Not Even Penny Wise

Premiums Will Harm Washington's Children, Economy

Economic Impact Analysis Performed by
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Resource Economics at Washington State University

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February 2004

Acknowledgements

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Executive summary

Despite the enormous benefits Medicaid and the Children's Health Insurance Program (CHIP) provide to Washington State's families and economy, the Legislature is considering charging premiums to many children in these programs. The proposed premiums will wreck havoc on the lives of vulnerable children, cost the state more in the long run, and harm Washington's economy. This report provides an overview of the important contributions Medicaid and CHIP make to the economy of and quality of life in Washington State, and the devastating impacts of premiums.

Throughout the state, Medicaid and CHIP spending directly purchases goods and services, and supports health care industry jobs for Washington's counties. And these direct health care purchases trigger further cycles of earning and purchases that ripple throughout the economy, affecting individuals and businesses not directly associated with health care, and generating jobs, income, and economic activity.

This analysis measures the economy-wide business activity, jobs, and income produced by Medicaid spending. In Washington's counties, Medicaid spending results in total county expenditures approximately three times the size of the original investment — because every state dollar is matched by a federal dollar, and because this spending stimulates additional economic activity. Many of Washington's rural county economies are particularly dependant on Medicaid; Medicaid is a large portion of the economic total county health care economy in numerous rural counties. The economic impact of the Children's Health Insurance Program (CHIP) is not included in this analysis, but because it receives an even higher federal match than Medicaid, the economic impact of CHIP state spending is likely larger than that of the Medicaid program.

And Medicaid and CHIP do far more while helping the economy. These programs provide children with critical health care that improves their health throughout their lives. But if premiums are implemented, many families will not be able to afford health care for their children — a situation that produces serious problems for families and long term costs for the state.

Uninsured children are less likely to receive health care, including preventative care. Children who forgo preventative care and treatment for chronic conditions like asthma are more likely to suffer preventable and costly health problems and to resort to the emergency room for care. Children without access to health care are less likely to succeed in school, with long lasting consequences to themselves and to their communities. And treating uninsured children in the emergency room costs the state and providers far more than timely preventative care does. Billing individual families for small premiums is quite costly, and the increased administrative cost could even exceed the money collected. The cost to the state, counties, families, and health care providers will far outstrip any small savings these premiums might bring.

Medicaid and CHIP are clearly good investments and an important source of health care and economic activity for Washington; cuts to these programs harm families and the economy. Children's premiums should not be implemented.

Background

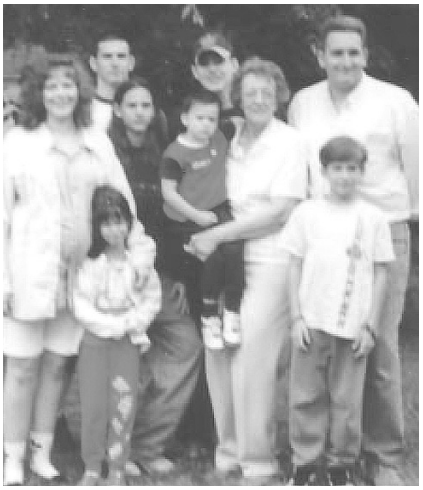
In Washington, 362,940 children rely on Medicaid and CHIP to access basic preventative health services, emergency care when they are injured, and ongoing care for chronic conditions.[1] Currently, no children with family incomes at or below 200 percent of poverty — $36,816 per year for a family of four[2] — are charged premiums to participate in Medicaid. Last year, the Legislature directed the Medical Assistance Administration (MAA), the agency that administers Medicaid and CHIP, to begin requiring monthly premiums from some children enrolled in Medicaid, and to increase the premiums imposed on children enrolled in CHIP.

The Legislature's proposal is that:

- Children with family incomes from 100 to 150 percent of the federal poverty level would be charged $15 monthly premiums
- Children with family incomes from 150 to 200 percent of poverty would be charged $20 monthly premiums
- Children with family incomes from 201 to 250 percent of poverty (children covered by CHIP) would be charged $25 monthly premiums (more than double the current premium of $10 monthly)[3]

No family would be charged more than $75 per month.[4]

The Governor has proposed reducing these premium amounts. Under the Governor's proposal, children in families from 100 to 150 percent of poverty would not be charged premiums. Children in



Michael and Sheri Lewis

We have six children, three of whom are still school-age: Matthew, Lisa, and Andrew. We are fortunate because our children receive Medicaid coverage. My wife and I have no coverage right now, so we're grateful that our children are provided for.

I've been working in the insurance field for 17 years now. I lost my position about two and a half years ago, and we put the kids on Medicaid coverage then. Now I'm working part-time, and trying to get established again in my field. That takes time, of course, and you don't make the best money until you've been working for a while. I'm working about 25 or 30 hours a week. At the most, I make $1,900 in a month.

My son Andrew is taking medication right now that would cost $59 a month. He'll need it for the next six to nine months. I would have no way to pay for that without Medicaid. And of course, they're all growing children, so any day now we may see a broken bone, or a sudden illness. Even a flu becomes a crisis if you don't have a way to pay for treatment.

The state thinks I can afford the premiums for my children's Medicaid. I don't see how I could do that. My wife just went to Providence for an infection, and we couldn't afford to pay for the medicine she needs. My rent is $1,000 a month, and after utilities and the other bills, there's hardly anything left. I can't afford to sacrifice my children's health care, but I may have to consider that if the premiums go into effect.

families from 151 to 200 percent of poverty would pay $10 monthly, and children enrolled in CHIP would pay $15 monthly.[5]

It is unclear which plan MAA will implement. The department was waiting for the federal government to approve a waiver request that would allow the state to impose premiums on Medicaid enrollees, which is not allowed under federal Medicaid law. The state received approval on February 3, 2004, and has not announced when or how the premiums will be implemented.

These proposed premiums will have serious impacts on the health of children and the economy. This report details the importance of Medicaid and CHIP to the Washington State economy, and the impacts charging premiums will have on Washington families and the economy.

