

The Impact of Health Care on the Michigan Economy

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Health Care Economic Impact

Health care is one of the fastest growing sectors in both the national and Michigan economy.

Approximately \$1 of every \$7 spent in the United States is for some aspect of health care.

- Population growth
- Aging baby boomers
- More sophisticated health care technology
- Retirement among health care workers
- Growing demand for more health services than ever before

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Health Care is a Major Source of Good Paying, Stable Jobs

According to a 2004 study conducted by several statewide health care trade associations

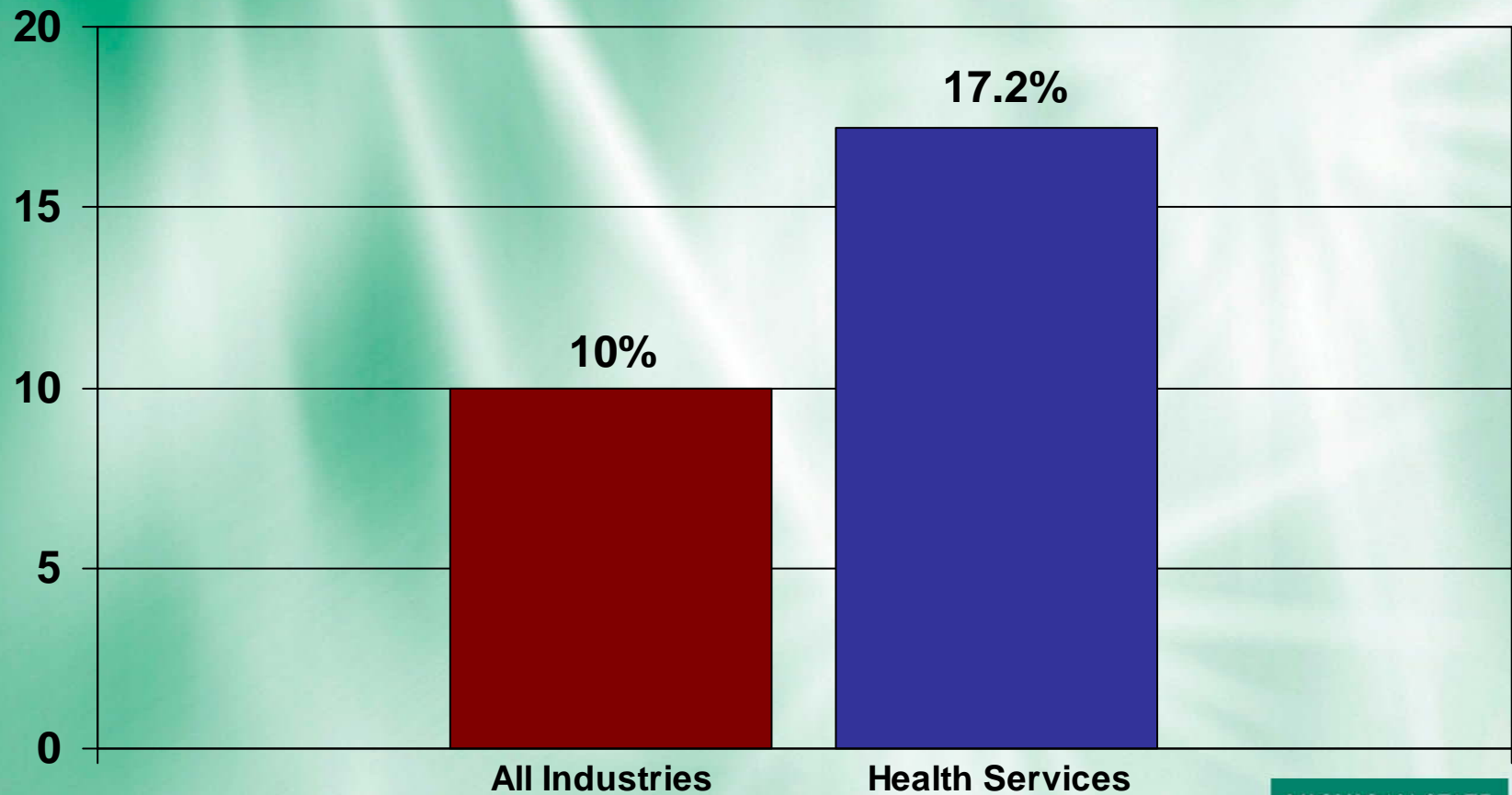
- 8 out of every 100 jobs in Michigan are directly provided by health care organizations and 12 of every 100 jobs are directly and indirectly related to health care.
- Health care workforce shortages are expected to grow more acute over the next decades.

