



Focus

Medicaid and Tobacco Tax Increases

As states across the country grapple with Medicaid budget cuts, some are making their residents healthier while increasing revenue by increasing tobacco taxes.



Increasing tobacco taxes is a win-win solution for states — a health win that reduces tobacco use and tobacco-caused diseases, death and healthcare costs, and a fiscal win that helps states fund important programs like Medicaid.

According to the Campaign for Tobacco-Free Kids, every state that has significantly increased its cigarette tax has enjoyed substantial increases in revenue even while reducing cigarette sales.

In July, cigarette tax increases took effect in four states - New Hampshire, Ohio, Virginia and Washington. This brings to 39, along with the District of Columbia and Puerto Rico, the number of states (including West Virginia) that have increased cigarette taxes since January 1, 2002. During that time, the average state cigarette tax has more than doubled from 43.4 cents to 89.8 cents per pack, raising billions in new state revenue while helping to significantly reduce smoking and save lives.



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Two other states have also approved cigarette tax increases this year. On September 19, Maine's cigarette tax will double to \$2 per pack. Kentucky increased its cigarette tax by 27 cents to 30 cents per pack in June.

Under a new plan, North Carolina would no longer have the cheapest cigarettes in the nation. The plan would increase that state's tax on cigarettes from five to 30 cents per pack. The increase is still pending between the House and Senate (the Senate proposed a 35-cent increase). The 25-cent increase in the House plan is projected to raise \$142 million next year.

Based on data from the Campaign, raising West Virginia's excise tax from the current 55 cents per pack to one dollar would provide the state with an additional \$95.4 million in state revenue per year. Overall long-term health savings are projected at just over \$602 million. The Coalition for a Tobacco-Free West Virginia (CTFWV), whose efforts the West Virginia Hospital Association often supports, favors an increase in the state excise tax on cigarettes and other tobacco products as a way to raise state revenue and reduce tobacco consumption and the detrimental effects of tobacco use on West Virginians.

"In 2003, the Coalition advocated for an increase in the tax to \$1 and their position remains the same today," said Ciny Kittle, CTFWV Executive Director and WVHA staffer.

Report: Tobacco is Killing (and Costing) Us

Everyone knows that smoking is detrimental to the health of human beings. Cigarettes and smokeless tobacco, for example, cause cancer, heart disease and complications during pregnancy. And those are just a few examples of the negative effects of nicotine on a human body. Most of us, however, are unaware of the actual raw facts in terms of people's negative health consequences and state revenue expense to the state of West Virginia.

Smoking kills 3,842 West Virginians every year, an average of 11 every day, according to a new report, *Smoking is Killing (and Costing) Us*, released by the West Virginia Department of Health & Human Resources (WVDHHR) Bureau of Public Health. Overall, nearly one in five (19 percent) deaths in the state were cigarette (Cont. on Page 4)

Medicare, Medicaid Mark a Milestone: 40 Years



On July 30, 1965 President Lyndon B. Johnson signed into law both the Medicaid and Medicare programs. Yet, while both programs were the nation's first effort to employ federally sponsored programs to finance health insurance with tax dollars, each program is distinct. Medicare is a federally administered and financed health insurance program for the elderly and disabled. The program covers more than 40 million people age 65 or older or with permanent disabilities; program expenditures were \$283 billion in 2003. Medicaid, which offers healthcare to the disabled as well as to needy adults and children, is jointly funded by states and the federal government, but is managed primarily by individual states. The program covers more than 50 million people, with combined state and federal expenditures now exceeding \$300 billion.

The West Virginia Hospital Association (WVHA) stands strong in its efforts to fully fund Medicaid. These efforts include the formation of the *West Virginia CARE Coalition: CARE About Medicaid*. Built upon the successful foundation of the core group which supported the medical liability reforms of 2003, this update of the *CARE Coalition* represents a diverse group of healthcare providers, business organizations, consumer representatives, and labor groups that have come together to present a unified voice to educate the public about the vital importance of a soundly functioning Medicaid program in West Virginia.