The importance of Medicaid and CHIP for Washington's economy

Direct economic impacts of Medicaid

Medicaid supports county economies on many levels.

The direct benefits of Medicaid are the most obvious: in paying for health care services for county residents, Medicaid spending directly purchases goods and services, and supports health care industry jobs.

Direct Medicaid spending, 2002[6]

	STATE MEDICAID SPENDING	TOTAL MEDICAID SPENDING (includes federal match)
Adams	$12,017,984	$24,035,969
Asotin	$11,856,258	$23,712,516
Benton	$66,637,763	$133,275,527
Chelan	$36,112,931	$72,225,862
Clallam	$31,424,733	$62,849,466
Clark	$135,942,913	$271,885,825
Columbia	$2,618,170	$5,236,341
Cowlitz	$53,318,685	$106,637,370
Douglas	$16,521,919	$33,043,839
Ferry	$4,598,833	$9,197,666
Franklin	$41,883,859	$83,767,718
Garfield	$740,315	$1,480,630
Grant	$53,890,075	$107,780,150
Grays Harbor	$43,103,742	$86,207,484
Island	$17,560,449	$35,120,897
Jefferson	$8,990,956	$17,981,912
King	$625,980,415	$1,251,960,830
Kitsap	$75,660,395	$151,320,790
Kittitas	$9,548,599	$19,097,198
Klickitat	$10,369,713	$20,739,426
Lewis	$41,888,496	$83,776,991
Lincoln	$3,894,134	$7,788,268
Mason	$26,383,166	$52,766,332
Okanogan	$27,269,623	$54,539,245
Pacific	$12,192,467	$24,384,934
Pend Orielle	$9,680,162	$19,360,324
Pierce	$343,444,475	$686,888,949
San Juan	$3,155,407	$6,310,814
Skagit	$46,473,891	$92,947,781
Skamania	$3,926,353	$7,852,707
Snohomish	$197,412,669	$394,825,337
Spokane	$244,535,146	$489,070,292
Stevens	$25,884,945	$51,769,890
Thurston	$75,703,359	$151,406,718
Wahkiakum	$1,337,135	$2,674,269
Walla Walla	$25,836,323	$51,672,646
Whatcom	$74,088,636	$148,177,272
Whitman	$9,364,454	$18,728,907
Yakima	$165,081,775	$330,163,551
STATEWIDE	**$2,596,623,000**	**$5,193,246,000**

State spending on the Medicaid program is matched by federal funds; in Washington State, every dollar invested brings in a dollar in federal funding. This federal matching means that state Medicaid spending has a greater economic impact than other state spending. State Medicaid spending brings in these federal funds that help support county goods, services and jobs, in addition to providing crucial health care.

Funding for the Children's Health Insurance Program (CHIP) is structured the same way — but the federal match for CHIP is higher than the Medicaid match. In Washington State, the federal Medicaid match was 50 percent before April, 2003. On April 1, 2003, the federal government temporarily increased the federal matching rate for Medicaid, resulting in a 53 percent federal match for Washington State. The increased Medicaid rate will last through June 30, 2004.[7] For CHIP, Washington's federal match is 65 percent.[8]

In many Washington State counties, particularly in rural areas, direct Medicaid spending creates a large portion of the health care jobs, and a large portion of the health care economy. Statewide, 23 percent of health care jobs stem from direct Medicaid spending. Many counties are far above this statewide level. Rural county economies are particularly dependant on Medicaid. For example, in Pend Orielle County, nearly 60 percent of health care jobs stem from direct Medicaid spending. Cuts to Medicaid and CHIP could have dramatic impacts on Washington State's county economies.

Economy-wide impacts of Medicaid

In addition to the direct benefits Medicaid spending provides to the community, Medicaid spending provides further economic benefits as well. Direct health care purchases trigger further rounds of

