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Medicaid: Cost-Effective Coverage that Works for Kids

By Lisa Shapiro
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The Medicaid program is a public insurance program, operated as a partnership between the federal government and the states, that provides health insurance coverage to very low-income children, the disabled, the elderly, and other uninsured individuals.

Medicaid was established as part of the same legislation that created Medicare, the Social Security Amendments of 1965 (P.L. 89-97). Prior to its passage, health care services for the indigent were provided primarily through a patchwork of programs sponsored by state and local governments, charities, and community hospitals.

Medicaid provides health coverage with remarkable success to 68.9 million of our nation's most vulnerable citizens: primarily children in very low-income families, adults with significant disabilities, and elderly individuals who are cared for in long-term care facilities.[1] In 2014, the Affordable Care Act (P.L. 111-148, P.L. 152) gave states the option to expand Medicaid to low-income adults who had not previously been eligible for coverage.

Medicaid is the largest insurer of children. Medicaid insures approximately 36.8 million children.[2] An additional 8.4 million children are enrolled in the Children's Health Insurance Program (CHIP), which provides coverage for children just above the Medicaid eligibility threshold.[3] Together Medicaid and CHIP serve more than one in three children in the United States.

Despite Medicaid and CHIP's enormous success in covering kids, over 4.1 million children remain uninsured.[4] Rates of uninsured children are higher in the south and the west regions of the U.S., and nearly half of all uninsured children reside in six states (Texas, California, Florida, Georgia, Pennsylvania and New York).[5] An estimated 2.8 million children are eligible for Medicaid or CHIP but not enrolled in coverage.[6]

Medicaid has reduced the numbers of uninsured children to record lows. Working together, Medicaid and CHIP are responsible for notable increases in coverage for uninsured children. Between 1997 and the third quarter of 2015 the rate of uninsured children was reduced by 67.9% from 14.9% to 4.8% -- due in large part to the availability of coverage through Medicaid and CHIP.[7]

"We owe it to our children and to our nation's future success to keep Medicaid strong."

Medicaid is especially critical for kids in times of economic crisis. During times when there are high rates of unemployment, families that lose employer-sponsored coverage are often unable to afford the cost of private health insurance on their own. During the 2008 recession, for every 1% increase in the unemployment rate, an additional 600,000 children became eligible for Medicaid and CHIP.[8]

Medicaid is a key source of coverage for children of color. Medicaid and CHIP serve as important sources of coverage for children of all races and ethnicities and are a primary source of coverage for many children of color. Overall, Medicaid and CHIP cover almost one-third of White (31%) and one-quarter of Asian (28%) children, and over half of Hispanic (56%) and Black children (58%), who are more likely to live in low-income families than White children.[9]

Medicaid is a partnership between the federal government and the states. The costs of operating the Medicaid program are shared between the federal government and the states. The amount of funding a state receives from the federal government for Medicaid is set by a formula that varies by state. This so-called federal matching percentage (or FMAP) ranges from 50-83%. On average, the federal

government pays 57% of Medicaid costs.[10] Mississippi has the highest Medicaid FMAP with the federal government picking up 74.6% of Medicaid costs.[11]

Each state designs and operates its own Medicaid program within certain federal guidelines. Federal Medicaid guidelines set a minimum standard for what groups of individuals are eligible for coverage (e.g. children under the age of one, pregnant women, etc.), and which medical benefits must be covered for a state to receive federal Medicaid matching payments. Outside of basic program requirements that set a floor for eligibility and benefits, states have significant flexibility to operate their Medicaid programs.

While Medicaid is not a mandatory program and states are not required to participate, by 1972, 49 of 50 states opted to participate in Medicaid (Arizona began participating in Medicaid 10 years later in 1982).[12] One of the main thrusts for initiating Medicaid was to lift the burden on states and localities, including local providers, who were shouldering the cost of providing care for the poor.

With the passage of the ACA, all children up to 138% of the federal poverty level (FPL) are eligible for Medicaid ($27,724 for a family of 3 in 2016).[13]

Medicaid ensures access to comprehensive, child-specific services. Through its Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) program, Medicaid requires that all children get the services they need to meet their unique health and developmental needs. EPSDT ensures coverage for developmental assessments for infants and young children, as well as well-child visits, vision, dental, and hearing services. It also allows access to medically necessary therapies to manage disorders and chronic illness that become more costly when left untreated.

