

## ***The 2009-10 Revised Budget Proposal: The Health Coverage of 2 Million Californians at Stake***

Over 2 million Californians, and possibly hundreds of thousands more, could either lose or be denied health coverage under the budget policy changes proposed by Governor Arnold Schwarzenegger to close California's \$21 billion budget deficit.<sup>1</sup>

In particular, a central plank of the Governor's budget proposal is to undo the efforts of the past decade to expand health coverage, since 1999. Since any action to undo eligibility and enrollment in Medicaid would disqualify California from getting billions of increased Medicaid dollars under the terms of economic recovery package (the American Reinvestment and Recovery Act of 2009 or "ARRA"), Governor Schwarzenegger is asking the federal government for a "waiver" to the "maintenance of effort" requirement in ARRA. While the cuts are not specifically detailed in the May Revision document, the cuts being discussed would result in hundreds of thousands of Californians losing coverage.

The governor's presentation of the Medi-Cal waiver request as asking for mere "flexibility" in cutting eligibility requirements understates the significant impact of the proposed cuts as a whole. In addition, the Governor has proposed to eliminate the Healthy Families program—a major policy change in its own right.

This budget, if enacted, would represent the most profound roll-back of California public health coverage in state history. The permanent policy changes reflected in the budget will remain in place long after the 2009-10 budget year comes and goes. The reductions discussed in this paper would have a significant impact on the number of Californians currently covered, including:

- A roll-back of eligibility for low-income working parents down to around 72 percent of the federal poverty level (\$13,183 for a family of three), from 100 percent of the federal poverty level (\$18,310 for a family of three);
- Additional paperwork burdens for children and adults designed to reduce enrollment;
- A significant increase in cost sharing for seniors and people with disabilities on Medi-Cal; and
- The elimination—or in the alternative, a significant decrease—of the Healthy Families Program to cover low-income children.

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<sup>1</sup> Department of Finance, "2009-10 May Revision General Fund Proposals" (May 15, 2009).

The impact of some of these policy changes will unfold over time, as the cuts become fully implemented, and are not fully reflected in the immediate budget year. Many of these proposed changes would need some time, once a budget is approved, to be put in place. And just as it takes a few years for a new program to function at full capacity, it also takes a few years to see the full impact on California families when a particular program is scaled back.

**Figure 1: Governor’s Previously Proposed Medi-Cal Eligibility Cuts<sup>2</sup>**

	<b>General Fund “Savings”</b>	<b>Estimated Lost Federal Funds (with enhanced match under stimulus)</b>	<b>Number of Californians Losing Coverage at Full Implementation</b>
<b>IMPOSING PAPERWORK BURDENS ON CHILDREN:</b> Eliminate continuous eligibility for children in Medi-Cal and reinstate Quarterly Status Reports (QSR)s. <sup>3</sup>	\$130.1 mill. total ( <b>\$50 mill</b> gen fund) for first year \$712.9 mill total ( <b>\$273.8 mill</b> gen fund) after multiple years	\$80.1 mill. in first full year; <b>\$439.1 mill/year</b> after multiple years	<b>471,500</b> children
<b>DENYING LOW-INCOME WORKING PARENTS:</b> Rollback Medi-Cal for low-income parents between 72%-100% of the poverty level (1931b). <sup>3</sup>	\$62.3 mill. total ( <b>\$23.9 mill</b> gen fund) in first full year; \$736.6 mill. total ( <b>\$282.9 mill</b> gen fund) in full implementation	\$38.4 mill. in first full year; <b>\$453.7 mill/year</b> fully implemented	<b>433,600</b> parents
<b>DENYING SENIORS AND PEOPLE WITH DISABILITIES:</b> Rollback no-cost Medi-Cal expansion for the aged, blind and disabled. <sup>3</sup>	\$371.6 mill. ( <b>\$142.7 mil</b> gen fund) fully implemented	<b>\$228.9 mill/year</b> fully implemented	<b>73,400</b> seniors and people with disabilities
<b>TOTALS</b>	<b>\$699.4 million</b> in state general fund cuts under full implementation	<b>\$1.122 billion</b> in lost federal funds under enhanced match, if fully implemented	<b>978,500</b> additional Californians without health coverage