María Teresa Espinoza

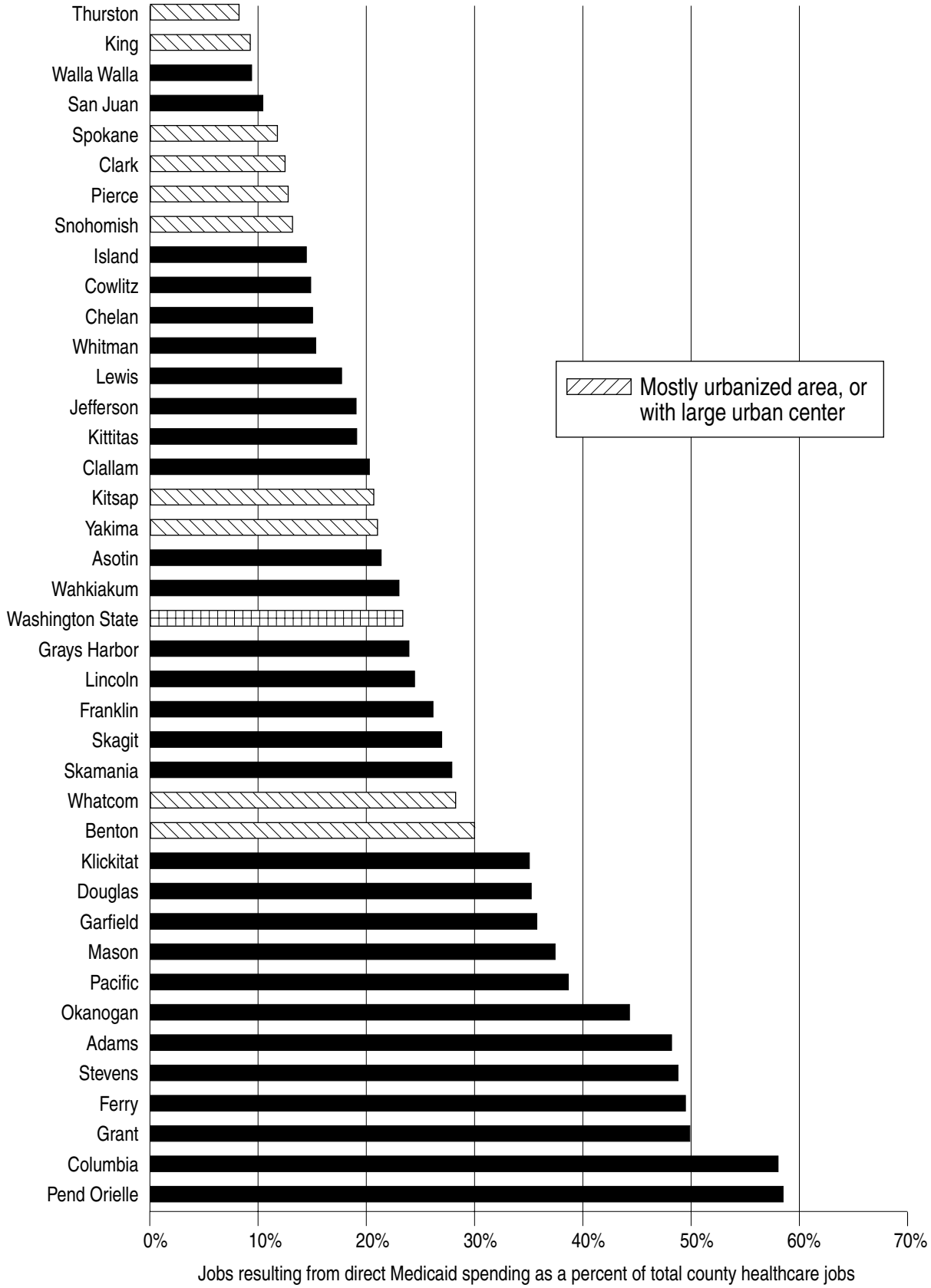
I live in Mabton with my husband and our three children. I work for Catholic Family and Child service as manager of an apartment complex for low-income community members. For years, my husband has worked in grape cultivation. Agricultural work has always been seasonal, but this year has been one of the worst because of the extremely cold weather. My husband was laid off earlier than usual and we don't know when he'll go back to work — there may not even be a grape harvest this year. Between my salary and his unemployment payments, we earn about $2,200 a month — very little for a family of five.

My children have always used Medicaid, which is very necessary for their health. Recently all three of them got very sick and I had to take them to the clinic, where they were prescribed antibiotics. I don't know how I could have afforded this without their Medicaid coverage. With the flu this year, it's more important than ever that parents be able to take their children to the doctor.

But I've learned that there's a proposal to charge premiums of families that earn very little, but above what's considered the poverty level — or, in the case of the Governor's proposal — above 150 percent of the poverty level. This could affect my family, but we don't know exactly how, since our income fluctuates throughout the year. This is part of our fear. What happens if one month we begin to earn less, but we are still charged the same amount? I can already imagine the complications and financial difficulties this could cause.

Fortunately, my family is able to rent an apartment through my job for only $419 a month — that's less than most people pay in Mabton. I don't know how we'd make it if we had to pay more. So how will this proposal affect families who earn the same, but don't have this advantage? I am very active in my community and I know how families struggle to make it, so I know that this proposal will hurt our region — and the first victims will be the children.

Many of Washington State's health care jobs result from direct Medicaid spending[9]



wages and purchases that spread throughout the economy, affecting individuals and businesses not directly associated with health care.

Here is an example:

A hospital supported by Medicaid payments *directly* employs county residents and purchases goods from businesses in order to operate. A hospital's purchase of medical supplies helps support businesses that produce medical supplies, businesses that transport the supplies, and other businesses that provide raw materials for the supplies. Economists call these effects on other industries *indirect* impacts. Employees of all of these businesses use part of their salaries to purchase further local goods and services — they may spend part of their salaries on appliances, enabling appliance store employees to spend additional money on groceries, and on and on. Economists call these impacts of wages induced impacts. As a result of Medicaid spending, cycles of economic activity ripple throughout the economy.[10]

This report estimates the economy-wide impact of Medicaid spending on Washington's counties — the sum of the direct, indirect, and induced economic impacts of Medicaid spending.

The tables on page 8 and 9 show the ripple effect Medicaid spending has throughout the economy of each of Washington State's counties. State spending on Medicaid results in total business activity approximately three times larger than the state's original investment given that state dollars are matched, and because the initial spending stimulates additional economic activity. Although this economic impact analysis does not include CHIP, CHIP has a higher federal match than the Medicaid program, and state CHIP spending likely produces a similar or larger economic impact.

The jobs produced by Medicaid spending and the resulting ripple effects are particularly important because many of these jobs are in the health care sector, and health care industry jobs tend to be higher-paying jobs, generally providing higher than average annual wages.[12]

Medicaid has a dramatic impact on the economy, supporting numerous jobs for residents, and substantial income for area businesses and residents as well. Medicaid is clearly a good investment and an important source of economic activity.

The impacts of proposed premiums on Washington's families

Medicaid and CHIP provide vital access to health care

Medicaid and CHIP provide crucial health care to county residents, dramatically improving Medicaid enrollees' lives and the quality of life for all residents.