Medicaid is as an essential backstop for children with special health care needs. Medicaid ensures that families are not bankrupted when a child is born with, or develops, a life-threatening condition. In addition to medical treatment, it also covers in-home support, habilitative services, long-term care, and transportation services for children with special healthcare needs. In 2012, 19.8% of children in the U.S. (approximately 14.6 million) had special health care needs. Approximately 43.4% of children with special health care needs are covered by Medicaid or CHIP.[14]

Medicaid supports cost-effective care coordination by providing a case-management benefit that coordinates services across state organizations and agencies for at-risk children. This can cut across programs, like child welfare and mental health, which are typically needed by the most vulnerable kids.

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Medicaid is affordable for families. Medicaid makes health care affordable for families by limiting out-of-pocket costs for services provided to children. States are generally prohibited from imposing premiums and cost-sharing for mandatory coverage of children in Medicaid. Children and pregnant women with incomes below 150% FPL are exempt from co-payments and premiums.[15] There is extensive research showing that high out-of-pocket costs prevent low-income children from receiving the care they need. Limiting cost-sharing and premiums helps to ensure that children can get the health care services they need to stay healthy, avoiding more costly emergency care down the road.

Medicaid spending on children is relatively small compared with spending on other populations. Covering children through Medicaid is relatively inexpensive ($2,866 per child/per year) compared to much higher Medicaid costs for the elderly, the disabled and those who use long term care services.[16] In FY 2012, children represented 40% of all Medicaid enrollees but they account for only 19% of Medicaid spending.[17]Medicaid has low administrative costs when compared with private insurance. Private health insurance has administrative costs that are, on average, about twice the cost of Medicaid, 14% for private coverage compared with 7% for Medicaid.[18] Approximately 77% of Medicaid enrollees get their coverage through private sector managed care health plans.[19] Medicaid's extensive use of managed care arrangements has helped to improve access to care for many enrollees.

Total Medicaid spending was $532 billion in FY 2015. Of this amount, $334 billion was federal spending and $198 billion was state spending.[20] Federal spending on Medicaid is expected to continue to rise in the next few years due to the ACA's Medicaid expansion option for states, which allows coverage for uninsured adults.

In 2015, Medicaid accounted for approximately 17% of national health care spending, due in large part to the ACA Medicaid expansion as well as increased Medicaid enrollment resulting from the economic recession.[21] Medicaid funding has become an important budgetary issue for states. Looking only at the state-funded portion, Medicaid's share of state budgets was 15.3% in state fiscal year 2014.[22]

Bottom Line: Medicaid is a cost-effective solution to keep kids healthy.

Medicaid has been enormously successful in providing cost-effective care to millions of children. From well-baby and well-child visits, to vaccines, eyeglasses, dental services, and asthma care, Medicaid plays a significant role in keeping kids healthy, in school, and on track to becoming healthy and productive adults.

Despite Medicaid's success, GOP leaders are developing proposals to fundamentally restructure Medicaid, dramatically shifting fiscal responsibility for Medicaid to the states, while at the same time reducing federal funding for the program. Together with the Children's Health Insurance Program (CHIP), Medicaid covers more than 45 million children, including half of all low-income children in the United States.[23] Cuts to Medicaid would have a devastating impact on our nation's children. Congress must reject proposals that would impose arbitrary cuts to Medicaid, including per capita caps or block grants. Arbitrary cuts to Medicaid, especially when it comes to children, will only limit eligibility for coverage and reduce benefits while producing insubstantial savings – the rise in the numbers of uninsured children would be significant.

As lawmakers work take a new look at Medicaid, children's coverage must be a priority. Fifty years ago, our leaders made a commitment to care for those living in poverty. Instead of reversing the two-decade trend of improving coverage for children, Congress must instead renew its commitment to children by protecting Medicaid so that every family in America has the peace of mind that when hard times fall their children will still be able to get the care they need to grow up to enjoy long and healthy lives. We owe it to our children and to our nation's future success to keep Medicaid strong.

For more information about this and other child health issues please contact Lisa Shapiro, Vice President for Health Policy at First Focus. (LisaS@firstfocus.org; 202-657-0675)

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