**Figure 2: Governor’s Proposed Healthy Families Cuts**

<b>Option 1 (May 14<sup>th</sup> 09 version): CUT CHILDREN’S COVERAGE</b> by reducing the eligibility from 250% to 200% of the poverty level. <sup>2</sup>	\$54.5 mill gen fund	<b>\$101.2 mill/year</b> in lost federal funds under standard SCHIP 2:1 match	<b>225,000</b> children denied coverage
<b>Option 2 (May 21<sup>st</sup> 09 version): ELIMINATE THE HEALTHY FAMILIES PROGRAM</b> which provides coverage to children from 100-250% of the poverty level.	\$1.1 billion overall budget (\$387.8 mill gen fund)	<b>\$712 mill/year</b> in lost federal funds under standard SCHIP 2:1 match	<b>Over 1 million</b> children denied coverage next year; 910,000 children enrolled in April 09 with average growth of 25-30,000/month

<sup>2</sup> Estimates from Department of Finance, Department of Health Care Services, and Senate Budget and Fiscal Review Committee.

<sup>3</sup> The Governor has proposed these cuts in the past and they are now assumed to be part of the Governor’s \$750 million cut to Medi-Cal through negotiation of a federal waiver. May and November 2008 M-C Estimates, Policy Change 146, 185, 166.

[http://www.dhcs.ca.gov/dataandstats/reports/mcestimates/Documents/2008\\_may\\_estimate/M08\\_PC02\\_req\\_pc\\_narratives.pdf](http://www.dhcs.ca.gov/dataandstats/reports/mcestimates/Documents/2008_may_estimate/M08_PC02_req_pc_narratives.pdf)

In denying or eliminating Medi-Cal coverage for nearly two million Californians, these permanent policy changes would significantly impact the state's entire healthcare system, increasing the number of uninsured at a time when over a half-million Californians have lost coverage due to the economic recession and increased unemployment.<sup>4</sup>

### **The Specific Cuts: Big Impacts on Health Coverage**

In light of a severe budget crisis, and seeking to address the situation with cuts rather than revenues, the Governor has proposed a series of stark reductions in health and many other vital services. Appendix I of this report contains a comprehensive list of health budget cuts that the Governor has proposed to date.

The biggest cuts to coverage are an unspecified \$750 million waiver for Medi-Cal eligibility cuts, and a direct eligibility cut to Healthy Families.

**The proposed \$750 million Medi-Cal waiver:** In the Governor's May Revise, it states: *"The state cannot afford its Medi-Cal program as currently structured and governed by federal rule and regulations. The Administration has reluctantly proposed eligibility reductions previously and continues to believe that such roll-backs are necessary for California to manage the program within available resources."*

Many have interpreted this to mean that the Governor is continuing to advocate major eligibility cuts he has proposed in last year's budget. This is consistent with other communications by numerous health advocates with several Administration officials, which have indicated that the goal is to rollback eligibility expansions from the past decade, through 1999.

The May Revise acknowledges that federal law might prevent some of these cuts, but it continues to seek these or alternative cuts: *"Under the new federal requirements of the ARRA, such reductions are no longer permitted. Relief from federal requirements is essential. To the extent relief from ARRA restrictions is not permissible, the state will need to secure additional federal program flexibility and implement reductions to manage the program within available resources.... Consequently, the Governor will petition the Obama Administration to work with California to secure essential program flexibilities to slow the rate of program growth and managed Medi-Cal within available resources, support the state's authority to determine eligibility, the adequacy of provide rates and scope of benefits, and recognize the state's long-standing record of cost-containment."*

So given that the Governor is likely to request federal permission to revisit his previous proposals to roll back eligibility, and has recently been in Washington, DC, to request such "flexibility," this report seeks to detail the impacts of those cuts, once fully implemented.

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<sup>4</sup> K. Jacobs & D. Graham-Squire, "No Recovery in Sight: Health Coverage for Working-Age Adults in the United States and California," UC Berkeley Center for Labor Research and Education, (April 2009).