Economy-wide impact of Medicaid spending[11]

	DIRECT SPENDING		ECONOMY-WIDE IMPACT		
	State Medicaid spending	Total Medicaid spending (includes federal match)	Total business activity	Total jobs	Total income
Adams	$11,252,794	$22,505,589	$17,009,000	226	$9,307,000
Asotin	$11,101,365	$22,202,730	$24,335,071	399	$14,869,830
Benton	$62,394,910	$124,789,819	$96,787,000	1,237	$54,533,000
Chelan	$33,813,606	$67,627,212	$87,919,000	1,132	$55,595,000
Clallam	$29,423,907	$58,847,814	$55,743,833	806	$30,975,509
Clark	$127,287,371	$254,574,743	$323,856,395	4,096	$201,777,317
Columbia	$2,451,470	$4,902,941	$1,618,977	18	$491,597
Cowlitz	$49,923,862	$99,847,724	$126,942,596	1,753	$78,100,934
Douglas	$15,469,962	$30,939,924	$9,266,000	126	$4,612,000
Ferry	$4,306,023	$8,612,047	$3,961,000	50	$1,430,000
Franklin	$39,217,096	$78,434,193	$95,811,287	1,266	$57,160,177
Garfield	$693,179	$1,386,358	$423,466	2	$50,882
Grant	$50,458,872	$100,917,743	$98,498,000	1,307	$49,770,000
Grays Harbor	$40,359,309	$80,718,618	$97,901,669	1,345	$58,063,844
Island	$16,442,368	$32,884,735	$18,589,000	292	$10,092,000
Jefferson	$8,418,498	$16,836,996	$10,692,875	154	$5,337,435
King	$586,123,984	$1,172,247,968	$1,381,915,993	15,040	$863,693,652
Kitsap	$70,843,066	$141,686,133	$193,888,000	2,736	$118,804,000
Kittitas	$8,940,636	$17,881,272	$16,844,000	254	$8,905,000
Klickitat	$9,709,469	$19,418,938	$18,864,000	253	$10,365,000
Lewis	$39,221,438	$78,442,876	$102,258,072	1,466	$61,804,205
Lincoln	$3,646,193	$7,292,385	$5,844,000	58	$2,808,000
Mason	$24,703,339	$49,406,678	$30,569,000	421	$15,912,000
Okanogan	$25,533,354	$51,066,709	$48,343,000	673	$26,923,000
Pacific	$11,416,167	$22,832,335	$13,656,749	223	$7,195,400
Pend Orielle	$9,063,822	$18,127,644	$5,807,000	66	$2,126,000
Pierce	$321,577,224	$643,154,447	$935,611,086	11,581	$578,210,505
San Juan	$2,954,501	$5,909,002	$1,981,000	25	$929,000
Skagit	$43,514,879	$87,029,758	$97,064,000	1,299	$56,247,000
Skamania	$3,676,361	$7,352,722	$966,000	6	$176,952,000
Snohomish	$184,843,323	$369,686,645	$389,920,878	4,865	$236,411,475
Spokane	$228,965,493	$457,930,985	$677,313,785	9,215	$417,560,996
Stevens	$24,236,840	$48,473,680	$56,005,000	890	$32,648,000
Thurston	$70,883,295	$141,766,590	$180,439,262	2,093	$98,821,684
Wahkiakum	$1,251,999	$2,503,997	$1,599,729	36	$950,772
Walla Walla	$24,191,314	$48,382,627	$63,018,940	920	$38,549,453
Whatcom	$69,371,382	$138,742,764	$194,131,000	2,723	$113,770,000
Whitman	$8,768,215	$17,536,430	$18,766,000	233	$8,403,000
Yakima	$154,570,951	$309,141,901	$431,612,684	5,973	$265,667,012
Statewide	**$2,431,294,944**	**$4,862,589,888**	**$7,245,000,000**	**86,216**	**$4,399,000,000**

County Medicaid leverage factor:

In Washington, state Medicaid spending results in economy-wide business activity approximately three times the size of the original investment[13]

COUNTY	MEDICAID LEVERAGE FACTOR	COUNTY	MEDICAID LEVERAGE FACTOR
Adams	1.5	Lewis	2.6
Asotin	2.2	Lincoln	1.6
Benton	1.6	Mason	1.2
Chelan	2.6	Okanogan	1.9
Clallam	1.9	Pacific	1.2
Clark	2.5	Pend Orielle	0.6
Columbia	0.7	Pierce	2.9
Cowlitz	2.5	San Juan	0.7
Douglas	0.6	Skagit	2.2
Ferry	0.9	Skamania	0.3
Franklin	2.4	Snohomish	2.1
Garfield	0.6	Spokane	3.0
Grant	2.0	Stevens	2.3
Grays Harbor	2.4	Thurston	2.5
Island	1.1	Wahkiakum	1.3
Jefferson	1.3	Walla Walla	2.6
King	2.4	Whatcom	2.8
Kitsap	2.7	Whitman	2.1
Kittitas	1.9	Yakima	2.8
Klickitat	1.9		
		STATEWIDE	**3.0**

