

Louisiana Medicaid Crisis – The Perfect Financial Storm

In the absence of any congressional intervention, Louisiana will experience a cataclysmic reduction of approximately \$450- \$550 million dollars next state fiscal year that will grow to over a \$1 billion reduction of federal funds the following year for Medicaid services. DHH Secretary Alan Levine has repeatedly indicated that this level of funding reduction would require the elimination of entire “optional” Medicaid programs and the discontinuation of Medicaid services to entire “optional” populations of people (i.e., beneficiaries). Medicaid was developed as a health program for traditional welfare populations and therefore the only populations and services that are “mandatory” (i.e., not “optional” for states to provide) are those initially specified as the function of Medicaid. Therefore, any services – like Home and Community Based Waivers – that were added to Medicaid since its inception more than 40 years ago are considered “optional” and are included among the programs that leaders have indicated will be proposed for elimination.

With 27% of Louisiana residents (over a million people), currently receiving Medicaid but only 17% of Louisianans classified as living in poverty the drop of “optional” populations could result in up to 10% of the entire state population, 420,000 people, losing Medicaid benefits and services. People considered as “optional” and therefore may be eliminated from receiving Medicaid services include (but are not limited to): people with disabilities and the elderly below the 100% federal poverty level (FPL) but above the Social Security Income level; individuals at risk of needing nursing facilities or ICF/DD care (i.e., Home and Community Based Waiver recipients); certain people with disabilities who are above the SSI levels; and those who are medically needy.

Similarly, services considered “optional” by Medicaid and therefore are included in the consideration to be eliminated include (but are not limited to): Home and community based waiver services, prescription drugs, case management, durable medical equipment, rehabilitation and other therapies, and even intermediate care facilities for the developmentally disabled (ICF/DD)! Services considered mandatory according to Medicaid (i.e., those that must be provided by states) include physician services, hospital care, nursing facility services for individuals 21 and over, family planning and supplies, Early and periodic screening, diagnostic, and treatment (EPSDT), and home health care services for individuals entitled to nursing facility care. Unfortunately, given that the supports and services provided to Louisiana citizen’s with developmental disabilities account for almost 50% of the Medicaid budget, it is feared that services for people with developmental disabilities in general and Medicaid waivers in particular would be especially vulnerable to being eliminated.

Why is Louisiana projected to get such a reduction in federal funds for Medicaid?

The reduction in federal resources is anticipated due to Louisiana’s projected decrease in the Federal Medical Assistance Percentage (FMAP). The FMAP is the percentage of federal funds provided to match state dollars to cover Medicaid payments. The FMAP for Louisiana will change from between the 70-73% it has been over the past decade, and current 80% as a result of the American Recovery and Reinvestment Act (stimulus money), to 63% in January 2011. In simple terms, historically the federal government

paid almost 3 dollars for every Louisiana dollar paid for Medicaid services; today the federal government pays four dollars for every Louisiana dollar; but starting in January 2011 there will be less than two federal dollars for every Louisiana dollar paid for Medicaid services. Given the almost six billion dollar annual Medicaid budget this shift from the current match rate will require almost one billion more state dollars to sustain the current level of services.

Why will the FMAP change?

FMAP is calculated based on a three-year average of a state's per capita personal income. Following the hurricanes of 2005 Louisiana experienced the infusion of billions of dollars from insurance settlements and federal assistance for rebuilding efforts. These dollars resulted in an artificially inflated per capita personal income from 2006 through 2008 – the years used to calculate the FMAP rate set to go in effect in January 2011. While this is the largest drop in the FMAP rate for any state at any time, other states that have experienced massive natural disasters experienced similar patterns in their per capita personal income levels and subsequently their FMAP rates. However, the fluctuations in Louisiana's FMAP are more severe than states with major disasters due to the unparalleled extent of storm damage and subsequent levels of money related to rebuilding – particularly in relation to its economy. However, the solution needed for Louisiana is shared by every state that experiences a major disaster.

In addition to the anticipated FMAP reduction, two other factors may cause Louisiana to lose significant resources. A new federal audit rule will change which Medicaid services are eligible for reimbursement thereby reducing the amount of federal funds to Louisiana by approximately \$200 million dollars annually. The federal government has also indicated that the state owes around \$800 million dollars for past Medicaid overpayments. DHH officials have appealed the state's obligation to these alleged overpayments, but the timing of asking for forgiveness of this debt could not come at a worse time given the combined reductions to federal funds for Medicaid for Louisiana.

What needs to be done to avoid this crisis?

In order to avoid this Medicaid crisis Louisiana needs Congress to pass legislation that adjusts the FMAP calculation so it disregards any extraordinary revenues resulting from recovery of a presidentially declared disaster when the state's per capita personal income growth is above an established percentage level. There are many groups who are individually and collectively attempting to impress upon our Congressional delegation the enormity and gravity of this situation to make this adjustment to the FMAP calculation. The DD Network encourages all stakeholders to join the crusade in advocating Congress for assistance that will save Louisiana from weathering the financial storm caused by recovery from its natural disasters.