- **471,500 children** would lose their Medi-Cal coverage through Quarterly Status Reports (QSRs). The state would quadruple the reporting requirements for families with children on Medi-Cal coverage, by requiring that Medi-Cal beneficiaries fill out a form every three months to verify that they are still eligible for coverage. Currently, children must have their eligibility verified every year. Their parents currently must submit forms every six months. The California Department of Health Care Services estimates that a percentage of the Medi-Cal population fall off the program for every report required—not necessarily or principally because their status has changes, but simply due to the burden of the paperwork. Experience with six-month renewal for parents demonstrates that 59 percent of those that are dropped are re-enrolled within 90 days.<sup>5</sup> The savings from this policy proposal is the assumption that increasing the frequency of renewals for children (even a six-month renewal period) would lead to a significant drop off in the number of children enrolled in coverage.
- **433,600 working parents with low incomes** would also be denied no-cost Medi-Cal coverage. Currently, a family earning less than \$18,310 per year, which is equivalent to 100 percent of the federal poverty level (FPL), could qualify for Medi-Cal. Under the Governor’s budget proposal, these same families would not qualify if they earned more than 72 percent of the FPL (approximately \$13,183 annually, for a family of three) or if the primary wage earner works more than 100 hours per month. This would both deny those parents attempting to transition from welfare to work, as well as those working parents who have fallen into these very low incomes.
- **73,364 seniors and people with disabilities will no longer be eligible for no-cost Medi-Cal coverage.** Individuals in the Aged & Disabled Federal Poverty Level program have some of the greatest health needs but some of the lowest incomes. Under this policy change, these individuals who earn between \$870-\$1097/month, or roughly around 100% and 127% of the federal poverty level (from around \$11,000-14,000/year for an individual) would lose their no-cost Medi-Cal coverage. Instead, these low-income Californians making as little as \$875/month would have to pay \$350/month in health care costs before any coverage would kick in, under Medi-Cal’s “share of cost” program. Over 73,000 seniors and people with disabilities will lose their no-cost coverage and may be unable to afford, and therefore unable to get, the health care services they need.

Given the Schwarzenegger Administration is seeking to negotiate with the federal government, a more fleshed-out budget plan could include, or not include, or modify any of these proposals. These are the major Medi-Cal eligibility proposals that the Governor has made to date, and the ones he continues to stand behind.

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<sup>5</sup> April 11, 2008 memo to Assembly Budget Subcommittee #1 from California Welfare Director’s Association.

Without new revenues, some or all of these cut proposals may need to be augmented by additional cuts and savings. Even all together, these cuts do not reach \$750 million in state general fund savings.

Under full implementation, these three proposals total under \$700 million in cuts, and the figure is much lower—around \$216 million—in the first full year of implementation (see Figure 1).

And while other possible cuts in Medi-Cal won't necessarily impact eligibility and enrollment, the options are limited. California already has some of the lowest provider reimbursement rates in the nation. And as of July 1, 2009, adults with Medi-Cal coverage—including 3 million parents, seniors and people with disabilities—will already lose nine covered benefits, including dental, optometry, podiatry, speech therapy, and psychology.

**The changing proposal to cut Healthy Families:** The other major cut to coverage the Governor has proposed is to Healthy Families. The Governor's May 14<sup>th</sup>, 2009 Revision included a "contingency plan" regarding the fate of the ballot measures (particularly Propositions 1C, 1D, and 1E), which included a major eligibility cut to Healthy Families.

Under that May 14<sup>th</sup> proposal, 225,000 children would lose coverage, as eligibility would be lowered from 250% to 200% of the federal poverty level, (now cutting off coverage for children in families of income of \$36,000 for a family of three, as opposed to \$46,000.)

On May 21<sup>st</sup>, 2009, the Schwarzenegger Administration signaled it would cut deeper, and proposed to eliminate the Healthy Families program in its entirety.

