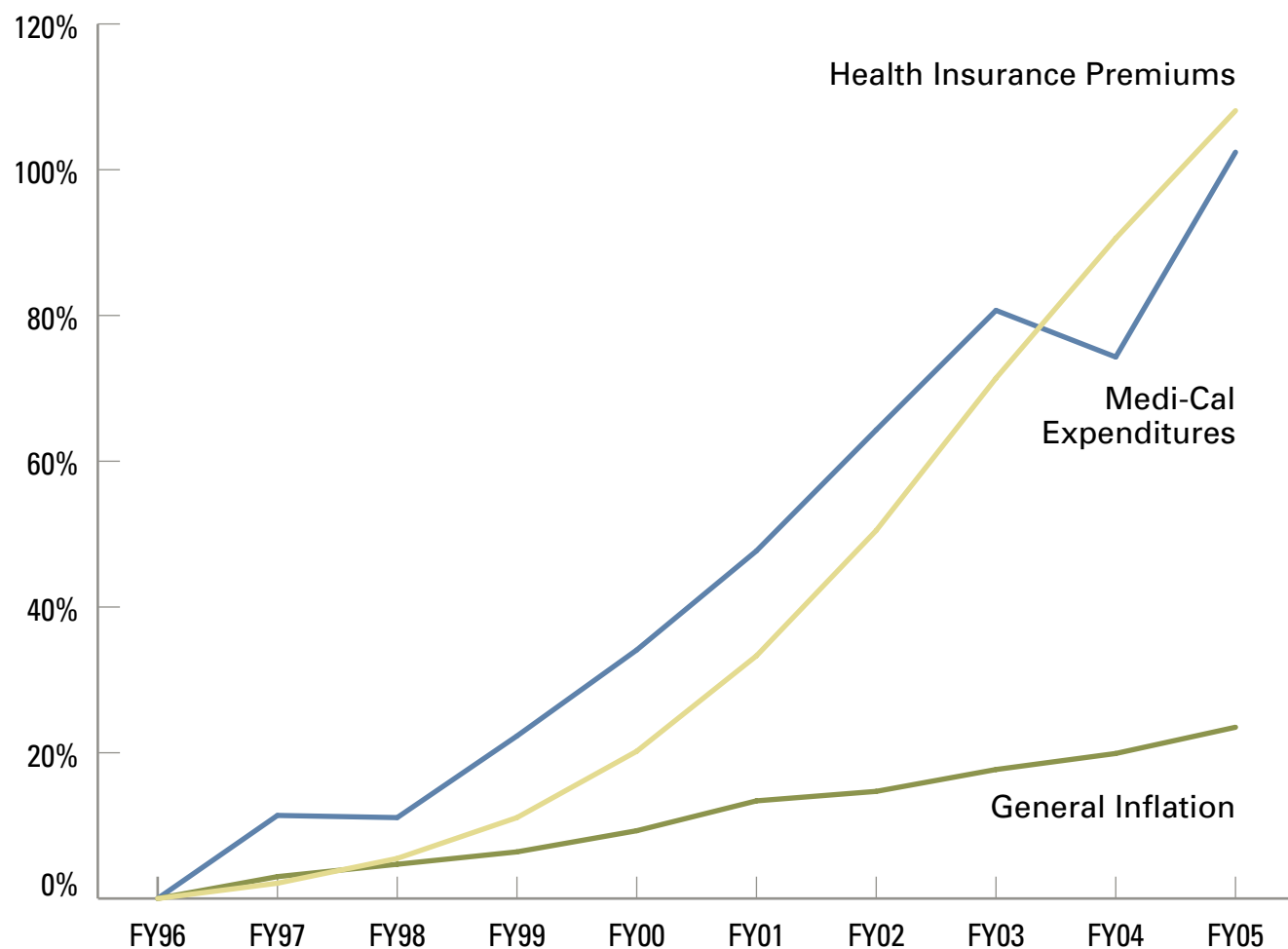
# Cost Driver Framework



## Medi-Cal Trends and Cost Drivers

Medi-Cal spending is a factor of the number of enrollees and the cost per person. There are numerous contributors to each of these variables.