Source: Partnership for Michigan's Health, "The Economic Impact of Health Care in Michigan 2004," Bureau of the Census 2004

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Health Care will be an Important Source of Future Job Growth



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Source: Michigan Department of Labor and Economic Growth, Labor Market Information 2005
Capital Area Health Care: The Jobs Machine, Capital Area Michigan Works 2005.

Physician & Nurse Shortage information

- According to the study of Michigan Physician Supply, Michigan will be 900 physicians short by 2010, 2,400 short by 2015, and 4,400 doctors short by 2020. By 2020 we will need 38,000 physicians compared to the 30,000 (active practice) we have today.
- According to the report “Nursing Workforce Requirement for the Needs of Michigan Citizens,” Michigan, along with the rest of the nation, will face a 20% shortage of nurses by 2010.

Health Care Spending has a Multiplier Effect on the Economy

- Health care research brings federal research dollars into the state and spins off new business.
- Destination health care provided by tertiary care hospitals and medical specialists brings new spending into the regional and state economy.

For example,

The Deloitte Consulting study commissioned by the Grand Action Committee estimates the economic impact on Kent and Ottawa counties of creating a new medical school in Grand Rapids over 10 years would be:

- ↑ sales \$1.57 B
- ↑ personal income \$1 B
- ↑ jobs 2,800
- ↑ sales and local taxes \$61 M

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Health Care Spending is the Largest Item in Michigan's General Fund Budget

Community Health, Mental Health, Public Health, Medicaid	(2.9 B)	32%
Higher Education	(1.9 B)	21%
Corrections	(1.8 B)	20%
Human Services, Family Services, Juvenile Justice, Public Assistance	(1.2B)	13%
All other general fund programs	(1.3 B)	14%

Medicaid

Medicaid began in 1965 as a health insurance program for persons on cash assistance - covering 4 million in 1966. Medicaid is a federal and state partnership.

Today, it is the largest health insurance program in the United States covering 54.6 million in FY 2004.

United States

- ✓ 20% of all children
- ✓ One-third of all child births
- ✓ One-sixth of all drug costs
- ✓ 40% of all long-term care services
- ✓ 50% of all mental health care

