



## MEDICAID IN ALASKA

### *The Opportunities and Challenges of Health Reform*

#### EXECUTIVE SUMMARY, APRIL 2011

Medicaid is a jointly managed federal-state program providing health insurance to low-income people. In 2010, more than 135,000 Alaskans were covered by Medicaid. Here and elsewhere Medicaid is a major component of state budgets – \$1.2 billion in Alaska in 2010. It assures the most vulnerable Alaskans – children, disabled adults, pregnant women and the elderly – have access to basic health care. Typically these individuals and families can't afford private insurance and often have high demands for medical care. Under federal health reform Medicaid enrollment will increase dramatically in the coming years – 32,000 new enrollees in 2014. Yet as Medicaid expenditures continue to grow along with concerns about sustainability of the program, health reform brings questions for health care providers, program managers and state policymakers. This summary and its accompanying white paper provide key information about the Medicaid program and factors to be weighed as Alaska prepares for change.

#### WHO DOES ALASKA MEDICAID SERVE NOW?

In 2010, 135,246 Alaskans enrolled in Medicaid, according to the State of Alaska.<sup>1</sup> Roughly 65 percent were children. About 28 percent were adults – either disabled Alaskans or low-income parents receiving assistance through the Aid to Families with Dependent Children Program. While the percentage of elderly Alaskans enrolled in Medicaid is relatively low at about 7 percent, this population accounted for 17 percent of Medicaid spending in 2010. In part, this is because Medicaid is the primary payer for long-term care services provided in institutional settings such as nursing homes. While nursing home utilization is expected to increase slowly over the next two decades, Medicaid claims for home- and community-based services are projected to double by 2030.

#### WHAT BENEFITS DOES MEDICAID PROVIDE?

Medicaid covers a broad range of health care including home- and community-based long-term care (Alaska Pioneer Homes, nursing homes, assisted living homes, respite care and other services); physician care; inpatient and outpatient hospital services; advanced nurse practitioner, physician assistant, midwifery and podiatrist services; end-stage renal disease treatment; personal care attendant services; outpatient mental health, psychology services and drug abuse centers; prescription drugs; transportation; dental care; and health clinic support. Medicaid's benefit package for children includes screening, preventive and early intervention services, as well as diagnostic services and treatment necessary to correct or improve children's acute and chronic physical and mental health conditions.

*In today's dollars,*

**A CHILDLESS ADULT IN  
ALASKA EARNING \$18,768  
OR LESS WILL QUALIFY  
FOR MEDICAID** *when the  
expansion begins in 2014.*

**PARTNERS:** Alaska State Hospital and Nursing Home Association, Denali Commission, Alaska Mental Health Trust Authority, Mat-Su Health Foundation, Rasmuson Foundation, Alaska Primary Care Association, AARP Alaska, Alaska Behavioral Health Association