# Health Care Inflation as a Cost Driver



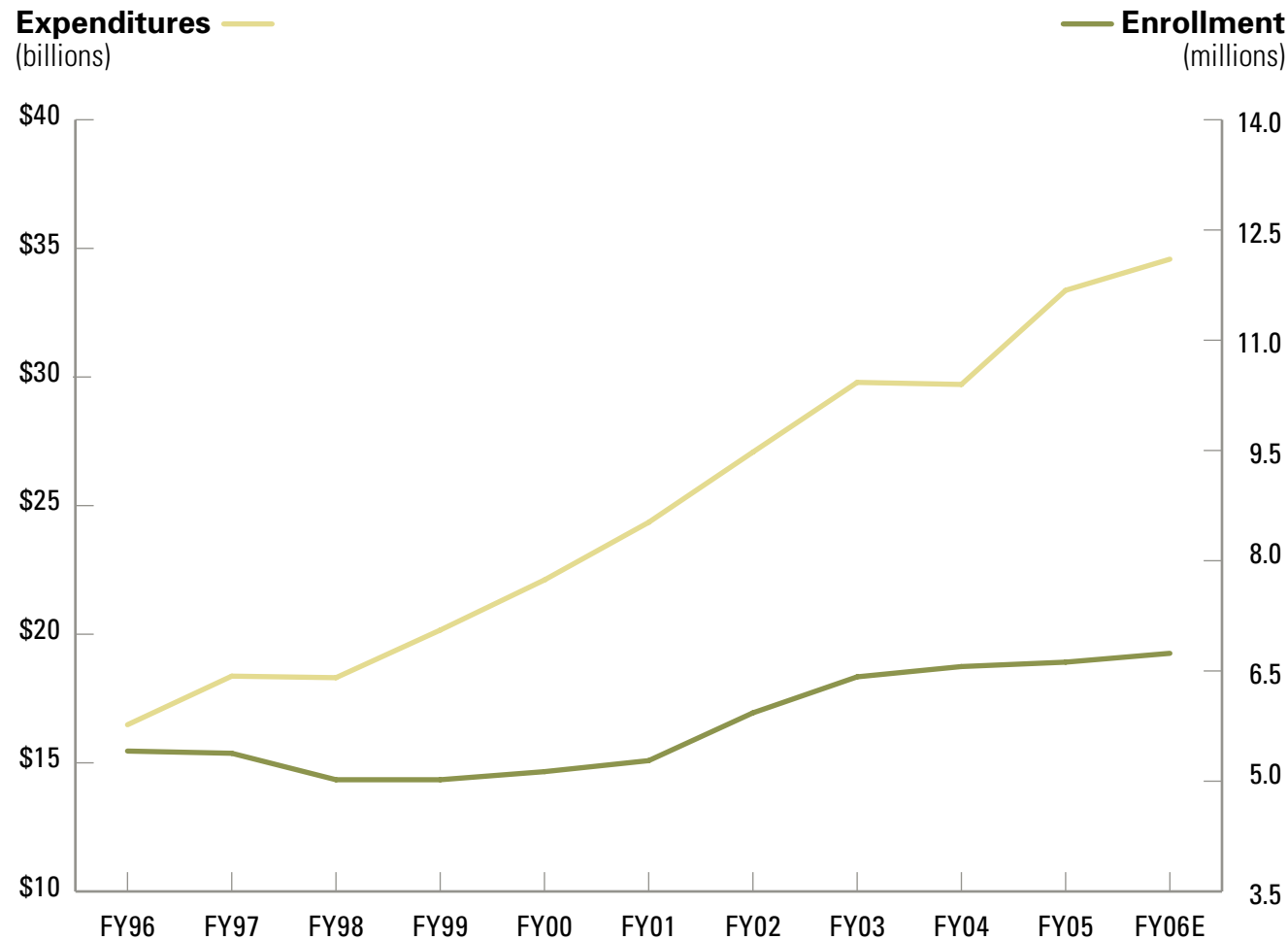
Sources: CHCF estimates of cumulative health insurance premium increases based on annual increases from Kaiser/HRET Employer Health Benefits 2005 Annual Survey (1996, 1999 – 2005), available at [www.kff.org/insurance/7315/index.cfm](http://www.kff.org/insurance/7315/index.cfm) and KPMG Survey of Employer-sponsored Health Benefits, (1996 – 1998), available at [www.vahp.org/directory02/figure2.shtml](http://www.vahp.org/directory02/figure2.shtml). Medi-Cal data based on data from Department of Health Services, Medi-Cal May Estimates. General inflation data from U.S. Dept of Labor, Bureau of Labor Statistics, Consumer Price Index, All Urban Consumers [ftp://ftp.bls.gov/pub/special.requests/cpi/cpiat.txt](http://ftp.bls.gov/pub/special.requests/cpi/cpiat.txt) (January data for each year).

## Medi-Cal Trends and Cost Drivers

Over the past decade, the cumulative growth of Medi-Cal spending is similar to the growth of private health insurance premiums. During this period, Medi-Cal spending and private health insurance premiums both grew at a pace more than four times that of the general inflation rate.



# Enrollment as a Cost Driver



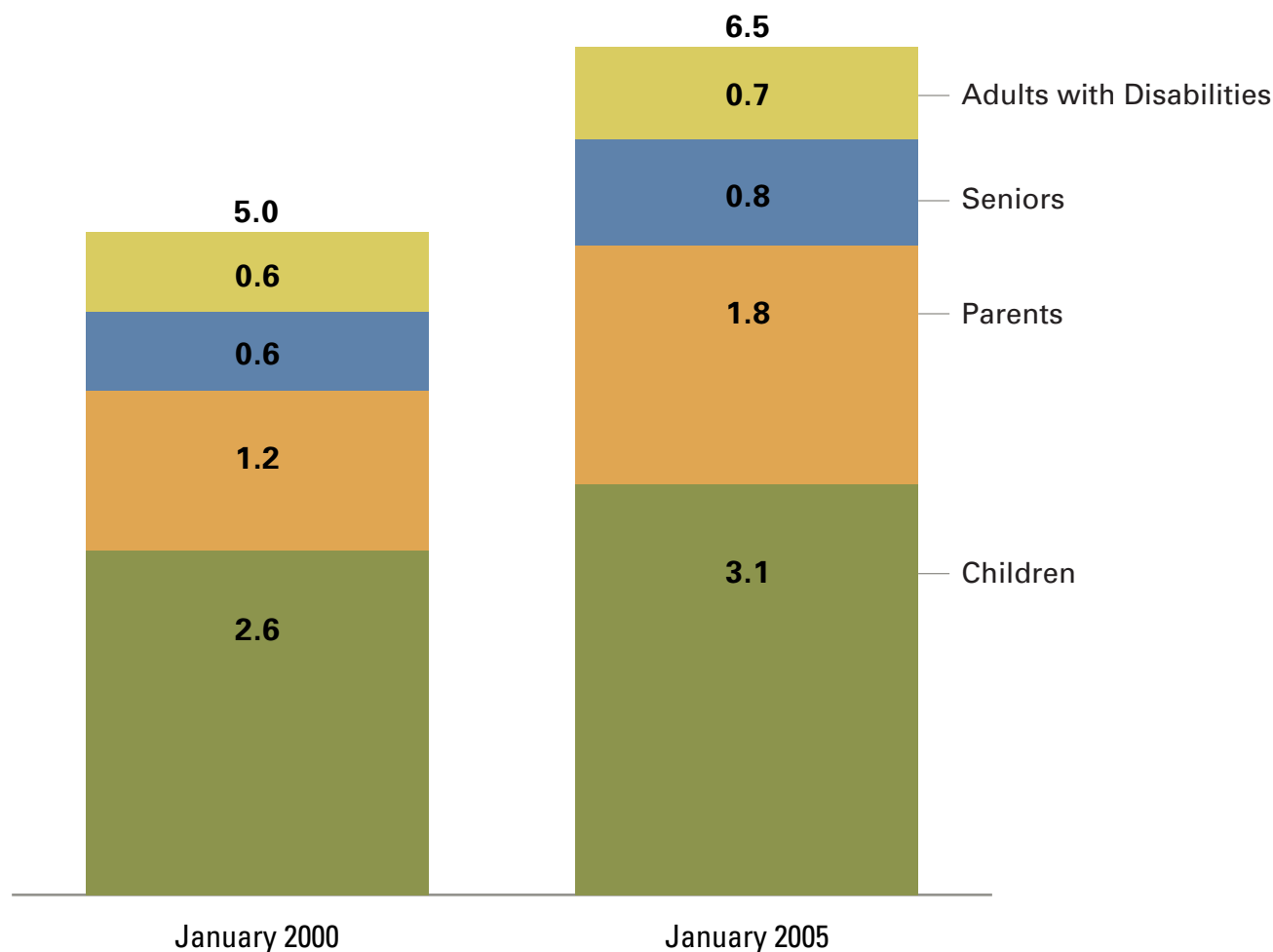
Sources: Department of Health Services, May Medi-Cal Estimates, 1976 through 2005; Legislative Analyst's Office, *Cal Facts: California's Budget and Economy in Perspective, 2004*; Medstat analysis of Medi-Cal MIS/DSS data updated through August 2005.