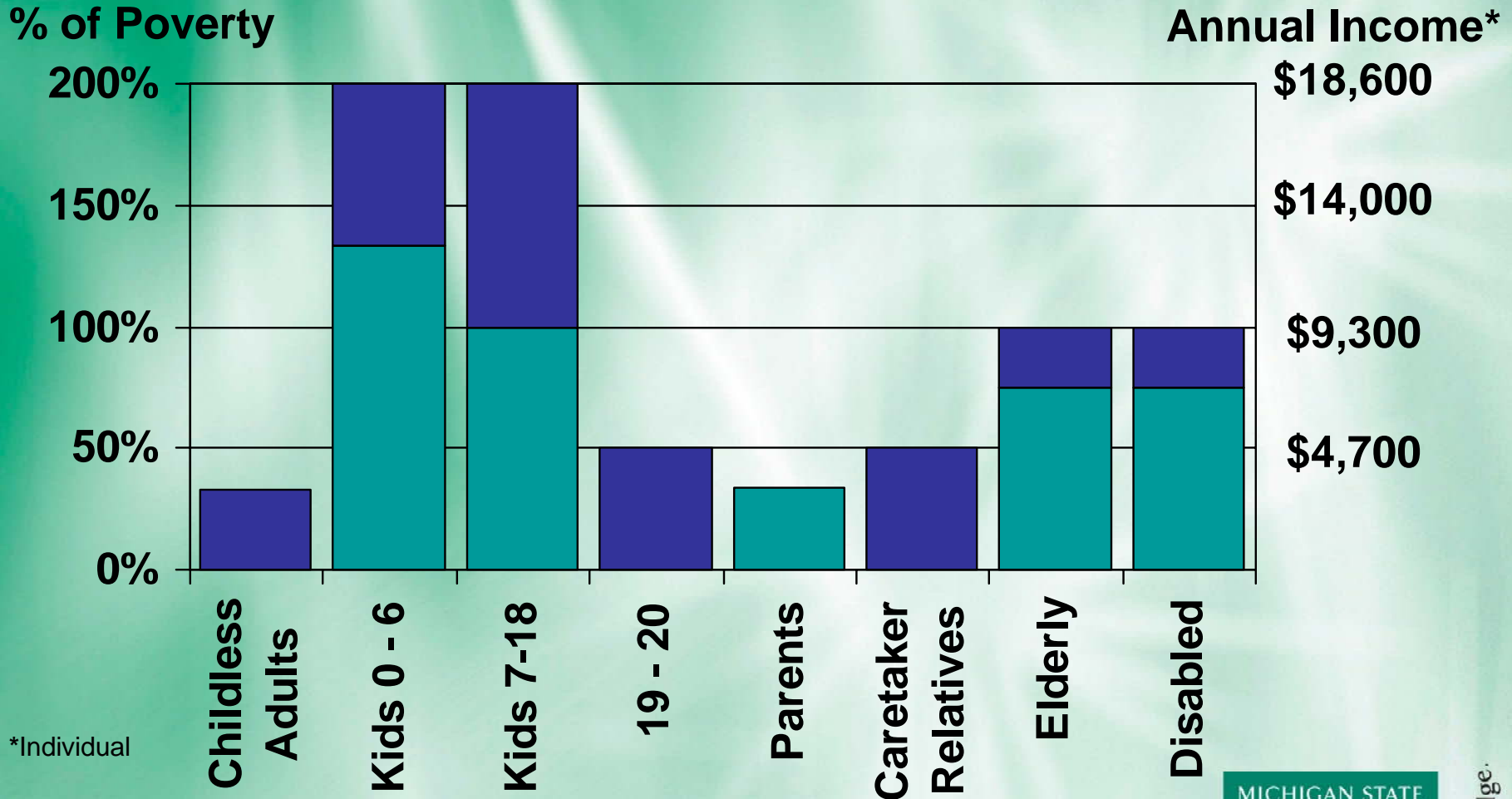
Michigan

- ✓ 1 in 7 Michigan citizens
- ✓ 1 in 4 children
- ✓ 40,000 births
- ✓ 66% of nursing home care

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Current Medicaid Eligibility



*Individual

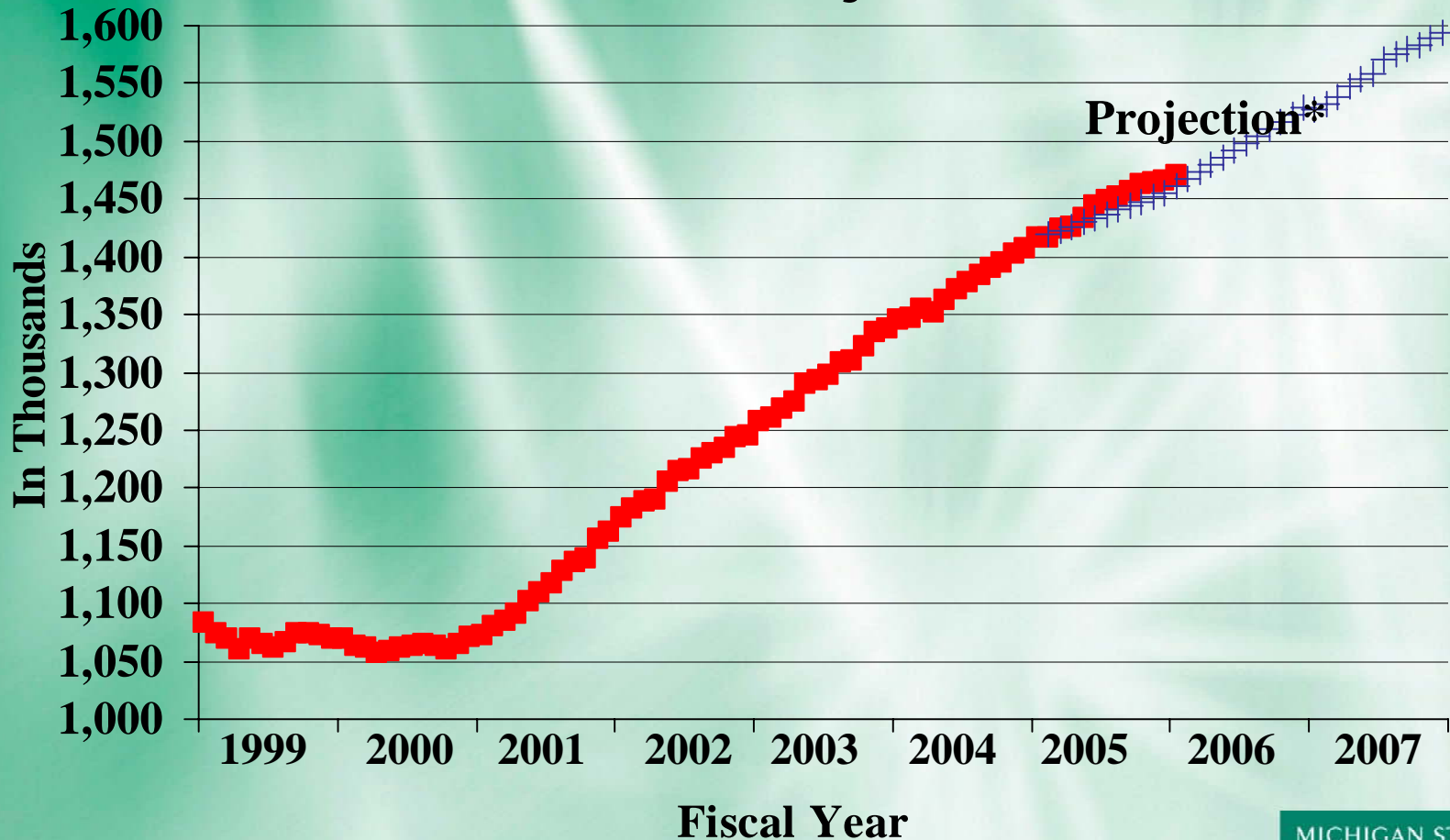
Source: Paul Reinhart, MDCH, *Medicaid Briefing: Select Committee on Medicaid Reform and Innovation*, December 2005.