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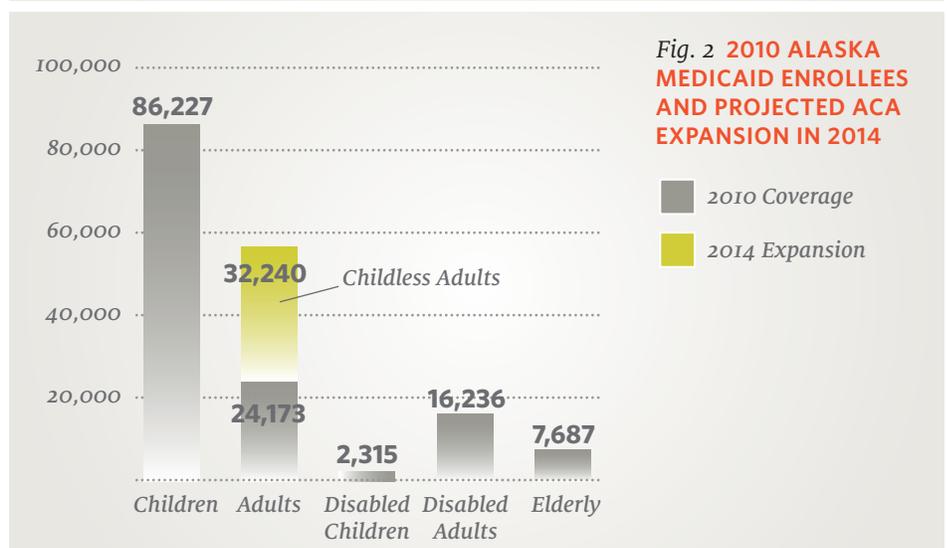
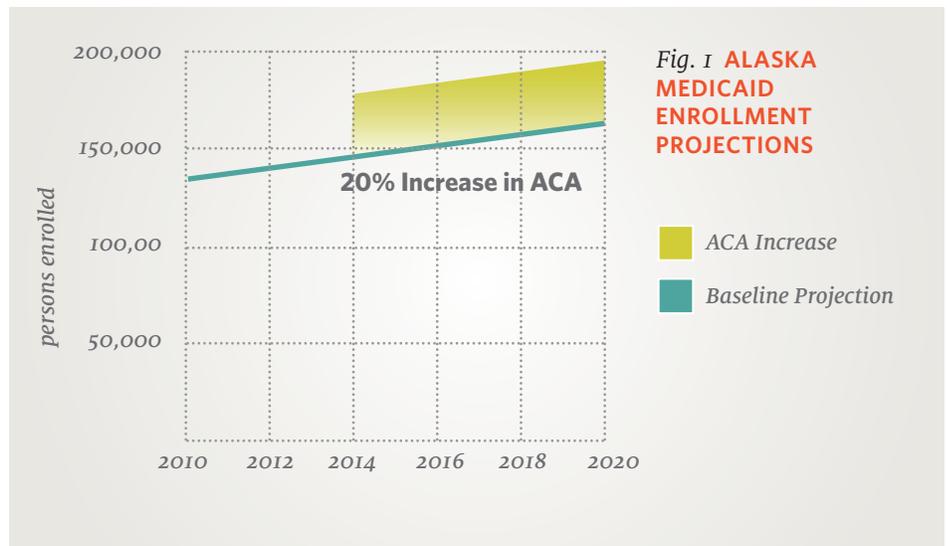
**HOW MUCH DOES MEDICAID COST IN ALASKA?**

The total state and federal cost of Medicaid in Alaska in 2010 was \$1.2 billion, or \$9,011 per beneficiary. Children were \$5,723 per beneficiary, while coverage for each adult was \$13,324. Each enrolled senior cost \$22,964. The state pays roughly 43 percent of Medicaid costs, while the federal government covers 57 percent. Medicaid represents 8 percent of the state general fund budget in Alaska, about half the average cost in other states. Absent federal health reform or other significant changes currently under discussion in Congress, total Medicaid spending in Alaska is projected to increase steadily in the next 20 years, to approximately \$4.5 billion in 2030. The state's share of that spending will increase about 8 percent annually – to nearly \$2 billion in 2030.

**HOW DOES FEDERAL HEALTH REFORM AFFECT ALASKA MEDICAID?**

The Affordable Care Act (ACA) orders the most significant change in the Medicaid program since its creation in 1965. Beginning in 2014, low-income adults without child dependents become eligible for Medicaid for the first time. The State of Alaska projects new enrollment of 32,240 in 2014, an increase in the program of more than 20 percent. That percentage will stay steady through 2020 (Figures 1 and 2). The cost

Health reform will  
**INCREASE ALASKA'S  
MEDICAID ENROLLMENT**  
by about **20 PERCENT.**



to the state of this expansion is low compared to current Medicaid – the federal government initially pays 100 percent of costs for the newly eligible, ramping down to 90 percent by 2020 and thereafter. When a projected 33,219 Alaskans will be newly covered by Medicaid in 2020, the cost of that population will be \$293 million to the federal government and \$29 million to the state (Figure 3). The actual impact of the ACA will vary depending on how Alaska chooses to implement the new law. Achieving low, medium or high participation rates in the Medicaid expansion will depend on how well the program is promoted to prospective beneficiaries, as well as the simplicity and effectiveness of the enrollment process and subsequent verification of eligibility.