## Medi-Cal Trends and Cost Drivers

Enrollment growth has accounted for less than one-fifth of the growth in Medi-Cal spending over the past decade.

# Enrollment Growth

Enrollment (millions)



Source: Medstat analysis of Medi-Cal MIS/DSS data updated through August 2005.

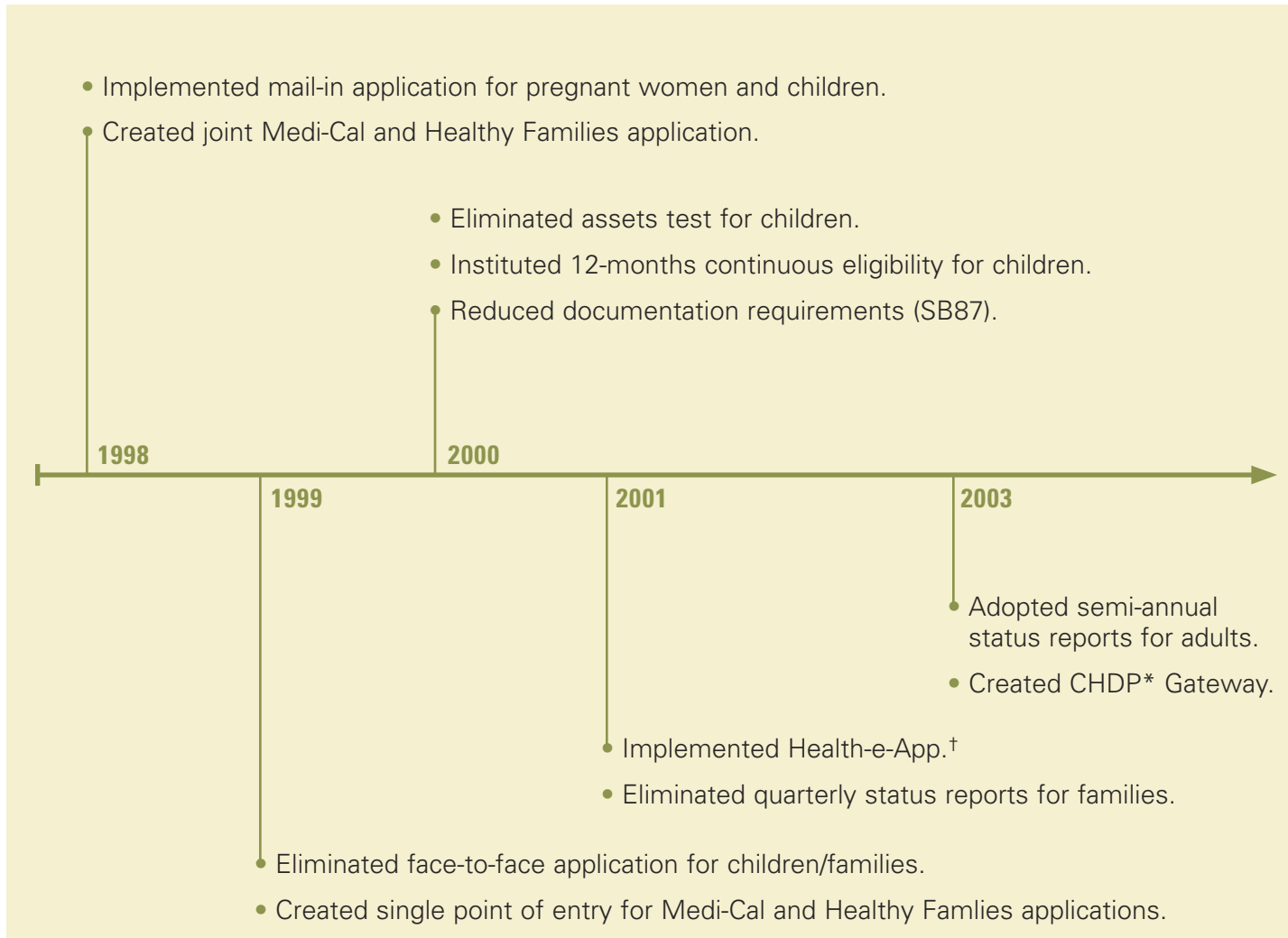
## Medi-Cal Trends and Cost Drivers

Children and parents account for 80 percent of enrollment growth over the past 5 years. Enrollment growth during this period is largely a function of eligibility expansions in 2000 and 2001.

# Eligibility and Enrollment Changes

## Medi-Cal Trends and Cost Drivers

The enrollment process  
has evolved significantly  
in recent years.