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Medicaid Caseload DHS Projection



*Department of Human Services, October 2004, October 2005

Source: Paul Reinhart, MDCH, *Medicaid: Current Realities and Future Challenges*, November 2005

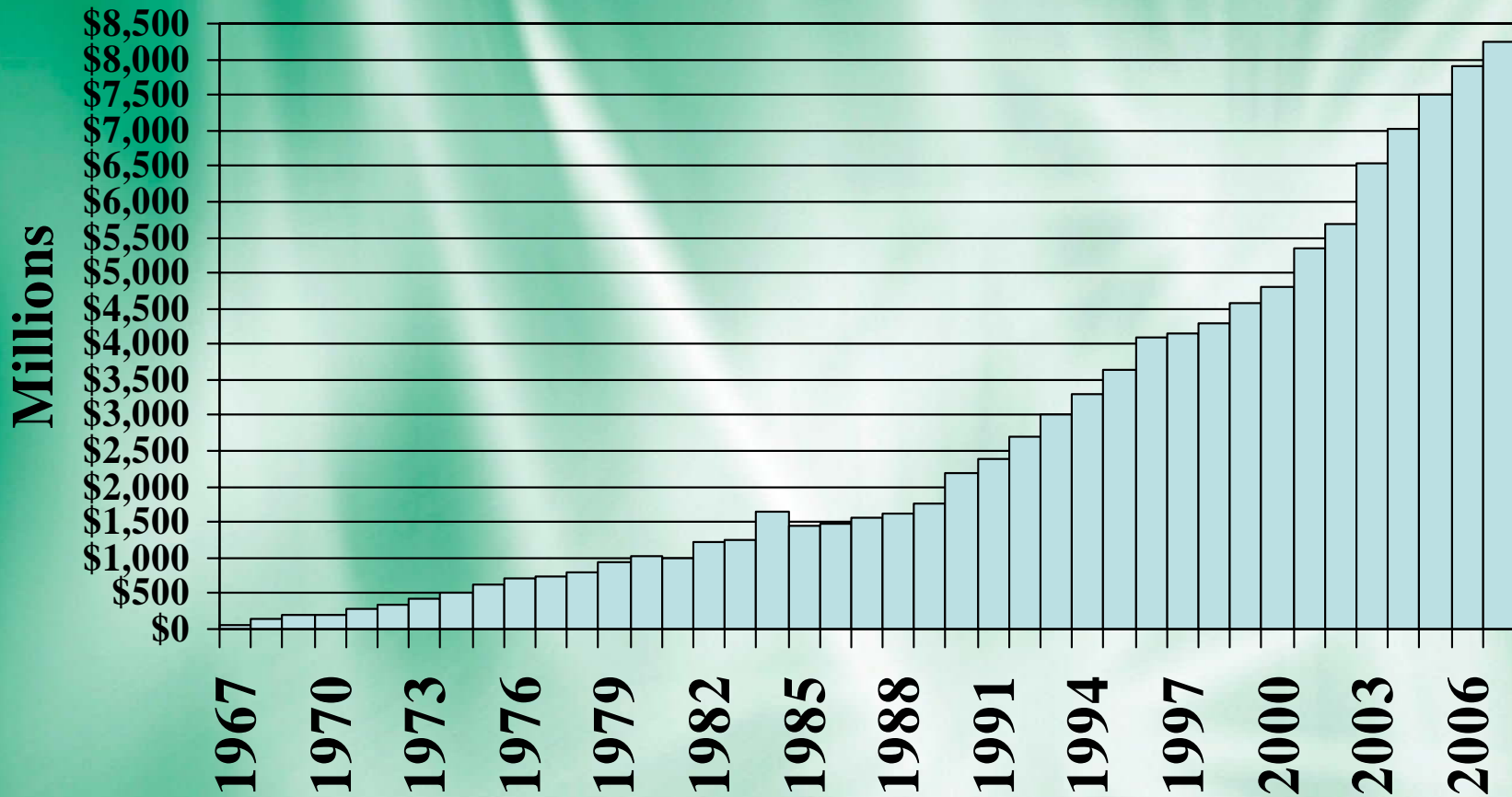
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State Medicaid Programs