In 2011 the federal government pays 57% of Medicaid in Alaska. Under ACA it will **INITIALLY PAY 100% TO COVER THE NEWLY ELIGIBLE AND, STARTING IN 2020, NO LESS THAN 90%.**



**Fig. 3 COST OF COVERING ALASKANS MADE ELIGIBLE FOR MEDICAID BY HEALTH REFORM**

In addition to increasing Medicaid coverage the ACA includes new options to expand home and community-based long-term care, funding for new demonstration projects, new opportunities for states to test innovative payment and delivery systems, and an emphasis on coordinated care for “dual eligible” recipients who qualify for Medicaid and Medicare.

**WHO ARE THE NEWLY ELIGIBLE ALASKANS AND WHAT HEALTH NEEDS MIGHT THEY HAVE?**

Individuals between the ages of 18 and 64 whose incomes are below 138 percent of FPL will be eligible for Medicaid in 2014. In today’s dollars, the eligibility threshold for Alaska will be \$18,768 or below. There are questions about this newly eligible population and possible pent-up health needs. Many of the newly covered may have delayed doctor visits and will be receiving health care the first time in years. When health care is delayed it often is more costly to deliver later, after medical conditions have worsened. The newly covered population likely will include people with chronic substance abuse and mental health issues. Many homeless adults will become Medicaid eligible. According to the Justice Center at the University of Alaska Anchorage, a one-night count in January 2009 found 4,583 Alaskans considered homeless.<sup>2</sup> Of that total, many reported health problems: 14 percent had chronic substance abuse problems and 11 percent were severely mentally ill. The Alaska

percentages may be underreported. The Kaiser Commission on Medicaid and the Uninsured reviewed those states providing Medicaid to their childless adults before federal health reform passed.<sup>3</sup> Among the findings: About one-third of low-income childless adults were diagnosed with a chronic health condition.

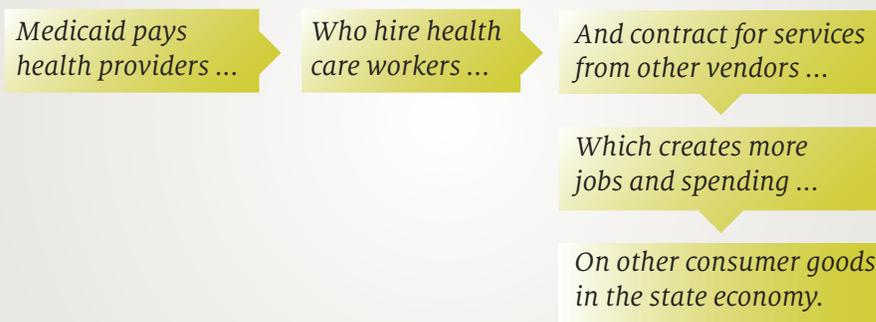
Besides providing health care to roughly one-fifth of Alaskans currently,

**MEDICAID SUPPORTS JOBS AND CONTRIBUTES TO THE STATE ECONOMY.**

**WHAT ARE THE ECONOMIC IMPLICATIONS OF MEDICAID IN ALASKA?**

Besides providing health care to roughly one-fifth of Alaskans, Medicaid supports jobs and contributes to the state economy. The \$1.2 billion in the 2010 budget is for Medicaid claims paid to doctors, hospitals, pharmacies, nursing homes, health centers and other providers. Alaska is one of two states where Medicaid pays providers more than Medicare, and those dollars filter through the economy (Figure 4). For a good analysis of the impact of Medicaid in state economies, see a 2009 report by the Kaiser Commission on Medicaid and the Uninsured.<sup>4</sup> Among its findings: “Medicaid’s economic impact is intensified because of federal matching dollars ... Medicaid funding supports jobs and generates income within the health care sector and throughout other sectors of the economy due to the multiplier effect.”

Fig. 4 **FLOW OF MEDICAID DOLLARS IN THE ALASKA ECONOMY**



In addition, there is an economic cost to society of having a large uninsured population. This cost mainly is due to poorer health for the uninsured because they frequently receive too little care, too late. Modeling done by the Institute of Medicine considers the extent of loss of life, acute and chronic illness, and the pool of uninsured people who are at risk for poorer health and shorter lives.<sup>5</sup> The potential economic value to be gained by extending health coverage to an additional 50,000 to 60,000 Alaskans under the ACA (the Medicaid expansion plus private coverage purchased in the health exchange) is estimated at about \$150 million to \$250 million annually, assuming the uninsured will use health care as do those currently covered.<sup>6</sup> This estimate includes, but is not limited to, higher expected lifetime earnings due to improved productivity and better educational and developmental outcomes.