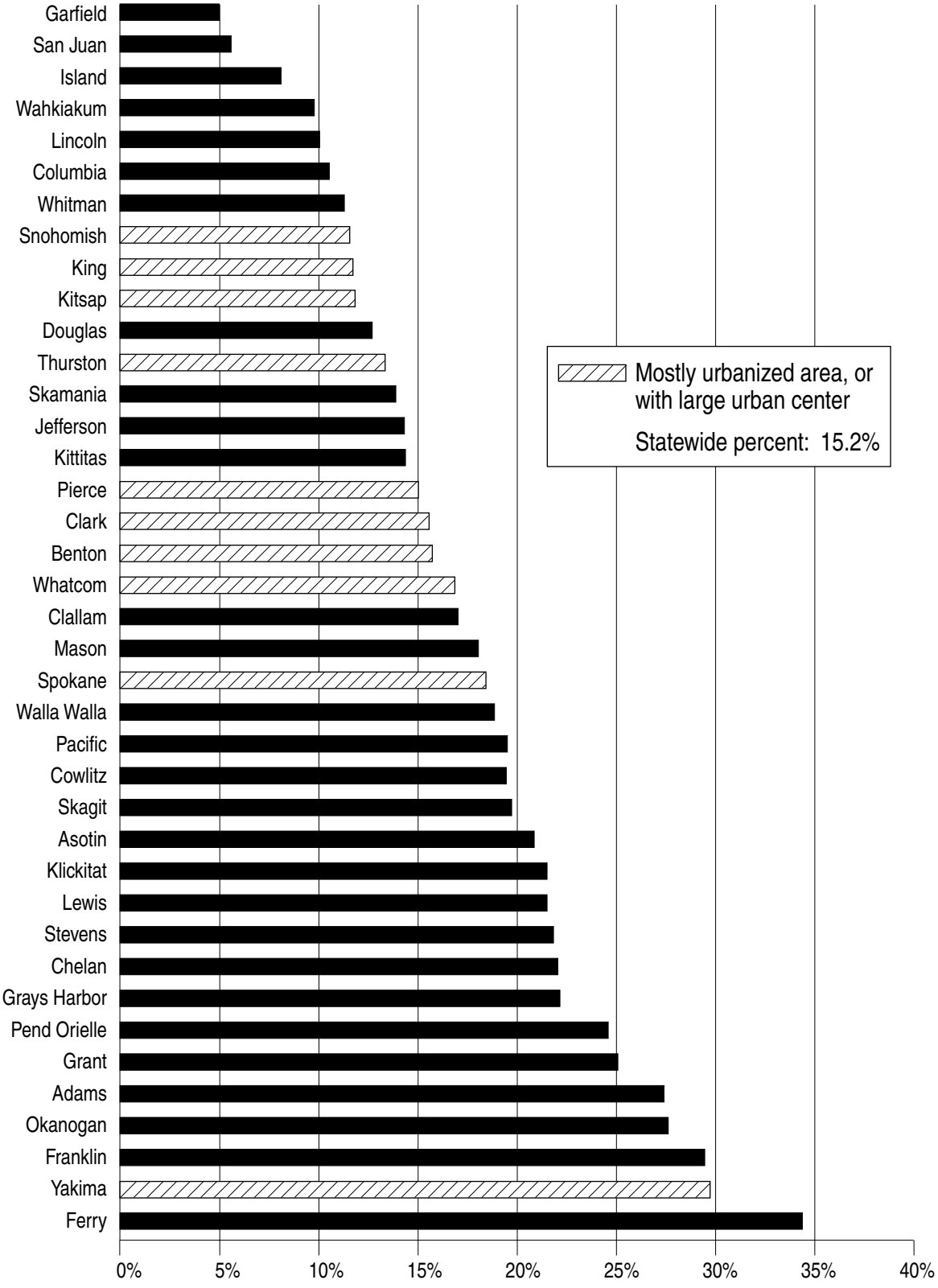
A sizable portion of Washington State's residents depend on Medicaid and CHIP for their health care needs. Over 8,744 children depend on CHIP for health care in Washington State,[14] and 335,395 children rely on Medicaid to access basic preventative health services, emergency care when they are injured, and ongoing care for chronic conditions.[15] Approximately 46 percent of the children on Medicaid (154,329 children), and all the children in CHIP will be affected by the proposed premiums.[16]

Approximately 15 percent of Washington State's residents are covered by the Medicaid program. In some counties, the percentage of residents using Medicaid is much higher than the statewide figure: for example, almost 35 percent of the residents of Ferry County are covered by the Medicaid program. Medicaid and CHIP are crucial for the health of individuals, and communities.

The proposed premiums will result in children losing coverage

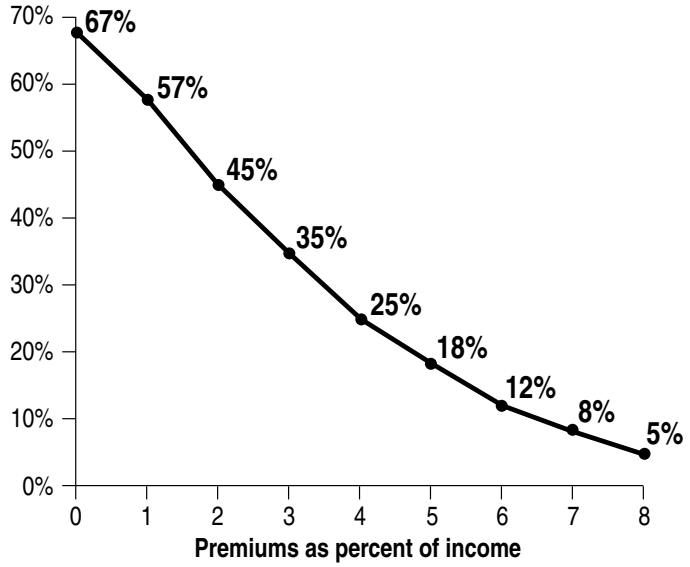
Imposing premiums on Medicaid children who live in families with very low incomes is a radical departure from Washington's historic commitment to health care for kids. The premiums will result in fewer children covered. Experience has shown that imposing premiums on low-income insurance beneficiaries causes some of those beneficiaries to drop their coverage.

Medicaid enrollment as a percent of county population[17]



Using data from four state programs that imposed premiums in insurance plans for low-income people, including data from Washington State's Basic Health Plan, the Center on Budget and Policy Priorities (CBPP) estimated the harmful impact on people's participation in Medicaid. As the chart below shows, raising premiums has the direct effect of decreasing the number of people who participate in the programs.

As premiums rise, fewer low-income uninsured people participate[18]



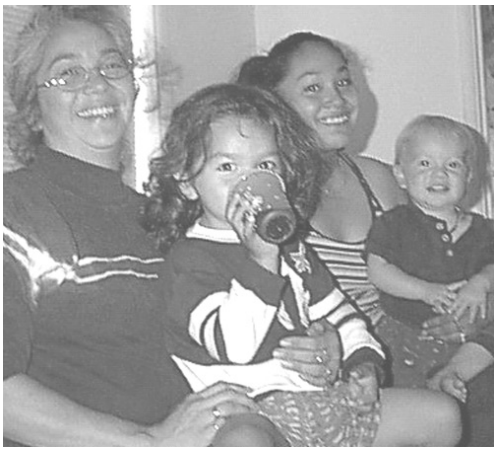
Source: Ku and Coughlin, 1999/2000

This effect has recently been observed in other state programs. In Maryland, imposing premiums on children with incomes between 185 and 200 percent of poverty led to disenrollment of half of the children in the program, or 3,000 of the 6,000 children in that income range.[19] Within three months of an increase in premiums in Oregon's Medicaid program last year, more than one quarter (29 percent, or 25,000 families) of the affected beneficiaries dropped out of the program.[20] According to more recent data, as many as 32,000 Oregon families must now struggle to find alternate coverage, rely on emergency room care, or go without.[21]