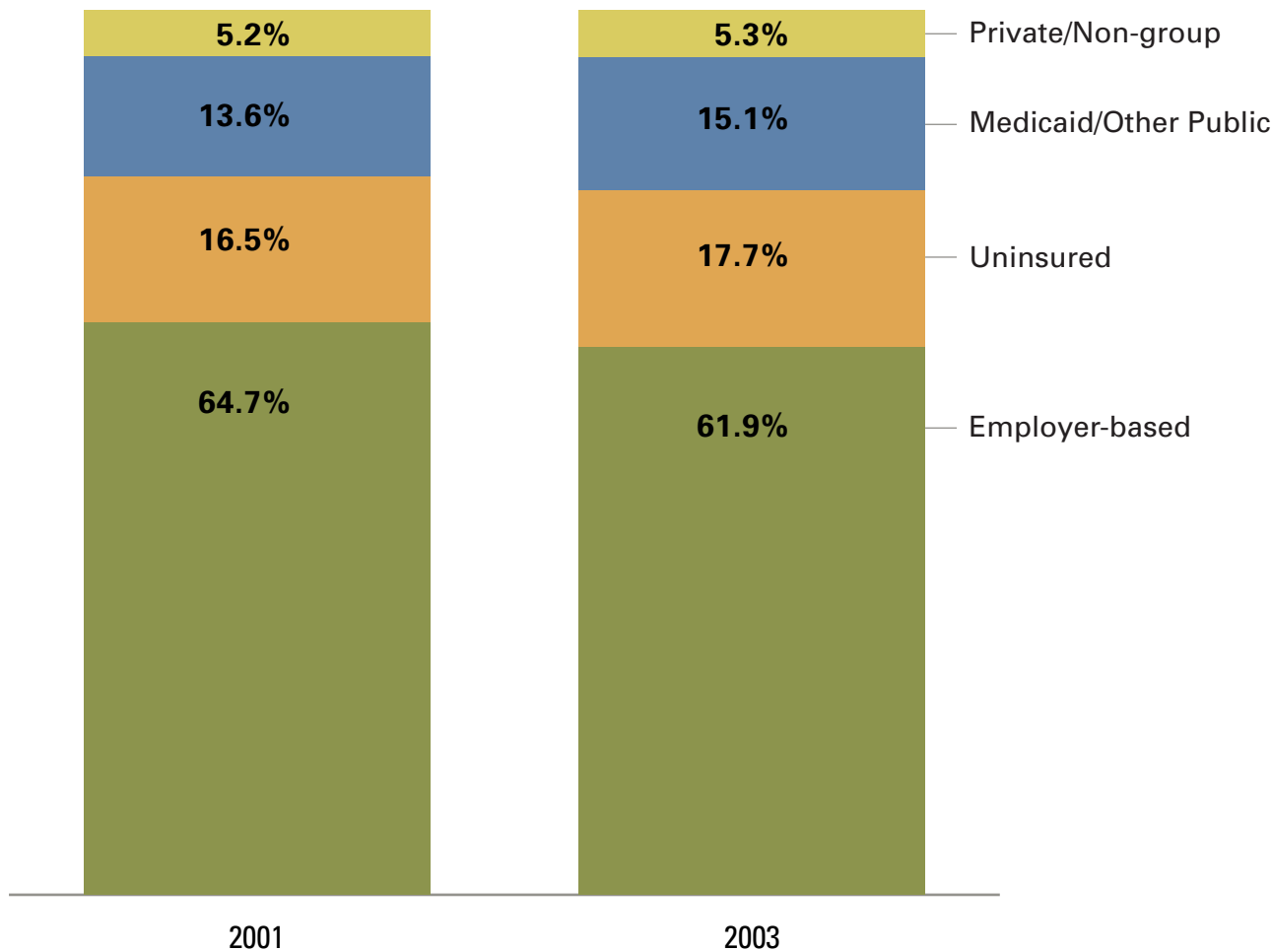


\*Child Health and Disability Prevention program.

<sup>†</sup>Health-e-App is an electronic alternative to the paper Medi-Cal and Healthy Families application forms.

Source: The Lewin Group, 2003.

