Judge David L.
BAZELON CENTER
for Mental Health Law
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Medicaid
Lifeline for Children and Adults with Serious Mental Illnesses

Medicaid is the single most important funding source of critical services for both adults and children who have the most serious mental health conditions. Various sources pay for mental health spending in the United States and Medicaid accounts for more than a quarter of it.[1] It is the bedrock of public mental health services, comprising 52% of state mental health authority revenues.[2]

Community mental health services for children and adults with serious mental disorders are funded primarily through the Medicaid program. Moreover, Medicaid is the only health plan that finances a full range of the home and community-based rehabilitative services that people with mental illnesses need. In addition, because many people with mental illnesses have other significant medical needs, Medicaid is also critical to health coverage of chronic conditions such as diabetes, heart conditions, cancer and other illnesses.

Under the Medicaid expansion in the Affordable Care Act (ACA), about 16 million people will become eligible for Medicaid by 2014. Six to 10 million will be individuals with mental illnesses who are currently uninsured. The ACA also includes several improvements to the Medicaid program that will expand access to effective home and community-based mental health services, increase quality and reduce costs.

Mental Illness Facts

Mental illnesses are extremely prevalent and are among the leading causes of disability:

- Roughly 20% of adults in the U.S. will have a diagnosable mental disorder in any one year.
  - ✓ About 7% will have disorders that cause significant functional impairments that last for more than a year,
  - ✓ The greatest burden of disease falls on the 5.4% who have a “serious mental illness” (SMI) or severe and persistent mental illness (2.6% of all adults).
- About 20% of children will have a diagnosable mental disorder.
  - ✓ From 5-9% have disorders with more severe functional limitations.

People with serious mental illnesses can lead satisfying and self-sufficient lives but opportunities are lost when community services and supports are not available when needed. Failing to address unmet mental health needs can have dire consequences for individuals and their families and also results in unnecessary costs:

- Mental disorders are the leading cause of disability in the United States for people between the ages of 15 and 44.
- Approximately $193 billion in annual earnings is lost due to untreated mental illnesses.
- Individuals with untreated disorders are significantly more likely than others to experience homelessness, unemployment, hospitalizations, school failure, legal problems and economic hardships.
- Studies show that treating mental illness through evidence-based practices results in savings. According to the Substance Abuse and Mental health Services Administration, each $2 so invested results in $10 in savings in health, education, criminal and juvenile justice and lost productivity.[3]

A significant proportion of overall Medicaid spending is for people with mental illnesses— including both the costs of treatment for their mental illnesses and for co-occurring chronic health conditions, which are prevalent in this group. People with mental illnesses are significantly represented in the group of approximately 5% of Medicaid beneficiaries who account for 50% of spending (because more than 80% of them have three or more chronic conditions).[4]

In addition, unlike overall health spending, public payers (led by Medicaid) account for nearly 60% of all spending. Reducing access to mental health services under Medicaid would therefore have a disproportionately adverse impact on people with mental illnesses.

Benefits to States

Medicaid is the most significant source of revenue for state and local public mental health systems, providing more than half of their resources. Without Medicaid and the federal share of funding that it provides, states would be on the hook for funding these services from state and local taxes.

- Sixteen percent of adult Medicaid enrollees (aged 21-64) and 8% of children on Medicaid use mental health or substance abuse services.[5]
- Medicaid spending for mental health and substance abuse services is 11.5% of overall Medicaid costs.[6]
- The federal government contributes from 50-75% of costs, depending upon the state.

Medicaid is currently one of the largest items in state budgets in significant part because it now carries a fiscal burden previously divided among other state programs. Mental health, child welfare and juvenile justice agencies, for example, all use Medicaid to finance services for the populations they serve. Also, as states have moved to close psychiatric institutional beds (mainly state-funded), community services spending has increased, with most of it funded through federal and state Medicaid resources. The resulting high price tag makes Medicaid a prime target of state budget cuts, but this is extremely short-sighted. Without federal Medicaid, the financial burden will shift back to the states.