The U.S. General Accounting Office studied four state CHIP programs that charged premiums of varying amounts, and found that, in the three states that enforced these policies, four, nine, and 10 percent of the children enrolled prior to implementation of the premiums lost coverage.[22] In Michigan, where the maximum monthly family premium was only $5, 10 percent of children lost coverage.[23]

There is no doubt in anyone's mind that the proposed premiums will lead to children losing coverage. A state agency, the Washington Caseload Forecast Council, predicted that the premiums enacted last year in the budget would cause enrollment in Medicaid and CHIP to drop by about 20,300 children by June 2005.[24] The same agency has estimated that other changes in the Medicaid program will cause a drop in Medicaid enrollment by an additional 28,000 children.[25] Combined, these reductions would double the number of uninsured children below 200 percent of poverty in Washington State.[26]

These numbers may be underestimating the effects of the premiums. The CBPP estimates that the actual effect of the premiums under the existing budget plan will be a loss of 24,000 children from the Medicaid and CHIP programs, a 15 percent decrease in enrollment. Even under the Governor's proposal, the CBPP predicts that 4,792 children on Medicaid would lose coverage, and 216 children enrolled in CHIP would lose coverage.[27]



Mary T. Andrews

I am 39 years old and am raising four kids on my own. I come from the Tohono O'Odham tribe that resides in Arizona. I've been very active in the urban Indian community. Up till very recently we depended on Temporary Assistance for Needy Families (TANF). In October of 2003, however, I started working part time at a local non-profit direct service agency as an infant mortality prevention peer educator. I enjoy my work a lot; I work mostly with Native Americans.

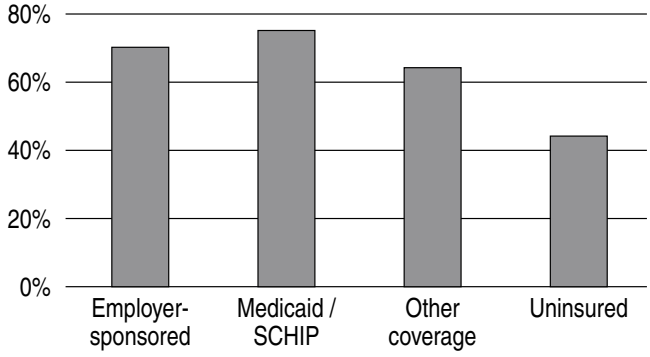
My family and I are currently enrolled in the Medicaid program. Two of my sons are Alaskan Native. All of my kids and I need regular dental check ups, as well as eye care. Jonathan, who is only two and a half years old, also needs immunizations. If it wasn't for Medicaid, my children — Jonathan, Randy, Karissa, and Oceana — would have no health coverage. They are 16, 12, three, and two. I want them to grow up strong and healthy. Without access to healthcare they won't grow up to be productive, independent members of society.

All the money I have at my disposal goes towards rent ($1,000 including utilities and the phone bill), food, and other very basic necessities. We're no longer eligible for food stamps, so I volunteer at the Ballard food bank to replace them. With all my kids at school other expenses keep on coming up: clothing, school supplies, transportation. Even laundry is often postponed because we just don't have room for that in our budget. If the legislature approves changes to Medicaid and imposes premiums on my children I will have to make some tough choices. We'll either have to go homeless, hungry, or uninsured.

Uninsured children are less likely to receive health care, particularly preventative care

Children without insurance are least likely to receive preventative care like well-child visits. Children with any form of insurance, including employer sponsored coverage and Medicaid/CHIP coverage, are much more likely to have at least one well-child visit. Uninsured children are three-and-one-half times as likely as insured children to forego needed health care.[28] Children without insurance are more than four times as likely to have delayed medical care because of cost, three times as likely to lack necessary dental care, more than twice as likely to go without needed prescription medications, and more than twice as likely to go without eyeglasses.[29]

Children with at least one well-child visit, by insurance coverage, 2002[30]



Uninsured children who do not receive preventative care are more likely to develop serious and life-threatening conditions as a direct result of this lack of access to care. Seventy-one percent of emergency room doctors surveyed by the American College of Emergency Physicians said that "uninsured patients seen in the ER tended to be sicker and have more serious medical conditions than patients with health

coverage" because uninsured patients delay seeking care for conditions that could be cured or minimized with early treatment.[31]

Blocking children's access to health care places their futures in jeopardy

Clearly, blocking children's access to health care places their health in jeopardy. Children with no access to preventative health care are at risk for more serious illnesses. For example, a child with asthma who is unable to visit a primary care physician for routine care and cannot purchase prescription medications to manage his or her illness is at risk for life threatening asthma attacks. Failing to provide a child with routine dental care can leave the child with permanent and disabling tooth decay, oral infections, and periodontal disease.

Lack of access to adequate health care can cause other permanent damage to children as well. Lack of access to dental care has been linked to poor school performance, poor social relationships, and less success later in life.[32] Similarly, a child with untreated vision problems faces obvious barriers to success in school. And a child hospitalized with an illness that could have been treated if diagnosed at an early stage loses valuable time in school as well. The state of Florida found that uninsured children are 25 percent more likely to miss school.[33] Absenteeism has been linked to poor school performance, and absenteeism related to chronic illness is associated with even lower school achievement.[34] Finally, parents with insurance report feeling less stress and are more likely to allow their children to participate in activities than when they were uninsured.[35]

Michele Edwards and **Angel Edwards-Torres**

My son is named Angel. He wouldn't be alive today if he didn't have Medicaid coverage.

Angel and I had a really traumatic pregnancy. I had a number of health emergencies during my pregnancy. It all started with an optical aneurysm that put me into Harborview for a month and a half. During the hardest part of this time, they sedated me — I was put into what's called a morphine coma. Then after another checkup, I ended up in the University of Washington hospital. During my whole pregnancy, I ended up with hypertensive blood pressure, a heart attack, another aneurysm, and four or five different surgeries. Angel was born about two months premature.