- **Over 1 million children would be denied coverage if Healthy Families were to be eliminated.** The Healthy Families Program currently has an income eligibility level of 250 percent of the FPL (equivalent to \$45,775 for a family of three in 2009). Even though Congress recently passed the Children's Health Insurance Program Reauthorization Act (CHIPRA) and there are new federal opportunities and incentives to expand children's coverage, the Governor has proposed eliminating the program entirely, contrary to his stated goal of seeking universal coverage for children. As a result, California will lose significant federal funds, since two-thirds of the program is funded by the federal government. As of April 2009, 910,000 children were enrolled, and the program has an average, relatively steady caseload growth rate of around 25,000-30,000 children a month. By the end of the budget year, in June 2010, it would be expected that the Healthy Families program would cover well over 1.1 million children. Unlike the earlier-described Medi-Cal cuts, this eligibility cut would not need federal approval.

The cumulative impact of these cuts is significant, resulting in more than 2 million additional uninsured Californians.

***The Math:*** Quarterly Status Reports (471,500) + Low-income working parents (433,600) + Seniors and disabled individuals (73,364) + Children on Healthy Families (over 1 million) = **Nearly 2 million possible new uninsured Californians** as a result of the Governor's revised budget proposal.

These estimates are conservative, and the full impact could be even greater:

- For instance, **the data used has not been adjusted for caseload growth**, due to new people becoming eligible or enrolling in Medi-Cal or Healthy Families due to the ailing economy. It is estimated that over 1 million Californians lost their jobs in the last 18 months, and some have found public health coverage, and over a half-million have become uninsured.
- Furthermore, there are **other ways to decrease enrollment not included in this report**, such as undoing simplification efforts made in the past decade. This would include, for example, the continued delayed implementation of simplification procedures (SB 437), that could leave tens of thousands more California children without health coverage.
- In addition, these **calculations did not include the parents that are estimated to lose coverage due to the imposition of quarterly status reports**—an estimated 34,800. Since there would be overlap with the low-income working parents that are denied coverage due to the eligibility cut, there was a risk that a portion of those 34,800 parents would be double-counted.

### **Spending Cuts Result in Significant Loss of Federal Funds**

Part of the reason that these health care cuts result in such huge losses in coverage is because when the state cuts health spending on Medi-Cal or Healthy Families, they lose significant federal funds. That is, the federal government will match each dollar the state spends on Medi-Cal, and provides two dollars for each dollar spent on the Healthy Families Program.

The Healthy Families program is a \$1.1 billion program, but two-thirds is funded by the federal government. **Eliminating the Healthy Families program would mean California's health system and economy would lose over \$712 million in federal matching funds.**

Under the terms of the economic stimulus package, the American Recovery and Reinvestment Act (ARRA), California's Medi-Cal is now getting an "enhanced" match. What was a 50-50 match between state and federal governments is now around a 60-40 match. Until December 2010, for Medi-Cal expenses, California pays only 38.41% of the cost, and the federal government reimburses the remaining 61.59%.

Put another way, for every \$1.00 in state Medi-Cal spending that California cuts, the state loses \$1.60 in federal matching funds. Within the stimulus period, **a cut of one dollar in state Medi-Cal spending is a cut of over \$2.60 to California's health system, and our economy.**

The Schwarzenegger Administration's proposal to seek **\$750 million in Medi-Cal cuts through a federal waiver would have an impact of a \$1.953 billion cut to our health system and economy**—and a loss of over \$1.2 billion in federal funds.

It should be noted, however, that some of the proposals are contingent on negotiating a waiver of federal Medicaid rules with the federal government, and likely would take an act of Congress. Otherwise, these cuts could also result in even more lost federal funds since they could jeopardize economic recovery funds available to the state through the American Recovery and Reinvestment Act (ARRA). The cuts also jeopardize new opportunities available through the Children's Health Insurance Program Reauthorization Act (CHIPRA).

### **Working Families are Least Able to Afford These Cuts**

**The families affected by this cut are the least able to afford health coverage** – even in the best of times. These are low- and middle-income working families who are, by definition, near or below the federal poverty level.

In 2007, the California Budget Project with the UCLA Center for Health Policy Research recommended that full health care subsidies were needed for families up to 200 percent of the FPL (\$36,620 for a family of three in 2009).<sup>6</sup> The governor's proposal, which includes scaling back subsidies down to 61 percent of the FPL, clearly leaves people with no other choice than to simply be uninsured, with the health and financial consequences thereof.