The *CARE Coalition* is working with the Governor's office, his Administration, legislative leadership, and other key policymakers to identify ways to resolve the immediate issue of the shortfall in the 2006 budget year, as well as with all governmental officials for long-term modifications to the Medicaid program.

In light of shrinking state resources, the *Coalition* stands ready to work collaboratively to find ways to stabilize the Medicaid program and to secure the healthcare safety net for the state's most vulnerable citizens.

The group is also committed to working collaboratively to achieve a right-sizing of the program for the future and the appropriate combination of policies that will give all West Virginians affordable access to healthcare.

Protecting the Medicaid Program

The Medicaid program, just passing its 40th birthday, provides health coverage to millions of Americans. Considering these numbers, the importance of protecting against budget cuts to the program is paramount.

On the federal front, under the budget plan Congress approved this spring, by mid-September the House and Senate committees that oversee Medicaid are required to make \$10 billion in program cuts for the next five years. Both the Bush Administration and Congressional leaders have made it clear that Medicaid is their main target for these cuts. A new Kaiser Family Foundation poll, however, shows that eight in 10 Americans oppose cutting federal Medicaid funding.

In West Virginia, Medicaid covers approximately 300,000 low-income people, roughly one out of every six residents. Fortunately, with the support of the Legislature and Administration over the last several years, West Virginia has been able to avoid severe cuts in the Medicaid program, most recently adding \$70 million in general revenue monies at the conclusion of the 2005 Regular Session. In fact, over the last several budget years, the Legislature, working with the Governor and the Administration, has continued to regard the Medicaid program as a vital safety net to the health and economy of West Virginia. In doing so, policymakers have recognized that Medicaid not only impacts healthcare providers, but also our population's health and the state's economy.

The Legislature and the Governor have consistently recognized the value of the Federal Matching Assistance Percentage (FMAP), which allows state Medicaid expenditures to draw down federal matching dollars. The federal government reimburses West Virginia approximately three dollars for every additional state dollar spent on the Medicaid program.

Unfortunately, Medicaid demands on the state's general revenue budget are continuing to grow. This is due in part to costs related to new technology, improved pharmaceuticals, and inflation. These factors, combined with an aging and sicker population, have resulted in a \$30 million shortfall in state funding for the 2006 fiscal year.

To offset the shortfall, the West Virginia Department of Health & Human Resources' Medicaid Bureau has proposed approximately \$116 million in cuts to the program for fiscal year 2006.

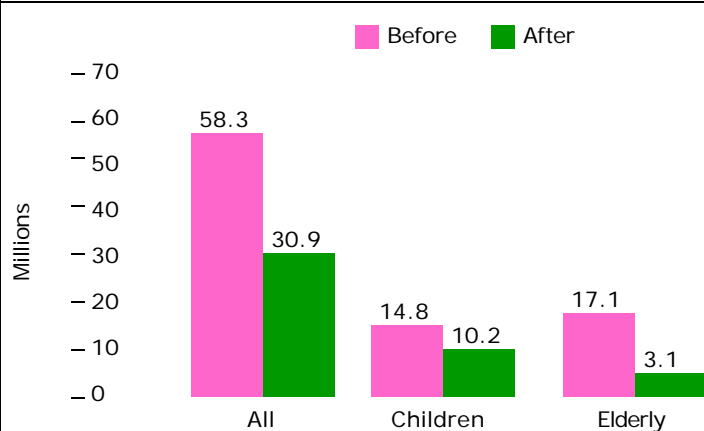
The consequences of these proposed cuts will detrimentally affect every West Virginian. Programs and services offered through Medicaid will be reduced or eliminated, hospitals, doctors, nursing homes and other healthcare providers will face formidable financial strain, the cost shift to West Virginia businesses will increase, and the ranks of the uninsured will rise.

Reducing Medicaid through budget cuts will not lower the number of West Virginians who rely upon the program for healthcare, reduce uncompensated care costs to hospitals (currently \$445 million per year), or help businesses insure their employees.

Considering these facts, the best strategy for the state at this time is to fully fund the Medicaid program.