- Every state administers its program in its own way, **WITHIN** a federally defined structure. No two states have the same eligibility rules, payment levels, coverages, or program structures.
- The federal matching rates for qualifying medical services vary by state from 50% to 77%. (Michigan is currently at 56.38%)
- Every dollar of state spending on Medicaid earns \$1.31 in federal funds that are spent in Michigan's economy.

Michigan Medicaid Expenditures*



***Payments to Major Providers Including Mental Health**

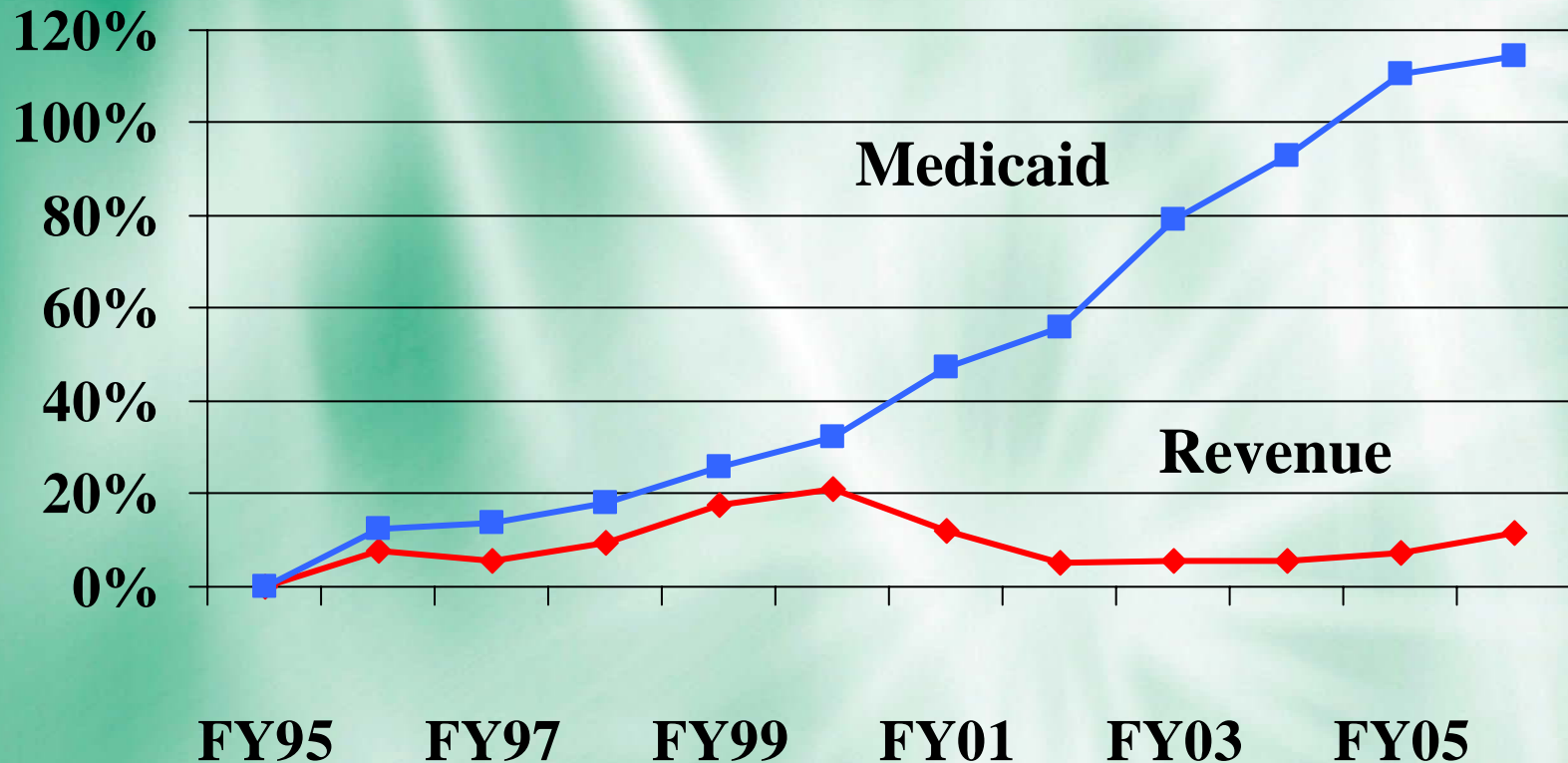
Source: Paul Reinhart, MDCH, *Medicaid Briefing: Select Committee on Medicaid Reform and Innovation*, December 2005.



