How to rein in Medicaid costs

By Rachel Goldstein

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Every American knows the federal government is running record budget deficits, but state governments, collectively, are as well. The pressure is on for more intelligent, creative budget solutions.

A primary focus must be Medicaid, which accounts for the second-largest expenditure in most states (21 percent of the average state budget). While originally conceived as the federal-state program to pay for indigent health care, primarily for children, Medicaid has become the nation’s de facto long-term care program for seniors, footing the bill for approximately half of all long-term care expenditures. Roughly two-thirds of Medicaid’s budget goes for long-term care, and those costs — already exorbitant — will only grow: The number of individuals 85 years or older is expected to increase 74 percent by 2030, and an additional 118 percent between 2030 and 2050.

Absent substantial long-term care reform, the nation will face an overwhelming tidal wave of demand that it will be ill-equipped to afford. But the short-term need to curb Medicaid spending is particularly urgent given the expiration this Dec. 31 of the stimulus bill’s added support to states for Medicaid payments, and the Medicaid expansions expected in the coming decade under health care reform.

Current strategies for Medicaid cost containment are not sustainable. Thirty-two states have reduced provider payment, 22 have limited prescription drug coverage or other benefits, 10 have delayed expansion, and 9 states have expanded managed care, which reduces patients’ options. The theme? “Reduce,” “limit” and “delay.” That will only go so far.

Instead, the federal and state governments should focus on redirecting long-term care provision from nursing homes to home- and community-based care. Home and community-based services (HCBS), such as adult day care or home respite care, potentially offer long-term fiscal relief for Medicaid and improved quality of life for recipients.

This year, the national median annual rate for a private nursing home room tipped the scale at $75,000, reaching $62,134 in Atlanta. In contrast, states can fund three individuals in the community for the price of one in a nursing home.

Long-term care experts also rate home care quality substantially better than that provided by the average nursing home. It’s hardly surprising that 84 percent of Americans over 50 prefer to “age in place” in their homes and communities than to be put into institutional care. Wouldn’t you?

Better care that people want, at lower cost: Why aren’t all states moving from institutional care to HCBS? My research suggests that a state’s predominant political ideology is predictive of HCBS utilization. According to a statistical analysis, “liberal” states are significantly more likely than “conservative” states to support the transition away from nursing homes. Perhaps more liberal policymakers and voters are more likely to embrace public assistance programs of any sort, break with existing practices, or ignore the interests of a powerful industry.

Whatever the reason, it is unfortunate. Home- and community-based services represent the best of American conservatism. They encourage more traditional forms of care, strengthen family ties and responsibility, and promote individual choice and autonomy over large, impersonal institutions.

In short, home- and community-based systems resemble many of the most prominent conservative ideas of the past decade or two. They should be supported across the political spectrum. And did I mention that they save taxpayer money?

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