Benefits Reduce Poverty By Nearly Half

Number of Americans Below the Poverty Line
Before and After Counting Public Benefits and Taxes, 2003



Poverty status is based on family's disposable income (after taxes and counting near-cash benefits).

Source: CBPP tabulations March 2004 Current Population Survey.

Diagram based on Center on Budget and Policy Reports 2005 findings.

- Public benefit programs cut the number of poor Americans nearly in half, from 58 million to 31 million.
- Medicaid has been shown to reduce infant mortality and child deaths and to increase the likelihood that low-income women receive preventive screening for breast cancer and cervical cancer.
- While 40 years ago hunger and malnutrition were not uncommon in some poor areas of the country, the federal Food Stamp Program and other nutrition assistance programs such as WIC (Women, Infants and Children) and the school meals programs have made severe hunger rare in America today.
- By increasing the rewards of low-wage employment, the Earned Income Tax Credit has substantially raised the proportion of single mothers who work, while lifting 2.7 million children out of poverty (in 2002).
- Nearly three million people with severe mental impairments receive help from the Supplemental Security Income program, which enables many of them to live independently.

Source: Center on Budget and Policy Priorities

Study: Public Supports Medicaid

According to a new study by the Kaiser Family Foundation (KFF), nearly three-fourths of American adults believe Medicaid to be a very important government program, placing it in priority above even defense and military spending and equal to federal aid to public schools.

In fact, public attitudes toward Medicaid were surprisingly positive, researchers said. Americans are reluctant to cut Medicaid to balance state budgets, and a majority think the federal government should maintain (44 percent) or increase (36 percent) federal spending on the program.

Medicaid ranked close in comparison with Medicare and So-

What Does the Safety Net Accomplish?

Public benefit programs like Medicaid cut the number of poor Americans nearly in half (from 58 million to 31 million) and dramatically reduce the severity of poverty. They also provide health coverage to tens of millions of people who would otherwise remain uninsured, according to a new report from the Center on Budget and Policy Priorities.

The report is one of a series the Center is issuing that reviews recent research on the effects of public benefit programs, primarily *safety net* programs aimed at low-income families and individuals. The reports, based on a broad range of government and non-government studies, are particularly relevant today as policymakers begin to consider possible budget reductions in some of these programs in September, when Congress is charged with producing *budget reconciliation* legislation. This first set of reports cover Medicaid and the State Children's Health Insurance Program (CHIP).

Medicaid is West Virginia's healthcare safety net, serving about 373,000 needy, aged, blind and disabled, and low-income families with children. As of June 2005, about 24,500 West Virginia children were enrolled in CHIP, according to Sharon Carte, Executive Director of West Virginia CHIP.

"CHIP is a buffer for people and their children, both in terms of being able to access care for their children when they need it and as a protective buffer when they have unexpected changes — say employers dropping coverage or losing a job that has coverage," Carte told the *Charleston Gazette*. Also "in terms of children, just assuring that they have a better health status certainly helps them better prepare to learn and not be impeded by problems that would have gone undetected," Carte said.

Expansions of coverage for low-income children have reduced childhood deaths, the study shows, and expansions of coverage for low-income pregnant women have reduced infant mortality. Improvement in childhood health, in turn, can produce other benefits, such as better educational opportunities for disadvantaged children. Children with Medicaid coverage, the report says, have been found to miss fewer days due to sickness than uninsured children. Moreover, Medicaid provides healthcare at a lower per-beneficiary cost than private health insurance, and Medicaid's costs per beneficiary have been rising more slowly in recent years than the per beneficiary costs of private insurance.

cial Security in the public's mind. While almost two-thirds of the public think that their state's budget is either in crises or has major problems, half (52 percent) say they strongly oppose cutting back on their state's Medicaid program to balance the budget.

"This poll shows that Americans all across the political spectrum value the role Medicaid plays in our healthcare system," said Diane Rowland, Executive Vice President of the KFF and Executive Director of the Kaiser Commission on Medicaid and the Uninsured. "As with the rest of the healthcare system, much of the political debate surrounding (Cont. on Page 4)

(Cont. from Page 1) smokers, higher than the U.S. average of 22 percent.