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Growth in Michigan Medicaid

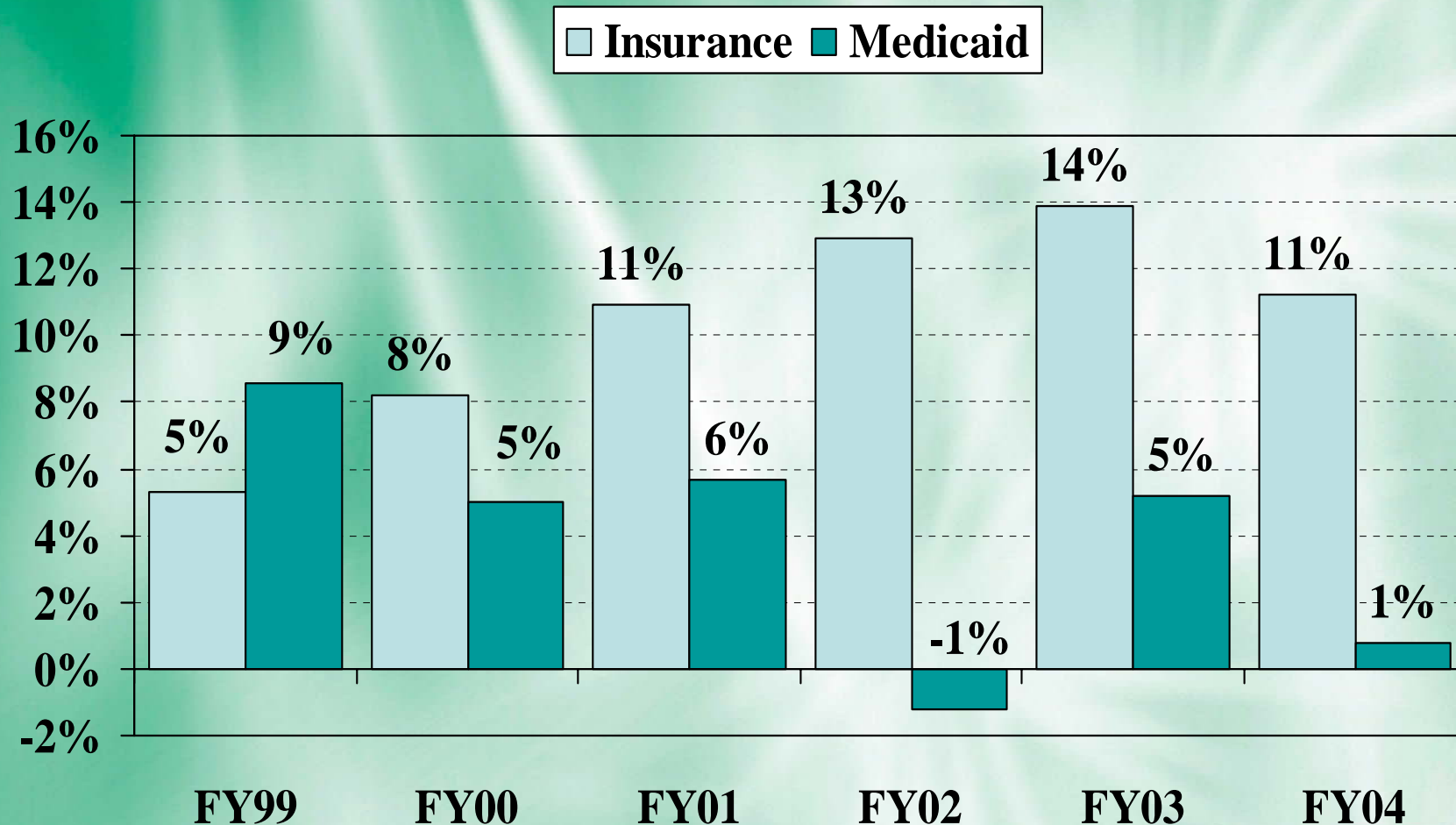
Growth in Michigan Revenue



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Health Care Cost Increases Health Insurance vs. Medicaid*



*Survey of Employer Sponsored Health Benefits, family of four, cited in Detroit Free Press, 1/25/05; Medicaid, per beneficiary expenditures w/out LTC