I was really fortunate because I had two different insurance policies covering me.

I'm receiving SSI right now and Medicare, but of course, Medicare won't cover my son. So he's getting Medicaid right now. It's already been a life saver for him. During the first few months, he was getting a Synagis shot every month to keep him from getting RSV, a respiratory virus. Those shots cost $1,000 a month. I would have had no way to pay for them if he didn't have Medicaid.

He is small, but he's developing really well. We're always going to watch him, so he can't go without health care. Just a few months ago, they thought he was developing hernias. What do I do if there's something else like that, if I can't take him to the doctor? I guess there's always the emergency room at St. Peters. But then I'll just be starving my son to death while I try to pay off the bill.

I receive $1,499 a month from SSI, because I can't work any more. I'm technically over the poverty level, so I would have to pay premiums to keep my son on Medicaid. I can't afford premiums, even at $1,500 a month. My son would lose his Medicaid, and I would lose my son, I know it. There has to be another way to balance the budget besides this.

Charging premiums and reducing caseloads is no bargain for Washington State

The bottom line is that keeping kids in CHIP and Medicaid creates two-fold savings for the state — by ensuring that kids get preventative care rather than more costly care for preventable conditions, and by generating much needed economic activity through to the federally matched funding structure of these programs and the jobs and income these programs create.

Paying for preventative care, like well child visits, dental care, and prescription drugs, is cheaper than paying for preventable emergency room visits and acute care.[36] One study found that reducing low-income people's access to prescription drugs through co-pays led to increased emergency room visits, hospitalizations, and institutionalization. These costly treatments offset savings realized by decreased prescription drug use.[37]

State or hospital spending on other safety net programs doesn't come with a federal match. When uninsured patients are able to receive care, their care is often paid for by state and local governments. According to a recent national survey, about one-third of all patients who use emergency rooms are uninsured.[38]

Much of the pressure on providers to care for the uninsured is absorbed by the state and local governments. Other states have acknowledged that enrolling children in CHIP and Medicaid saves state money that would be spent on health care through other programs. In Texas, as the Legislature considered a children's health insurance plan, the Legislative Budget Board prepared a report on the long-term fiscal impact of such a plan. The Board reported that, assuming that CHIP would enroll 440,000 children initially and grow by 5,000 children annually, the program would result in a potential return of $3 billion on a $1.7 billion investment over 10 years.[39] The Board attributed these savings to reduced emergency room utilization, reduced length of hospital stays, avoidance of inpatient hospital care, increased immunizations, and reduced charity care.[40] The projected $1.7 billion savings considered reduced costs to state programs alone, and did not include the savings the program would generate for local governments, providers, and families.

Charging premiums hurts Washington State's economy

All state and local spending on health care is not equally costly to the state. State money spent on Medicaid and CHIP coverage receives a federal match, and, as discussed above, provides particularly strong economic benefits to the economy.

Implementing the Legislature's proposed premiums will likely result in the loss of 24,000 children from the Medicaid and CHIP programs, a 15 percent decrease in enrollment. Even under the Governor's more modest proposal, CBPP predicts that 4,792 children on Medicaid would lose coverage, and 216 children enrolled in CHIP would lose coverage.[41] While these children do not cost the state much to insure, the cumulative loss of federal matching funds and economic benefits to the

state add up. The state could lose over $60 million in business activity[42] — resulting in the loss of jobs and income to residents and businesses — in addition to the increased long term costs of increasing the number of uninsured children.

Medicaid and CHIP premiums are an inefficient way to raise money for the state

The existence of the federal matching money for the Medicaid and CHIP programs means that charging premiums for these programs is not an efficient way to raise money for the state in a time of fiscal crisis. Because the state and federal governments split the cost of the program, they also split the revenue from imposing premiums. So, for example, if a child pays a $10 Medicaid premium, the state gains $5, but forgoes $5 in federal matching money. If a child pays a $10 premium for CHIP program, the state only gains $3.50, while the federal government gains $6.50. Raising money through taxes or through fees on virtually any other service the state provides results in revenue or savings for the state alone, and does not pass half or more of the savings along to any other entity.

Billing individual families for small premiums is also quite costly,[43] and the increased administrative cost could even exceed the money collected.

Washington State has the money it needs to eliminate the premiums

Washington has received money from the federal government in the past year that could be used to replace the money that would be collected in premiums

- In May 2003, Congress passed legislation that increases the federal matching rate for Medicaid for the period of April 2003 to June 2004. This will mean an additional $200 million in federal matching funds to the state.[44]
- Congress also granted Washington an additional $200 million in fiscal relief grants.[45]
- Other federal legislation allows the state to use the higher federal CHIP matching rate for some children who are enrolled in Medicaid, through September 2005. The CBPP estimates that this may save the state $25 to $26 million.[46]
- A change in the federal CHIP law will allow the state to use CHIP funds for its coverage of prenatal care for immigrant women, who previously were covered by state funded programs, for an estimated state savings of $38 million.[47]

Investing these funds in Medicaid and CHIP will improve the state's economy and the lives of Washington children.

Conclusion

Medicaid and CHIP make up a vital portion of the economy of Washington State's counties. Because of the federal match these programs receive and the economy activity they create, state spending on these programs has a dramatic economic impact. In Washington's counties, state Medicaid spending produces economy-wide business activity three times the original investment. In short, Medicaid is a critical component of the health care sector for Washington's counties-and many rural county economies are particularly dependant on Medicaid.

Medicaid and CHIP provide crucial health care for children, care that is threatened by proposed premiums. In retreating from its historic commitment to health care for Washington children, the state is removing a crucial support from Washington families. Children need basic preventative health care to grow up healthy and succeed in school. Family stability is threatened by the severe illnesses and enormous medical bills that failing to provide this preventative care can bring. And the cost to the state, counties, families, and health care providers will far outstrip any meager savings these premiums might bring. Washington State should not implement the proposed premiums for children on Medicaid and CHIP.