During an economic downturn like this one, the demand for public programs increases, as the increase in unemployment leaves more families with shrinking incomes and eligible for Medi-Cal or Healthy Families. Additionally, more families are without jobs and without job-based health coverage.

Even without a recession, **there has been growing demand for public insurance coverage as job-based health coverage has been on the decline.** Since 2000, the percentage of workers who received health coverage on the job has decreased from 60.8 percent to 56.7 percent, and during that same period, Medi-Cal enrollment increased by over two percentage points.<sup>7</sup>

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<sup>6</sup> D. Carroll, et al. "What Does It Take for a Family to Afford to Pay for Health Care?," California Budget Project and UCLA Center for Health Policy Research (August 2007).

<sup>7</sup> "Snapshot: California's Uninsured 2008," California HealthCare Foundation.

In California, specifically, while job-based coverage has been declining, children’s enrollment in public programs increased by nearly 28 percent between 2001 and 2007.<sup>8</sup> Figure 2, below, shows the decline in job-based coverage, and the shifting of coverage to public programs, which is expected to be exacerbated by the economic downturn.

**Figure 2<sup>9</sup>**

	<b>Job-based insurance</b>		<b>Medi-Cal or Healthy Families</b>	
	<b>2001</b>	<b>2007</b>	<b>2001</b>	<b>2007</b>
<b>Children (0-18)</b>	55.1%	52.2%	24.2%	29.3%
<b>Adults (19-64)</b>	57.0%	57.3%	8.6%	8.5%

As employer-based coverage erodes, public programs have taken up the slack, but would be prevented from doing so under these cuts. Given these trends, there is little reason to believe that those barred or dropped from Medi-Cal will find coverage elsewhere, such as through a job. Overall, many more Californians will be uninsured under these cuts to health care.

**The cuts represent a reversal for the Administration – reducing programs that just two years ago were being considered for massive expansions to provide coverage to millions more Californians.** The Governor’s health reform proposal found the financing—through employer requirements, provider fees, tobacco taxes, and other means—to expand the very Medi-Cal and Healthy Families programs he seeks to severely cut today.

Rather than raising taxes and other revenues to expand coverage and dramatically shrink the number of uninsured, the Governor’s budget proposal would increase the number of uninsured substantially. The budget proposal takes a cuts-only approach, and rejects raising the revenues needed to ensure that Californians keep the coverage they have now.

**Allowing nearly 2 million Californians to go uninsured creates ripple effects throughout the entire health care system.** It includes:

- an increased burden on “safety net” providers, from emergency rooms to hospitals to community clinics—many of which are dealing with direct cuts of their own;
- a cost-shift, from both the uninsured and reduced Medi-Cal provider payments, to private purchasers of health care—which means a more than 10 percent increase in private premiums<sup>10</sup>; and
- worse health and economic impacts for California communities, from the destabilizing impact of more children uncovered and getting sicker, to more families facing medical debt and bankruptcy for being uninsured.<sup>11</sup>

<sup>8</sup> California Health Interview Survey query, 2001 and 2007 data.

<sup>9</sup> E. R. Brown, et al. “Nearly 6.4 Million Californians Lacked Health insurance in 2007 – Recession Likely to Reverse small gains in Coverage,” UCLA Center for Health Policy Research (December 2008).

<sup>10</sup> P. Harbage & L. Nichols. “A Premium Price: the Hidden Costs All Californians Pay in our Fragmented Health Care System.” New America Foundation, (December 2006); and B. Furnas & P. Harbage, “The Cost Shift from the Uninsured,” Center for American Progress (March 24, 2009)

<sup>11</sup> Institute of Medicine, *America’s Uninsured Crisis: Consequences for Health and Health Care*, (February 2009).

**As a result, all Californians—not just the 2 million more uninsured—will be impacted these cuts.** California policymakers are presented with a stark choice: allowing these cuts to move forward and making these structural policy changes to our health care system, or to find the revenues needed to prevent these cuts and continue to strengthen coverage.