# U.S. Health Insurance Trends

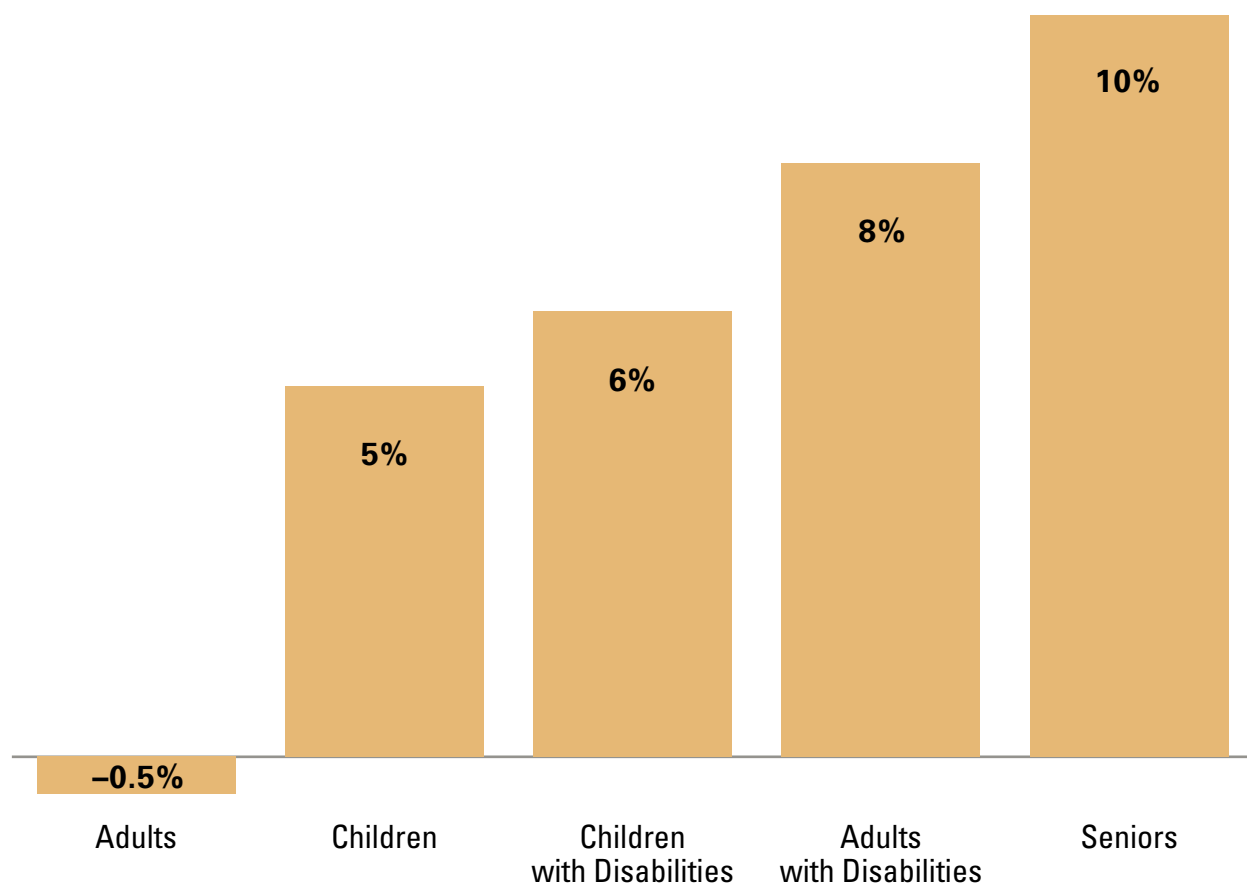


Source: Kaiser Commission on Medicaid and the Uninsured, 2003 Update.

About one-half of the decline in employer-based coverage between 2001 and 2003 was offset by increases in Medicaid and other public coverage.

# Per Person Costs as a Cost Driver

## CAGR\* per Eligible Costs



\*Compound annual growth rate.

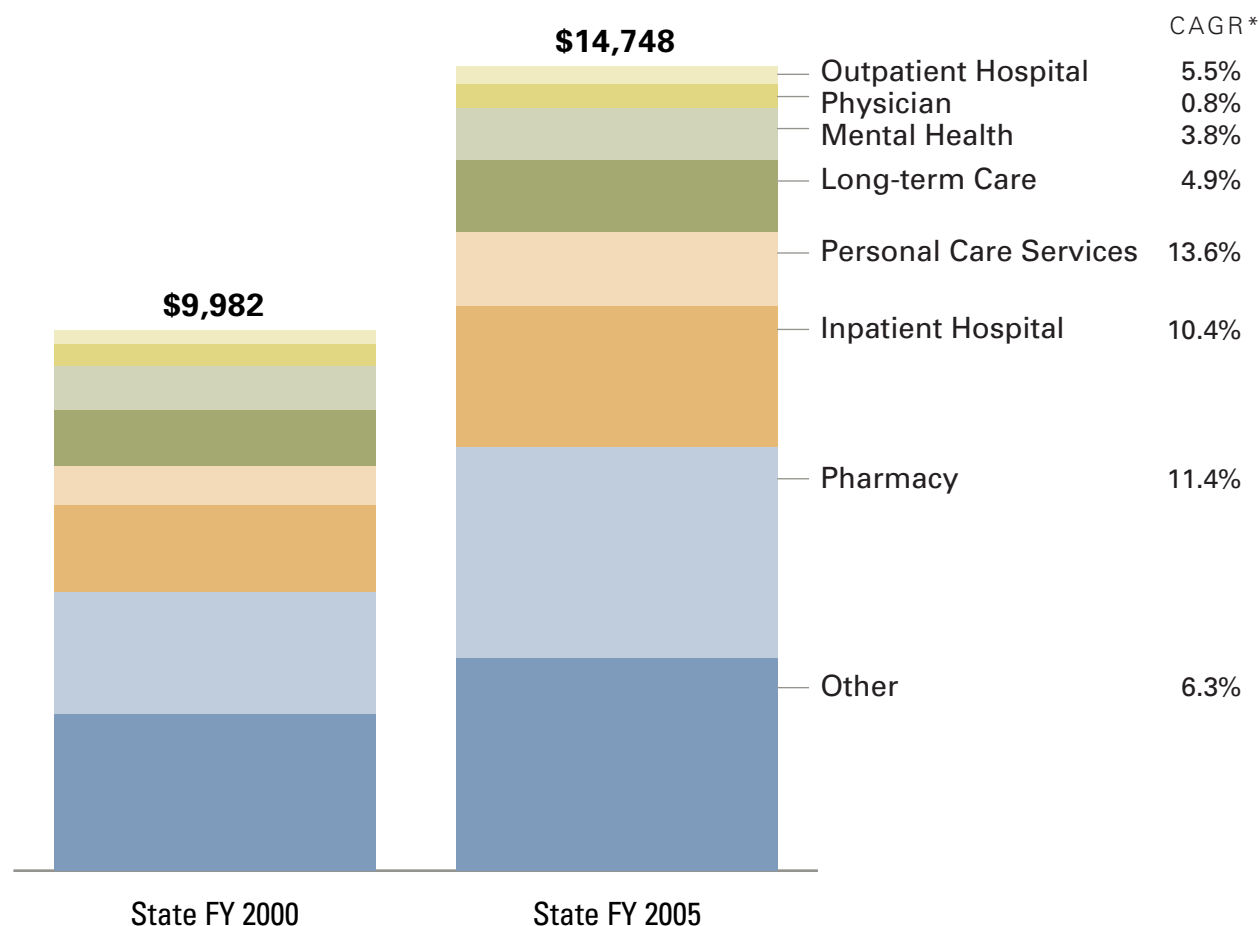
Source: Medstat analysis of Medi-Cal MIS/DSS data updated through August 2005. Fee-for-service only. FY1999–00 and FY2004–05 data.

## Medi-Cal Trends and Cost Drivers

Medi-Cal spending grew fastest for adults with disabilities and the elderly. Annual spending for adults declined slightly.

# Spending Trends by Service

## Monthly FFS Spending per Disabled Adult



\*Compound annual growth rate.

Source: Medstat analysis of Medi-Cal MIS/DSS, updated through October 2005 (August 2005 data). Fee-for-service only.