Estimates of direct healthcare costs because of cigarette smoking in West Virginia in 2004 range from \$846 million to \$1.064 billion, depending upon the economic model used. The Bureau estimated that smoking related productivity costs due to death of the smoker in that same year amounted to \$1.012 billion. Combining these costs resulted in total costs to the state of between \$1.858 billion and \$2.076 billion in 2004. This did not include economic costs attributable to other forms of tobacco use such as snuff and chewing tobacco, cigars, or second-hand smoke.

Cigarette tax increases, says the Campaign for Tobacco-Free Kids, boost state cigarette tax revenues, despite reducing smoking, because the increased tax per pack brings in more new revenue than is lost from the prompted declines in pack sales caused by consumption declines (and by any increased smoker tax avoidance). Parallel increases to the state tax on other tobacco products would provide more new state revenue — also further reducing tobacco use — and is related to harms and costs in the state. This projection is fiscally conservative because it includes a generous adjustment for lost state pack sales (and tax revenues) and other factors.

(Cont. from page 3) Medicaid these days focuses on controlling costs, but proposals to cut funding for the program or scale back the coverage it offers does not appear to be popular with the public.”

The public's view of the Medicaid program is increasingly important as Congress continues to struggle with how to slow the growth of the program by \$10 billion over the next five years, which amounts to less than one percent of total spending during those years. Combined, the federal government and states will spend more than \$300 billion this year on Medicaid.

States, including West Virginia, have begun efforts to contain future costs and to *right-size* the Medicaid program for the future through a federal waiver.

According to West Virginia Department of Health & Human Resources (DHHR) Secretary Martha Walker DHHR's overall process to contain costs within Medicaid and to *right-size* the program for the future is an evolving process and that the federal Medicaid Waiver Proposal to be submitted to U.S. Secretary of Health and Human Services Mike Leavitt will play a significant role in how the department manages Medicaid in the future. The West Virginia Hospital Association continues to be at the table for these talks.

Atkins Named to Medicaid Advisory Committee

Nancy Atkins, Commissioner, Bureau for Medical Services, West Virginia Department of Health & Human Resources, has been named to a newly-formed federal advisory committee created by Health and Human Resources Secretary Mike Leavitt. The Commission, comprised of 13 voting members and 15 non-voting members, is charged with identifying reforms necessary to stabilize and strengthen Medicaid. Atkins is a voting member.

The Commission, comprised of health policy leaders, state health department officials, public policy organizations, individuals with disabilities and others with special expertise, will submit its first report to Secretary Leavitt by September 1.

Ten Things to Know About Medicaid in 2005

1. *As measured by expenditures, Medicaid is America's largest single health and long-term care program.*
2. *As measured by enrollment, Medicaid provides health and long-term care coverage for more individuals than any other program — 53 million Americans in 2005.*
3. *Medicaid has been a major factor in limiting the growth in the number of the uninsured. Because of Medicaid, the increase in the number of persons with no healthcare coverage during the recent economic downturn was not as large as otherwise would have occurred.*
4. *Medicaid enrollment jumped 40 percent in the past five years.*
5. *Most Medicaid beneficiaries are not on welfare. Medicaid is now a health program. Since 1996, Medicaid is no longer linked to welfare.*
6. *Medicaid fills the gaps in Medicare. Fully 42 percent of all Medicaid expenditures are for individuals who are also on Medicare.*
7. *Medicaid is efficient compared to private health coverage. Medicaid has done an excellent job of holding down the per capita growth in spending.*
8. *Total Medicaid spending has increased dramatically since 2000.*
9. *Medicaid spending growth has outpaced overall inflation and state revenue growth. Medicaid spending is tied to the medical market, where annual cost growth has far exceeded growth in wages and general price inflation.*
10. *Medicaid spending growth has impeded upon funding for other important programs. Over the past two decades, the average share of state budgets set aside for Medicaid spending increased eight percent in 1985 to 22 percent in 2003.*

Source: National Governors Association