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About **ONE-THIRD**  
**OF LOW-INCOME CHILDLESS**  
**ADULTS** *have a* **CHRONIC**  
**HEALTH CONDITION.**

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**WHAT EFFORTS IS ALASKA UNDERTAKING TO ENSURE MEDICAID PROVIDES GOOD VALUE?**

Because of rising costs and the need for responsible stewardship of public dollars, Medicaid cost containment is an important goal in every state. Past efforts in Alaska, such as creation of a preferred prescription drug list and voluntary nurse-provided case management for patients with serious illness, reflect collaboration and creative thinking. That must continue as new cost-saving efforts begin. One significant undertaking is the Alaska Medicaid Task Force, convened in 2010 by the Department of Health and Social Services. The panel includes eight legislators. Its final recommendations were delivered to the Governor for consideration this month.<sup>7</sup> The final report focuses on cost-savers such as development of patient-centered medical homes to reduce hospitalization and use of the emergency room, more case management and the increased availability of less expensive generic drugs. In addition, member hospitals of the Alaska Hospital and Nursing Home Association have undertaken Medicaid cost-saving projects such as reducing readmissions, improved use of electronic intensive care systems to monitor patients more efficiently and working to transition patients quickly and smoothly out of expensive acute care.

**WHAT ABOUT OTHER MEDICAID PROPOSALS AND POTENTIAL CHANGES?**

This report focuses on the Medicaid expansion required under federal health reform. It is important to note, however, that competing budget plans currently under discussion in Congress could significantly impact payments for and delivery of Medicaid services. A block grant proposal would cap federal Medicaid spending and require major decisions at the state level. These likely would include whether to increase contributions of state dollars to maintain existing coverage, to cut available Medicaid benefits, or some combination of both. A competing proposal would not block-grant Medicaid but instead change the matching formulas to a single rate, presumably at less cost to the federal government. In addition, Alaska's unique health care market – dominated by small, rural and independent providers – will be impacted in coming years as payers demand more for less, as quality is tied to payment and as the industry responds to cost pressures. The only certainty is change is inevitable.

**ABOUT THIS REPORT**

This is one in a series of papers prepared for and funded by an ongoing project entitled, *AK Health Reform: Assessing Federal, State and Market Changes in the Next Decade*. The goal of the project is to provide factual research, data and analysis regarding the state of health care in Alaska. More information is available at: [www.akhealthreform.org](http://www.akhealthreform.org).

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<sup>1</sup> "Long-Term Forecast of Medicaid Enrollment and Spending in Alaska: Supplement 2010-2030," Medicaid Budget Group, Department of Health and Social Services, January 2011 [http://dhss.alaska.gov/fms/Documents/MESA\\_2030.pdf](http://dhss.alaska.gov/fms/Documents/MESA_2030.pdf)

<sup>2</sup> "A Look at Homelessness in Alaska," Alaska Justice Forum, Summer 2009 [http://justice.uaa.alaska.edu/forum/26/2summer2009/b\\_homelessness.html](http://justice.uaa.alaska.edu/forum/26/2summer2009/b_homelessness.html)

<sup>3</sup> Expanding Medicaid to Low-Income Childless Adults Under Health Reform: Key Lessons from State Experiences; Kaiser Family Foundation, July 2010 <http://www.kff.org/medicaid/upload/8087.pdf>

<sup>4</sup> "The Role of Medicaid in State Economies: A Look at the Research," Kaiser Commission on Medicaid and the Uninsured, January 2009 <http://www.kff.org/medicaid/7075a.cfm>

<sup>5</sup> Hidden Costs, Value Lost: Uninsurance in America, Institute of Medicine, 2003 <http://www.iom.edu/Reports/2003/Hidden-Costs-Value-Lost-Uninsurance-in-America.aspx>

<sup>6</sup> Mark A. Foster & Associates application of Institute of Medicine estimated value of health insurance to estimated number of newly insured under full implementation of the ACA.

<sup>7</sup> "Medicaid Task Force Options for Cost Savings," Final Report, April 6, 2011 <http://www.hss.state.ak.us/commissioner/medicaidtaskforce/files/MTF%20FINAL%20REPORT%20040611.pdf>