## Medi-Cal

### Trends and Cost Drivers

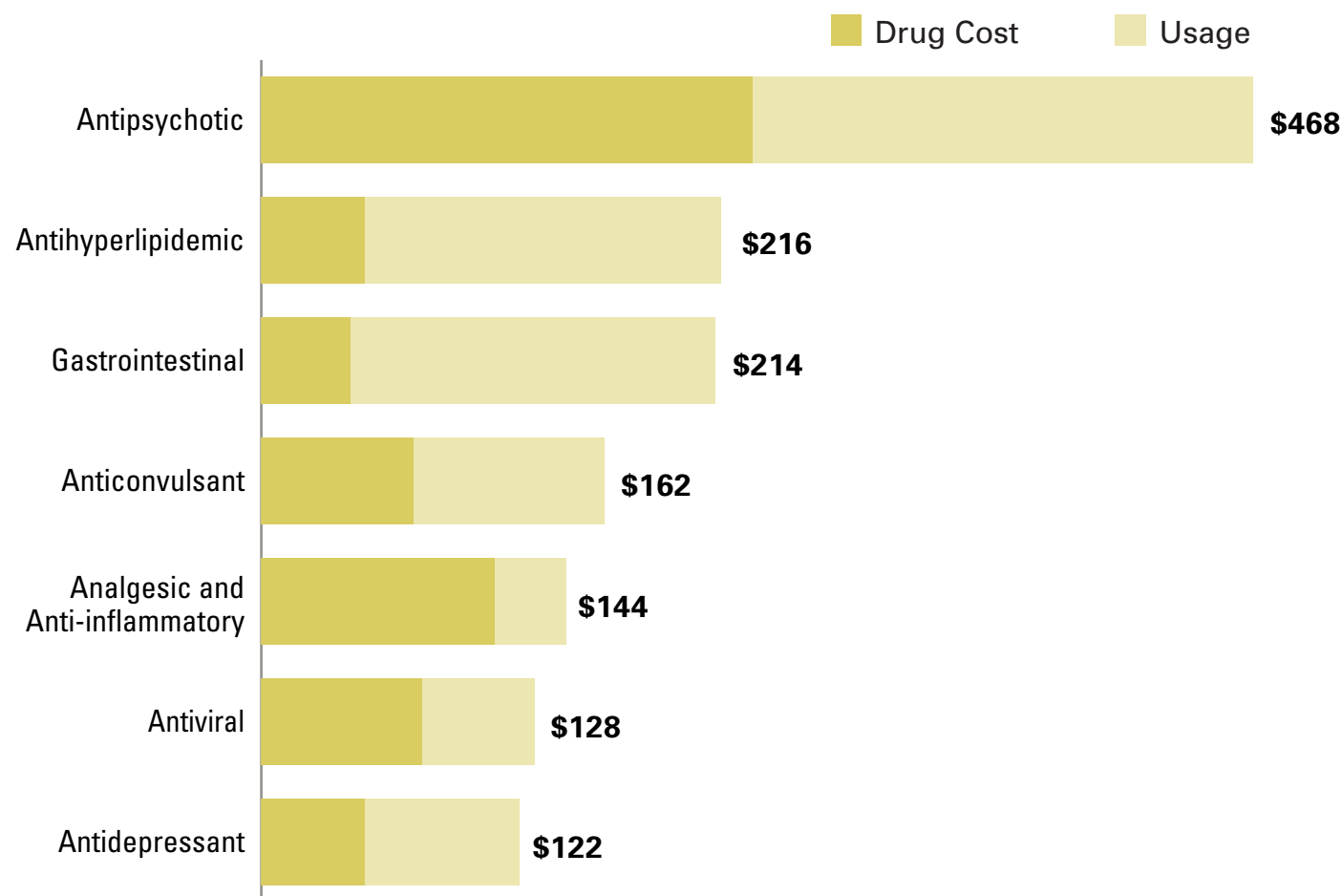
Total overall spending increased by an average annual rate of 8 percent.

Prescription drugs accounted for one-third of the total spending increase.

Spending for personal care services, which grew at the fastest rate, accounted for 14 percent of the total spending increase.

# Prescription Drug Spending Drivers

## Spending Increases Attributable to Therapeutic Class (millions)



Source: Medstat analysis of Medi-Cal MIS/DSS, May 2005. Excludes Pharmacy Rebates. 1999 to 2004 data.

