



Washington Research Council

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BRIEFLY

This Policy Brief summarizes the Research Council's recent Special Report, *The Medical Assistance Challenge*.

# Medical Assistance Challenges Policymakers

Washington State faces an increasingly difficult fiscal situation. As they attempt to balance the budget, policymakers will be forced to carefully examine state's Medical Assistance programs, which provide medical care for the needy. Spending on most Medical Assistance services is growing faster than the general rate of inflation. To maintain the existing programs unchanged in the next biennium would require an increase of nearly \$500 million from the general fund.

Medical Assistance expenditures have been driven up both by increased enrollments and by higher costs per enrollee.

Many of the Medical Assistance programs are part of Medicaid, the federal-state partnership that funds medical care for low-

income individuals. In the 1980s and 1990s, the federal government increased options and permitted expansions of coverage for Medicaid to various low-income groups. As Washington State's Medical Assistance Administration has noted, "Washington eagerly grasped each opportunity and soon became a bellwether state experiencing tremendous growth in coverage, clients, and expenditures."

Between 1988 and 2002 the number of Washingtonians covered by Medical Assistance grew by 127 percent, from 372,000 to 846,000. In most of those years, as Chart 1 shows, the percentage growth in the number of people receiving Medical Assistance coverage greatly ex-

ceeded the growth in state population.

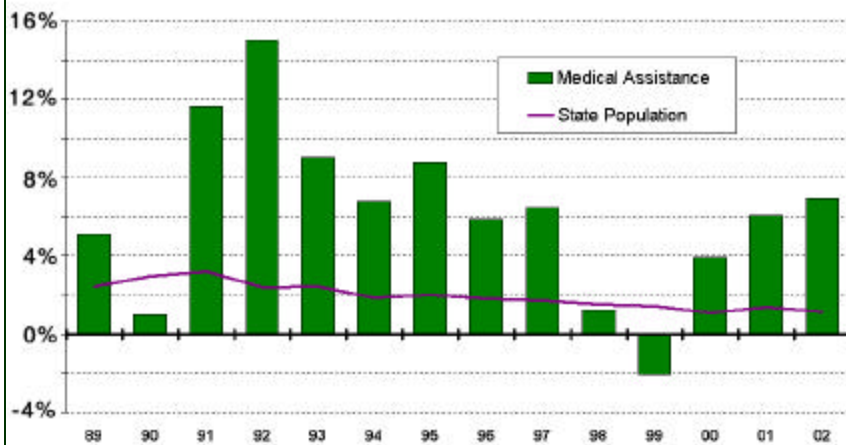
Many of the new clients were children.

Between 1988 and 2002 the average monthly cost per capita grew by 148 percent, from \$109 to \$269. Per capita costs rose phenomenally in the early 1990s (including a 20.4 percent in 1990!) as shown by Chart 2. The mid-1990s saw much slower increases, but in recent years the rate of increase has accelerated again.

In fiscal year 2002, expenditures on hospital outpatient services grew by 33 percent; expenditures on inpatient hospital services grew by 18 percent; expenditures on physician services grew by 27 percent; and expenditures on pharmaceuticals grew by 18 percent.

The multifaceted growth in per capita spending has many com-

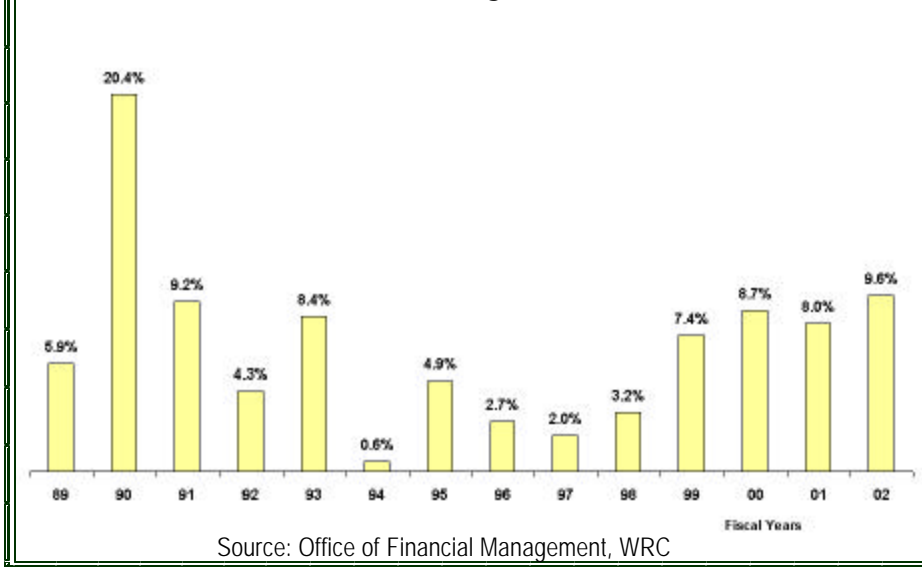
Chart 1: Caseloads Have Grown Faster Than Population



Source: Dept. of Social and Health Services, WRC

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**Chart 2: Percent Change In Cost Per Case**

plex causes: increased utilization of existing services, the invention of new procedures, devices and drugs, and simple inflation. Sorting out the causes of these increases is difficult.

Cost control options have equally complex interactions and consequences in health service areas for the needy. An incremental approach that simply clamps down on the areas of expenditure that are rising most rapidly begs the most important question: what service provided to which client provides the most bang for the taxpayer's buck.

The current data collection system is not designed to answer this question. One cannot tell from the data whether an increase in per capita expenditure reflects simply an increase in cost or rather an increase in services provided to clients. And one cannot tell whether spending has improved health.

Medical Assistance pays for a multitude of interrelated health services. High expenditures in one area, such as prescription drugs or outpatient care may lower expenditures in other areas, such as inpatient hospitalizations. Similarly, efforts to shorten hospital stays may lower overall inpatient costs while at the same time increasing the average cost per day of inpatient care.

The technology of medical care is changing rapidly. The greatest increases in expenditure often occur precisely in those areas where rapid change is providing new cost-effective means of improving health. For example, the introduction of new treatment options has led to increased expenditures on pharmaceuticals. But evidence suggests that increased use of new drugs reduces costs overall. Columbia University economist Frank Lichtenberg finds that the replacement of cheaper older drugs by more expensive newer drugs saves \$7.20 in non-drug expenditures for each \$1 it adds to drug expenditures. Moreover, new drugs save lives and increase quality-of-life. They may well represent the best use of scarce health care dollars.

### **Recommendations**

The state lacks a comprehensive management information system to provide the information it needs to evaluate the cost effectiveness of the current Medical Assistance program and assess the potential costs and benefits of proposed budget and policy changes. Developing such a system should be a high priority.

In the near term, without such information, policymakers must avoid the temptation to focus on discrete service area cost trends and instead consider the cost-effectiveness of the state's Medical Assistance programs as a whole when they develop budget strategies for health care services.