The shift of state activities into Medicaid has also raised the stakes at the federal level and some federal policymakers now view Medicaid as a program ripe for review and revision. However, these debates are often conducted without full knowledge of the program’s impact, how cost-effective it is and the cost-shifting to other budget lines that would occur if drastic changes were made.

Who Uses Medicaid Mental Health Services?

Many of those on Medicaid are adults or children with psychiatric disabilities who need ongoing services due to the severity and long-term course of their disorders. Low-income parents and children also have significant mental health needs, in part because mental illness can interrupt employment and lead to poverty. Since mental health conditions are more prevalent among people with limited resources and these conditions reduce opportunities for employment and insurance coverage, Medicaid is a critical safety net for this population.

For example, a significant proportion of individuals with mental disorders on Medicaid are receiving federal disability benefits. Thirty-eight percent of adults and 53% of children receiving Supplemental Security Income (SSI) disability benefits have psychiatric disabilities (1.7 million and 640,000 people respectively).[7] The percentage of adults with psychiatric disabilities who receive Social Security Disability Insurance (SSDI) is also high: 28% or more than 2 million people in 2009.[8,9]

A significant number of children also rely on Medicaid for mental health care.[10] Children in the child welfare system are particularly likely to need mental health services and constitute a significant group of Medicaid-eligible children. About 60% of children placed by child welfare agencies outside their home have moderate to severe emotional or behavioral problems.[11] Access to screening and early intervention and treatment with high-quality, cost-effective care is key to helping children avoid the serious consequences of unmet mental health needs, including school failure.

Improvements in the Affordable Care Act

The Affordable Care Act has made some important improvements to the Medicaid program as well as expanding eligibility to many low-income individuals who previously could not qualify.

- **Expanded Eligibility**

The ACA expansion of Medicaid coverage to include all individuals with incomes under 133% of poverty will bring Medicaid coverage to many individuals with serious mental illnesses. Childless adults who were unable to qualify before will now gain coverage for services that will help them avoid costly use of emergency rooms and reduce the psychiatric crises that lead to homelessness, repeated hospitalizations or arrests and jail days.

Eleven percent of the people who will gain Medicaid coverage through the ACA amendment are in fair or poor mental health and 6-7% of them have a serious mental illness. Half of those who will be newly eligible have incomes 50% or less of the poverty level, and included in this group are homeless people. Of those who are chronically homeless (and who repeatedly cost local and state governments significant sums of money for their care and use of public services), one quarter have a serious mental illness.

The Medicaid expansion population will therefore include significant numbers of people with mental illnesses, many of whom currently turn to services funded by state general revenues. The Medicaid expansion becomes fully effective in 2014, with 100% federal funding for this new group of eligible individuals for the first two years, followed by 90% federal funding thereafter. This high federal match is an opportunity for states to engage these currently uninsured individuals and ensure that they receive treatment for their current conditions.

Proposals for Block Grants and Other Major Changes Would Have a Dire Impact

States report that Medicaid is taking an increasing share of state budgets and that this is particularly difficult right now, given the state of the economy. However, Medicaid is a counter-cyclical program. In an economic downturn more people lose their jobs and incomes and as a result more qualify for Medicaid. From December 2007 to December 2009, Medicaid enrollment rose by nearly 6 million, largely driven by the recession.[12] In better economic times, these rates drop back again. Medicaid is therefore a critical safety net for people thrown out of work in hard times. Although it puts a strain on state and federal budgets, the alternative is a dramatic rise in the number of uninsured adults and children and in the costs of uncompensated care and untreated illness.

Proposals to change the program's operation significantly should be made with a long-range view of Medicaid's role, not in response to current (and passing) economic crises. In fact, some of the currently discussed proposals would have serious adverse effects for both individuals and states.