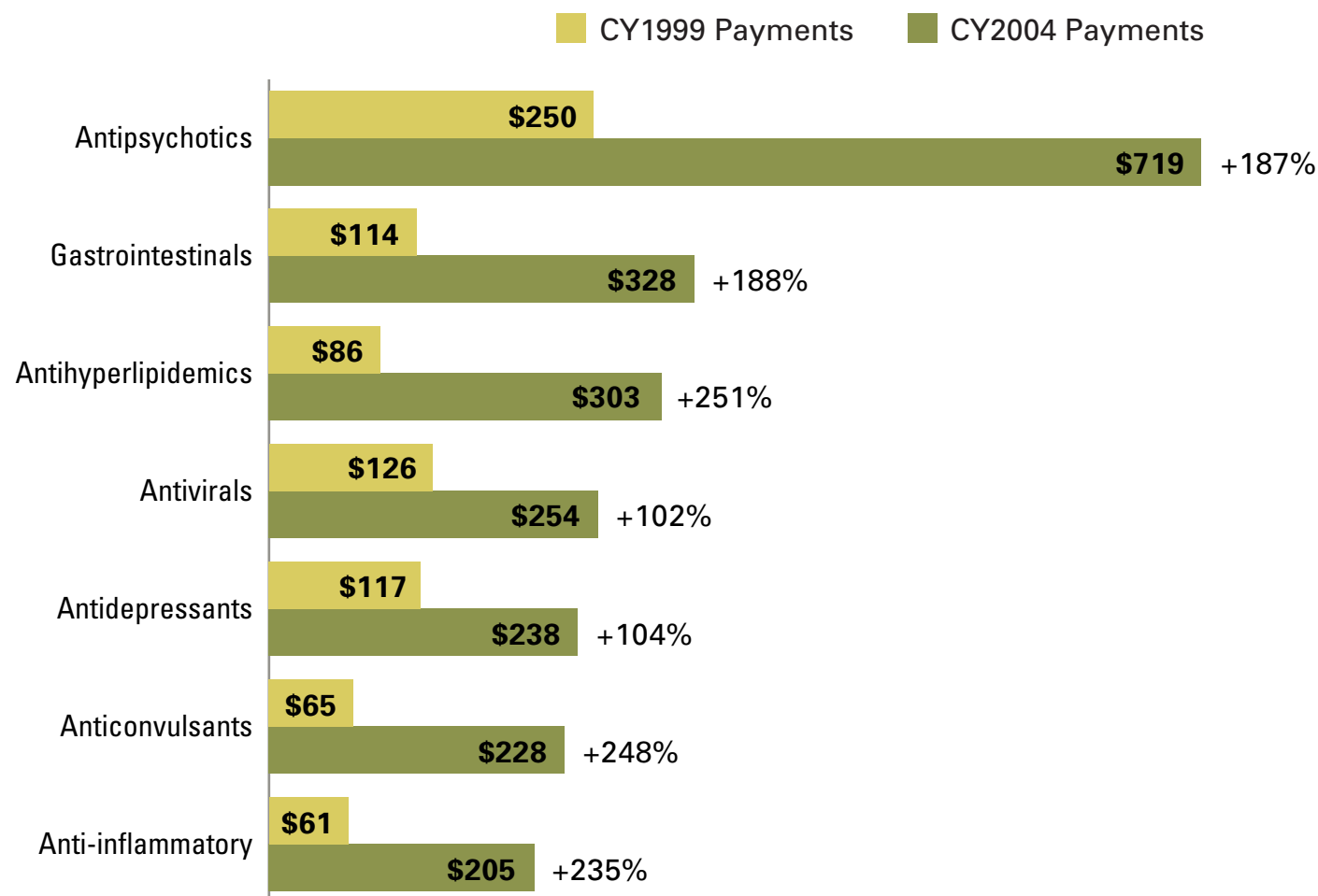
## Medi-Cal Trends and Cost Drivers

Drug spending increases for antipsychotics were twice that of any other therapeutic class.

Drug spending increases among these therapeutic classes were due to both increases in usage (57 percent) and drug costs (43 percent).

# Prescription Drug Spending Trends

## Top Drug Expenditures by Therapeutic Class (millions)



Source: Medstat analysis of Medi-Cal MIS/DSS data updated through August 2005. Excludes pharmacy rebates.

## Medi-Cal Trends and Cost Drivers

Medi-Cal spends more on antipsychotics than any other drug class.

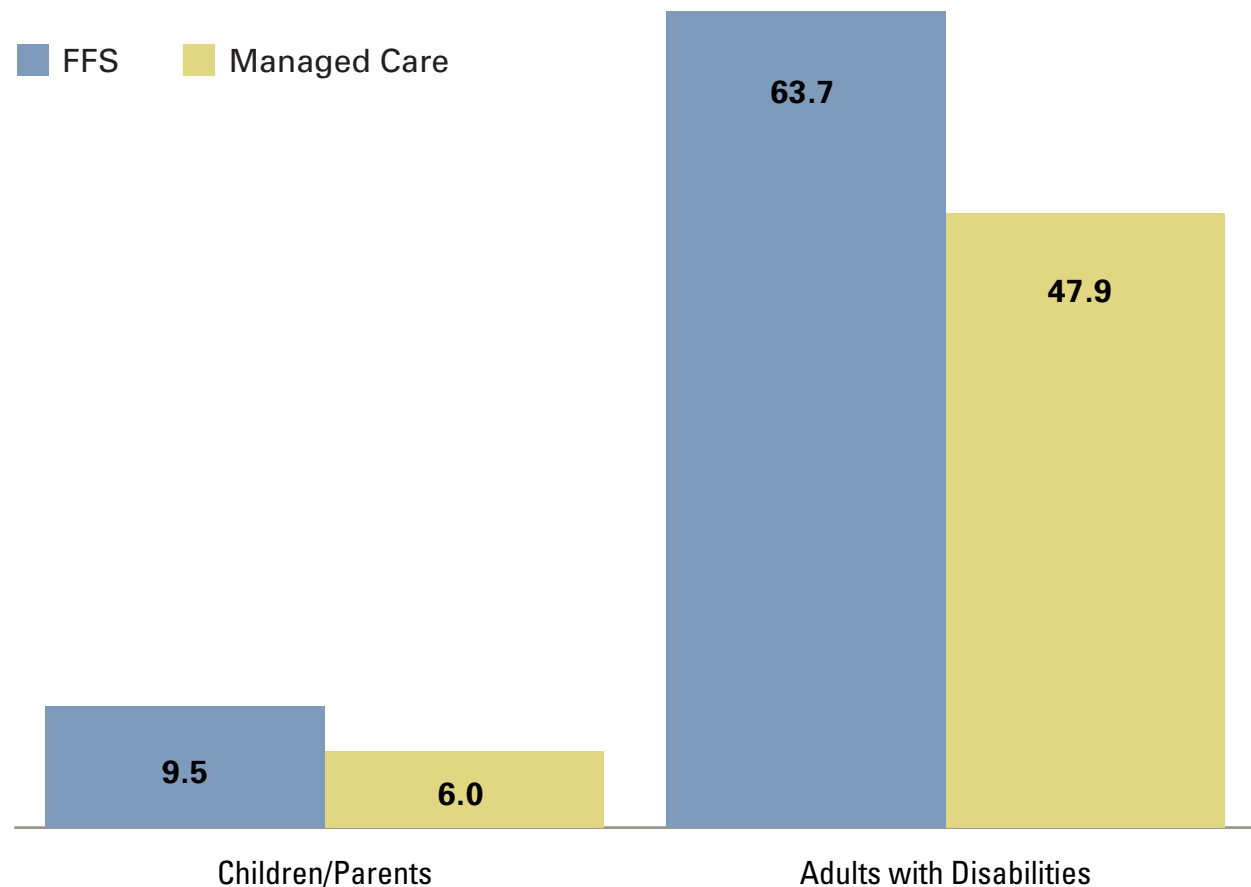
Total payments for the ten most expensive drug classes nearly tripled, from \$819 million to \$2.3 billion, in five years.

Medi-Cal spending for antihyperlipidemics (cholesterol-reducing drugs) and anticonvulsants (to prevent seizures and treat depression) grew the fastest during this period.



# Fee-for-Service vs. Managed Care

## Preventable Hospitalizations, Admissions per 1,000 Enrollees



Note: Preventable hospitalizations are those which can often be avoided with proper care in an ambulatory setting for chronic conditions such as asthma, diabetes, hypertension and acute conditions include pneumonia, dehydration, and urinary tract infection.