Given these impacts, these choices are not just budget decisions, but health policy decisions, and will determine whether California takes significant steps backwards by increasing the number of uninsured and making a broken health care system even worse during a challenging economic time, or whether California will set a strong foundation on which to continue to pursue comprehensive health reform in the future.

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## Appendix I: List of Health Cuts in the Revised Budget Proposal

Proposed Policy Change	General Fund Savings (FY 09-10)	Non-Budgetary Impact
<p><b>Rollback Medi-Cal eligibility levels</b>, contingent on negotiating a waiver of federal requirements. This could include:</p> <ul style="list-style-type: none"> <li>• denying coverage for low-income working parents under the poverty level;</li> <li>• imposing burdensome quarterly paperwork on children, resulting in many become un-enrolled;</li> <li>• Eliminate eligibility/significantly increase cost-sharing for seniors and people with disabilities.</li> </ul>	\$750.0m	Unknown, but potentially nearly a million people could lose coverage, and many more impacted by lower provider rates or decreased benefits.
<p><b>Eliminate coverage for children in the Healthy Families Program</b> (Earlier proposal was to lower eligibility from 250% to 200% FPL.)</p>	\$387.7m (\$54.4m)	Over 1 million children will be denied Healthy Families coverage. (Earlier proposal would have denied 225,000 children.)
<p><b>Decrease spending on CalPERS health benefits</b> beginning in January 2010 by negotiating for lower cost health coverage.</p>	\$132.2m	Some of the 1.6 million CalPERS members could see reduced health benefits and/or increased cost sharing.
<p><b>Limit health services for legal immigrants</b> over age 20 (except pregnant women) to emergency services only, effective Oct 1.</p>	\$125.0m	80,600 people will lose basic coverage.
<p><b>Offset Medi-Cal costs by redirecting Proposition 99 tobacco tax funds</b> that currently fund other important health-related programs like county health clinics, Breast Cancer Early Detection Program, Asthma, Major Risk Medical Insurance Program (MRMIP), Access for Infants and Mothers (AIM) programs, and rural health and consumer assessment projects.</p>	\$60.0m	Reduction or elimination of important health programs, county resources, and demonstration projects.
<p><b>Reduce Medi-Cal rates for family planning services</b> to pre-January 2008 levels.</p>	\$36.8m	Reduced or eliminated access to family planning services for Medi-Cal beneficiaries.
<p><b>Reduce the Medi-Cal adult day health services benefit</b> to three days per week.</p>	\$25.5m	Reduction in adult day health services.
<p><b>Reduce funding for HIV education and prevention</b> to prevent HIV transmission, change attitudes and behaviors related to HIV, and promote risk-reduction skills.</p>	\$24.6m	Reduction or elimination of local health programs aimed at HIV education and prevention.
<p><b>Reduce Medi-Cal payments to private hospitals</b> by 10 percent, commensurate with the cut to public hospitals.</p>	\$20.0m	Reduced access for Medi-Cal beneficiaries to private hospitals, and potential cost shift to privately insured patients.
<p><b>Reduce maternal, child, and adolescent health grants</b> to local health jurisdictions for services and programs to improve the health of mothers, infants, children, adolescents, and families.</p>	\$10.0m	Reduction or elimination of local health programs aimed at maternal and child health.
<p><b>Reduce Medi-Cal rates for certain substance abuse treatment services</b> by 10 percent.</p>	\$8.8m	Reduced access to substance abuse treatment services for the 3 million adults with Medi-Cal coverage.
<p><b>Suspend a comprehensive, school-based dental disease prevention program</b> for preschool and elementary-age children that operates in 31 counties.</p>	\$2.9m	Approximately 300,000 preschool and elementary school children annually will no longer receive dental prevention services through the program.
<p><b>Eliminate certified application assistors</b> who help individuals enroll and remain in children's health insurance coverage.</p>	\$2.7m	Elimination of jobs and reduction in assistance for low-income people enrolling in health coverage.
<p><b>Find other savings</b>, through <b>new drug purchasing policies</b>, and <b>anti-fraud efforts</b> targeted at providers.</p>	\$75m \$47.9m	
<b>TOTAL</b>	<b>\$1.4 billion</b>	Lost federal matching funds, for our health care system, and our economy.