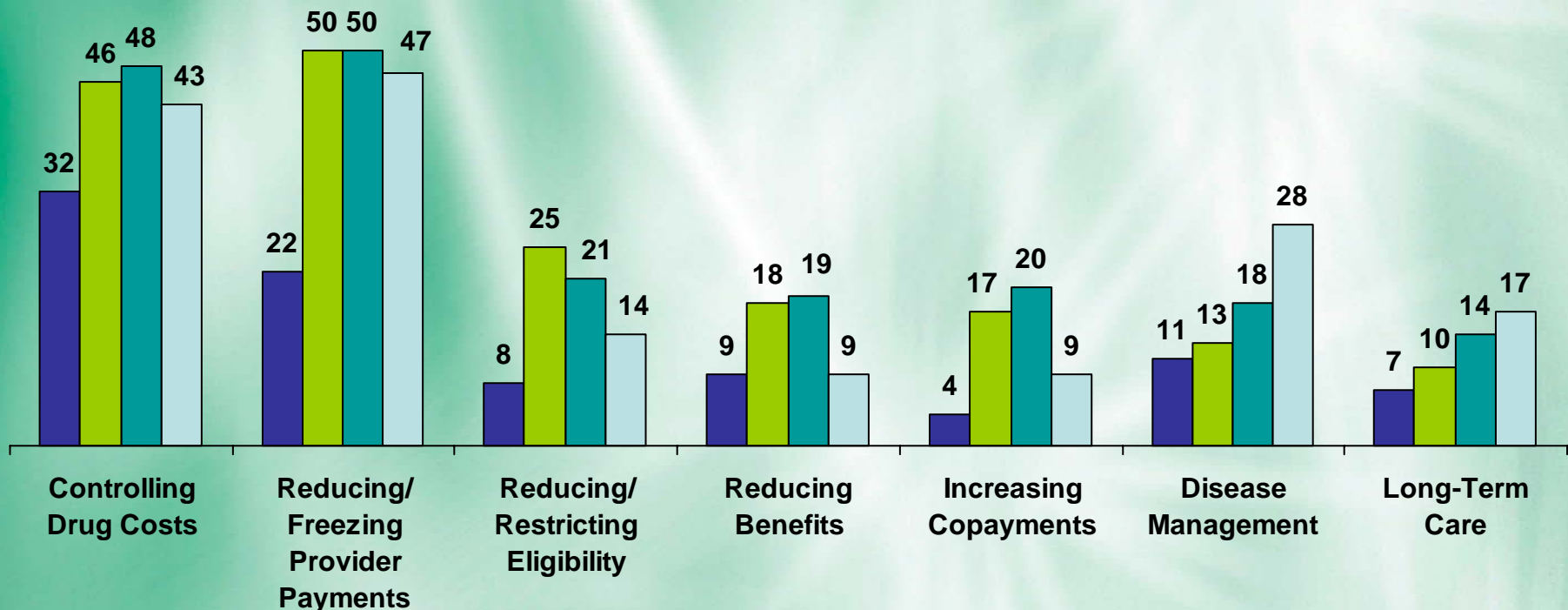
Source: Paul Reinhart, MDCH, *Medicaid Briefing: Select Committee on Medicaid Reform and Innovation*, December 2005.

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Medicaid Strategies to Contain Costs: New Initiatives by Year FY 2002 – FY 2005