Source: CHCF/UCSF, *Preventing Unnecessary Hospitalizations in Medi-Cal: Comparing Fee-for-Service with Managed Care*. 1994 to 1999 data.

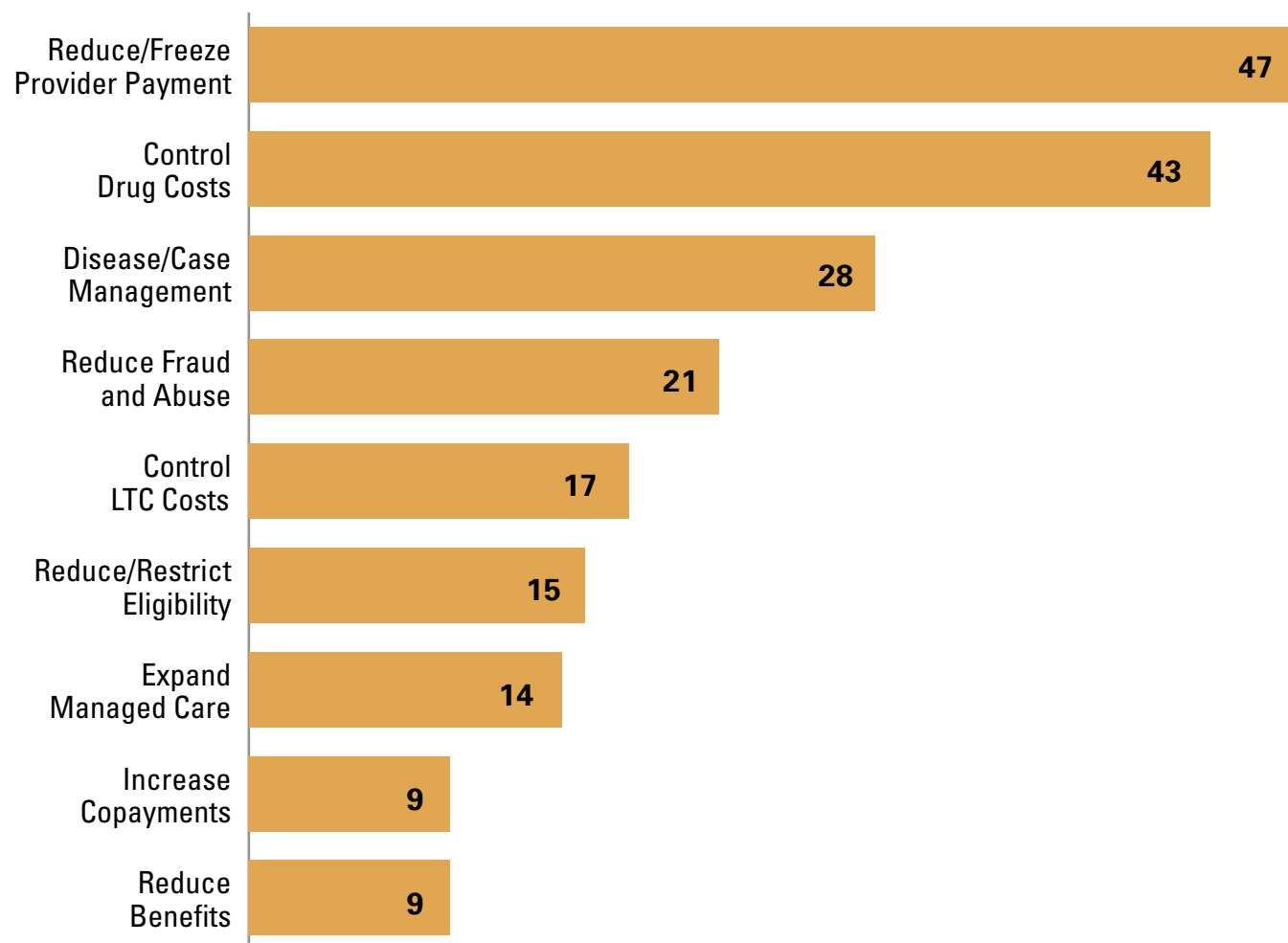
### Medi-Cal Trends and Cost Drivers

Medicaid managed care has been a mechanism for states to reduce spending and provide greater budget predictability.

New evidence suggests Medi-Cal managed care also improves access to ambulatory care and health outcomes compared to FFS.

# Cost Containment Strategies

## Number of States Implementing Strategy Use



Source: Kaiser Family Foundation, *The Continuing Medicaid Budget Challenge: State Medicaid Spending Growth and Cost Containment in Fiscal Years 2004 and 2005*.

## Medi-Cal Cost Containment

Reducing or freezing provider payments and controlling drug costs are the most popular cost containment strategies. Increasing beneficiary copayments and reducing benefits are least popular.

# Summary

- **California spends slightly less per resident on Medicaid than most other large states and:**
  - Provides coverage to a higher proportion of low-income residents than most states.
  - Spends much less per beneficiary than the national average.
  - Is disadvantaged by an inequitable federal matching formula.
- **Recent growth of Medi-Cal expenditures is driven by two factors:**
  - Increases in enrollment: mostly among children and families, due to coverage expansions in 2000 and 2001 and the falling rate of employment-based coverage; and
  - Rising costs per beneficiary: largely due to rapidly increasing prescription drug spending among elderly and disabled beneficiaries.
- **The growth of Medi-Cal expenditures over the past decade is very similar to the growth of commercial health insurance premiums.**

## Acknowledgments

Much of the information and data for this presentation was provided by Robert Joy and Lisa Simonson Maiuro of Medstat/Thomson, and their colleagues Asha Gilson, Dean Scourtes, Paul Schneider, and Suzanne Snyder. Medstat provides market intelligence, decision support solutions, and research services for managing health care costs and quality, as well as the Management Information System and Decision Support System (MIS/DSS) for the California Department of Health Services.

## Medi-Cal Appendix

### GIVE US YOUR FEEDBACK

Was the information provided in this report of value? Are there additional kinds of information or data you would like to see included in future reports of this type? Is there other research in this subject area you would like to see?

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