Endnotes

1 October 2003 totals, of nongrant (not enrolled in TANF) children enrolled in Medicaid and children enrolled in CHIP, provided in telephone conversation with author, February 10, 2004, by Laura Piliaris, Medical Assistance Administration.

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3 Medical Assistance Administration, "Children's Premiums," available at http://fortress.wa.gov/dshs/maa/ProgramChanges2003/Premiums.html.

4 Ibid.

5 Children's Alliance, "Governor's 2004 Supplemental Budget and Medicaid Monthly Premiums," January 2004.

6 Fred Fiedler, Washington State Department of Health and Human Services Research and Data Analysis, Personal Communication, August, 2003. Medicaid data is from SFY 2002, and state Medicaid payments were calculated assuming a 50 percent federal match.

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8 Center on Budget and Policy Priorities, "Recent and Projected Matching Rates for States in Medicaid and SCHIP," April, 2002.

9 Data provided by David Holland, Professor, Department of Agricultural and Resource Economics at Washington State University, using IMPLAN. To calculate percentages, jobs resulting from direct Medicaid spending were divided by total county health care jobs.

10 For further discussion and examples of economic impact analyses, see: Gerald A. Doeksen and Cheryl St. Clair, "Economic Impact of the Medicaid Program on Alaska's Economy," Oklahoma State University, March 2002. http://www.hss.state.ak.us/dhcs/PDF/economicimpact2001.pdf; Kerry E. Kilpatrick et al. "The Economic Impact of Proposed Reductions in Medicaid Spending in North Carolina," School of Public Health, University of North Carolina, April 2002. http://www.healthlaw.org/pubs/2002.NC.econimpact.doc; "Economic Impact of Medicaid in South Carolina," Division of Research, Moore School of Business, University of South Carolina, January 2002. http://research.moore.sc.edu/Research/studies/Medicaid/medicaideconimpact.pdf; Robert Greenbaum and Anand Desai, "Uneven Burden: Economic Analysis of Medicaid Expenditure Changes in Ohio," School of Public Policy and Management, Ohio State University, April 2003. http://ppm.ohio-state.edu/ppm/ohiomedicaidcuts03.pdf.

11 All data in the table are in dollar figures from the year 2000, the most recent year the IMPLAN database is available. SFY 2002 Medicaid spending was deflated to 2000 using a deflator provided by David Holland, Professor, Department of Agricultural and Resource Economics at Washington State University. The economy-wide impacts are the sum of the direct, indirect, and induced economic impacts of Medicaid spending, based on economic impact analysis performed by David Holland, using IMPLAN. Total business activity refers to total industry sales. To provide an idea of what industries this includes, the Standard Industrial Classification (SIC) divisions that cover the entire economy follow: Agriculture, Forestry, Fishing; Mining; Construction; Manufacturing; Transportation, Communication, Electric, Gas, and Sanitary Services; Wholesale Trade; Retail Trade; Finance, Insurance Real Estate; Services; Public Administration; Nonclassifiable Establishments. Total income includes both labor and capital income — discussed here as wages and profits.

12 See for example: Steve Seninger, "Economic Impact of Medicaid on Montana and on the Billings, Butte, and Miles City Health care Market Areas," University of Montana, January 2003.

13 Medicaid multipliers were calculated as follows: Total economy-wide impact of Medicaid spending for a particular county (year 2000 data) divided by state Medicaid spending in that county (deflated to 2000 data, as described above).

14 Roger Gantz, Washington State Department of Health and Human Services, personal communication, January 30, 2004.

15 October 2003 totals, of nongrant (not enrolled in TANF) children enrolled in Medicaid and children enrolled in CHIP, provided in telephone conversation with author, February 10, 2004, by Laura Piliaris, Medical Assistance Administration.

16 Roger Gantz, Washington State Department of Health and Human Services, personal communication, January 30, 2004.

17 Sources: Medicaid: Medical Assistance Administration enrollment database, 2002 data; Population: Office of Financial Management, 2002 data. Figure prepared by Mark Gardener, Health Policy Analysis Program, University of Washington.

18 Leighton Ku and Matthew Broaddus, "Funding Health Coverage for Low-Income Children in Washington," Center on Budget and Policy Priorities, November 10, 2003, citing Leighton Ku and Teresa Coughlin, "Sliding-Scale Premium Health Insurance Programs: Four States' Experiences," *Inquiry* 36:471-480 (Winter 1999-2000).

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39 The Board also assumed a "spillover effect" of increased Medicaid enrollment of 122,000 children initially and 1,000 annually.

40 "Investment Budgeting" Potential Long-Term Impact, Senate Bill 445, Texas Legislative Budget Board, April 6, 1999.

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About the organizations releasing this report

Northwest Federation of Community Organizations (NWFCO) is a regional federation of four statewide, community-based social and economic justice organizations located in the states of Idaho, Montana, Oregon, and Washington: Idaho Community Action Network (ICAN), Montana People's Action (MPA), Oregon Action (OA), and Washington Citizen Action (WCA). Collectively, these organizations engage in community organizing and coalition building in 14 rural and major metropolitan areas, including the Northwest's largest cities (Seattle and Portland) and the largest cities in Montana and Oregon. 1265 South Main Street Suite #305, Seattle, WA 98144, Voice: (206) 568-5400, Fax: (206) 568-5444, Web: http://www.nwfco.org.

Washington Citizen Action (WCA) is a statewide, grassroots organization. With over 50,000 members, we are the largest consumer advocacy group in the state. We work on a range of issues with the broad aim of bringing about greater economic justice in our state and the country. Our board represents a coalition of groups, including labor, senior, faith, and community organizations. Our field and telephone canvasses do education, activation, and fundraising with our members. Our strength as an organization depends on our members' involvement. 3530 Bagley Avenue North, Seattle, WA 98103, Voice: (206) 389.0050, Fax: (206) 568.5444, Web: http://www.wacitizenaction.org.