1. Block Grant Proposals

Medicaid currently operates on principles of insurance. States must cover a defined set of benefits for a defined group of people, although states have great flexibility to expand eligibility and to determine and define the services they cover. This is especially true with respect to mental health services for adults, nearly all of which are state options.

Given the role the program now plays in underwriting health and mental health care for so many low-income and disadvantaged Americans, as well as its role in so many public systems, drastic changes to the program could significantly shift costs from the federal government to the states. Altering Medicaid's basic structure to create a block grant that gives states a capped amount of resources could have a drastic adverse impact on people with mental illnesses, given how much they rely on the program.

Under a block grant, states would be limited to a specific level of federal funds; additional federal funds would not be available if states spent more as a result of health care inflation or increased demand due to economic conditions or population expansion. States receive, on average, 57% of the costs of Medicaid services. Now, when a downturn in the economy results in spikes in the Medicaid rolls due to losses in jobs and health insurance, states share with the federal government the costs for covering additional people. Under a block grant, states would bear 100% of this added cost.

Changing to a block-grant system would eliminate the insurance-program nature of Medicaid and the individual's entitlement to services. This could result in states' offering reduced mental health benefits to some or cutting others from the program entirely, leaving many very vulnerable individuals without access to mental health or medical care, while increasing the burden of uncompensated care carried by hospitals and states.

A block grant would place beneficiaries at further risk because it would dismantle uniform federal standards and safeguards that ensure quality and accountability in Medicaid—including such consumer protections as the requirement that recipients receive sufficient services to treat their condition effectively and that all children receive regular check-ups and screening.

Shifting Medicaid to a block grant, instead of having it continue to operate as an insurance program, may be appealing to federal policymakers because it can easily be used to limit federal spending. To the degree that the federal government saves money over what it would have contributed under the current program design, states would be the losers, as would the individuals who need the services that states may no longer provide.

2. Eliminating the Maintenance-of-Effort Requirement

Under the ACA, states may not reduce Medicaid eligibility for adults from pre-ACA standards until 2014 and for children until 2019. Some are proposing to repeal this requirement to allow states to cut eligibility for individuals who fall into the law's optional eligibility categories. This includes, for example, people with mental and physical disabilities who have incomes above the SSI income limit, working adults with disabilities, children under age 6 with family incomes between 133% of poverty and 200% (currently covered in almost every state) and children 6-18 years old in households with incomes over 100% of poverty (in almost all states, coverage beyond this level is now provided).

Moreover, there is little or no difference between individuals in the optional or mandatory eligibility categories in terms of their level of mental health treatment need or ability to access adequate treatment without Medicaid coverage. Cutting these individuals off the program would not eliminate their need but would instead shift costs to other programs and add to the burden of uncompensated care. The number of people who would lose coverage could be substantial. In one case, Arizona, the state wishes to end Medicaid coverage for 280,000 people.

3. Repealing ACA

Some propose repealing all provisions of the Affordable Care Act. The first significant impact of such a move would be that 12 million people who otherwise would have Medicaid coverage would be left uninsured. While these new enrollees would cost Medicaid $54 billion, the federal government would pay $45 billion of that amount.

A second major impact would be the loss of new flexibility in the ACA for states to expand and improve the provision of home and community-based services for the most costly groups (those with one or more chronic illnesses) and tap into federal funding for services that now depend on state/local funding such as:

- Improvements to the Home and Community-Based Services State Plan Option (Section 1915(i)) will allow states to target this option to the highest need populations, such as adults and/or children with serious mental illnesses as well as expanding the range of services states can elect to cover.
- The Health Home State Plan Option will allow states to target individuals with mental illnesses for coordinated physical and mental health care. Demonstration projects have shown this to be effective and to reduce the costs of serving these high-need individuals.
- The new Community First Choice State Plan Option allows states to fund personal assistant services for people with mental illnesses to address their specific needs for assistance with daily living tasks which can avoid institutionalization.

These services are designed to address the needs of those with the most serious and disabling mental illnesses, including those with co-occurring chronic conditions. More than half of people with disabilities on Medicaid who have a psychiatric condition also have claims for diabetes, cardiovascular disease or pulmonary diseases; this is substantially higher than the rates of these illnesses among persons without psychiatric conditions.[13] A study in New York similarly found that spending on physical health care for Medicaid recipients with mental health conditions was 32% higher than comparable spending by beneficiaries who did not have a mental illness.[14]

Conclusion

Medicaid is a program that is working well. It is less expensive than private health insurance and provides a greater range of benefits. It is intentionally designed to meet the health care needs of individuals with low incomes, seniors and people with disabilities who need a broader array of services than is typically covered by private insurance. Financing is a shared responsibility between states and the federal government, reducing the burden on each level of government.

The ACA expands and improves this program. It increases the emphasis on community services for people with disabilities and has important features that will improve quality of life and reduce health care costs. In short, everybody wins if Medicaid continues as currently structured and as improved by the provisions in the Affordable Care Act.

Notes

1 Mark, Tami, Levit, Katharine, R., Vandivort-Warren, Rita, Buck, Jeffrey A., & Coffey, Rosanna M. Changes in US spending on mental health and substqance abuse treatment, 1986-2005, and implications for policy. Health Affairs. February, 2011. http://content.healthaffairs.org

2 Mark, Tami, Levit, Katharine, R., Vandivort-Warren, Rita, Buck, Jeffrey A., & Coffey, Rosanna M. Changes in US spending on mental health and substqance abuse treatment, 1986-2005, and implications for policy. Health Affairs. February, 2011. content.healthaffairs.org

3 SAMHSA Administrator Pamela S. Hyde, SAMHSA Press Release, February 2, 2011. www.samhsa.gov

4 Center for Health Care Strategies, Inc. Rethinking Care for Medicaid's Highest-Need, Highest-Cost Populations. (April, 2009)

5 Buck, Jeffrey A. and Miller, Kay (2002). *Mental Health and Substance Abuse Services in Medicaid, 1995.* US Department of health and Human Services (DHHS Publication Number (SMA) 02-3713).

6 Mark, Tami, Levit, Katharine, R., Vandivort-Warren, Rita, Buck, Jeffrey A., & Coffey, Rosanna M. Changes in US spending on mental health and substance abuse treatment, 1986-2005, and implications for policy. Health Affairs. February, 2011. content.healthaffairs.org

7 *2009 Social Security Administration Annual Statistical Report, SSI.* Social Security Administration

8 *2009 Social Security Administration Annual Statistical Report, SSDI.* Social Security Administration

9 While individuals on SSDI are eligible for Medicare many of those with mental illness have such low income (generally because their SSDI benefit is low as a result of a very limited work history), that they are also dually eligible for Medicaid.

[10] Children and adolescents enrolled in Medicaid have more than 1,300 annual outpatient specialty visits per 1,000 children, while the comparable number for children with private insurance is 462. Source: National Advisory Mental Health Council Workgroup on Child & Adolescent Mental Health Intervention Development and Deployment (2001). *Blueprint for Change: Research on Child and Adolescent Mental Health*. Washington, DC: National Advisory Mental Health Council, National Institute of Mental Health.

[1111] Health Care Services for Children in Out-of-Home Care: Facts and Figures, Child Welfare League of America, accessed at www.cwla.org/programs/health/healthcarewfact.htm.

[12] Kaiser Commission on Medicaid and the Uninsured. (February, 2011) Medicaid Facts: Medicaid Spending Growth and the Great Recession, 2007-2009. Washington, DC: Kaiser Family Foundation.

[13] Robert Wood Johnson Foundation. (February, 2011). Mental Disorders and Medical Comorbidity. The Synthesis Project, www.policysynthesis.org.

[14] Medicaid Institute At United Hospital Fund. (February, 2011). Providing Care to Medicaid Beneficiaries with Behavioral Health Conditions: Challenges for New York. http://www.medicaidinstitute.org/publications/880731