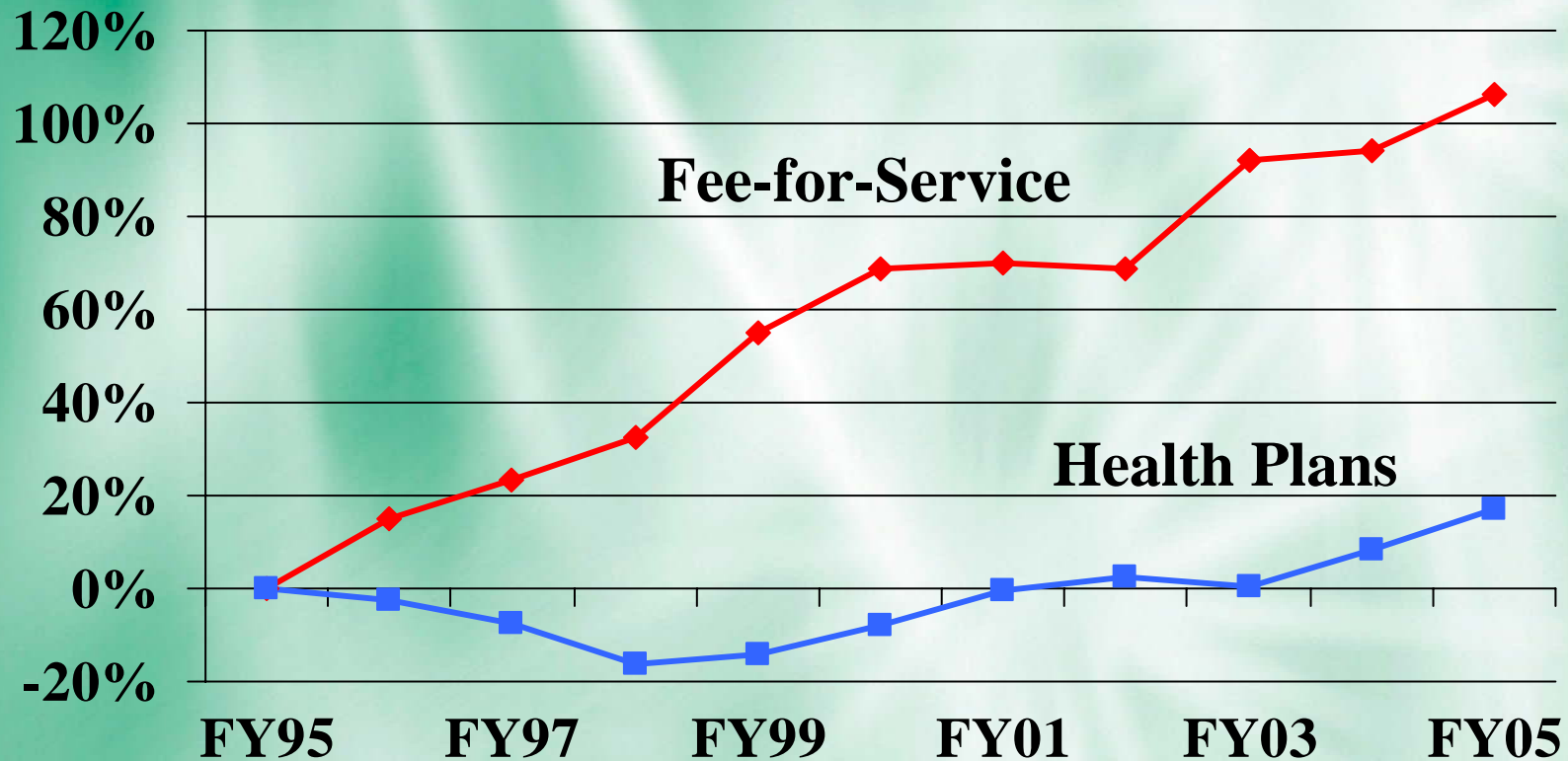
■ Implemented 2002 ■ Implemented 2003 ■ Implemented 2004 □ Adopted for 2005



SOURCE: Vernon Smith, Rekha Ramesh, Kathy Gifford, Eileen Ellis, Robin Rudowitz and Molly O'Malley, *The Continuing Medicaid Budget Challenge: State Medicaid Spending Growth and Cost Containment in Fiscal Years 2004 and 2005*, Kaiser Commission on Medicaid and the Uninsured, October 2004.

Source: Vernon K. Smith, HMA, *Medicaid Challenges in 2005: How States Are Trying to Control Medicaid Costs (And Why It Is So Hard)*, February 2005.

Per-Person Cost Growth Fee-for-Service and Health Plans



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The Outlook for Medicaid: All Signs Point to Continued Cost Growth for States

- **Medicaid spending:** Projected to grow 8% to 9% per year over the next decade
- **Medicaid enrollment:** Growth is shifting toward elderly and disabled
- **Federal focus: Deficit reduction and entitlement reform**
 - Federal fiscal relief unlikely – federal budget cuts likely
 - Fiscal scrutiny of states increased
 - Possible new policy flexibility and encouragement for state reform
- **Medicare prescription drug benefit:** will add to state financing challenges in 2006
- **Bottom line for States:** Medicaid cost growth will outpace revenue growth – will drive Medicaid politics and policy decisions – and will add urgency for reform – with no obvious solution in sight.

Source: Vernon K. Smith, HMA, *Medicaid Challenges in 2005: How States Are Trying to Control Medicaid Costs (And Why It Is So Hard)*, February 2005.

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Michigan Economy in Transition

- Manufacturing sector in crisis
- Job losses, bankruptcies, and costs reducing availability of private health insurance
- High health care costs and premiums threaten business competitiveness

Source: Michigan Department of Community Health

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Employer Strategies to Control Costs

- Employers increased consumer cost sharing:
 - Increased employee cost of insurance premiums (68% of employers)
 - Increased deductibles (32% of employers)
 - Increased employee cost of prescription drugs (46% of employers)
 - Increased cost for office visits (42% of employers)
- “Buy-downs” of coverage averaged 2.5% to 3.5% in 2002, 2003 and 2004.

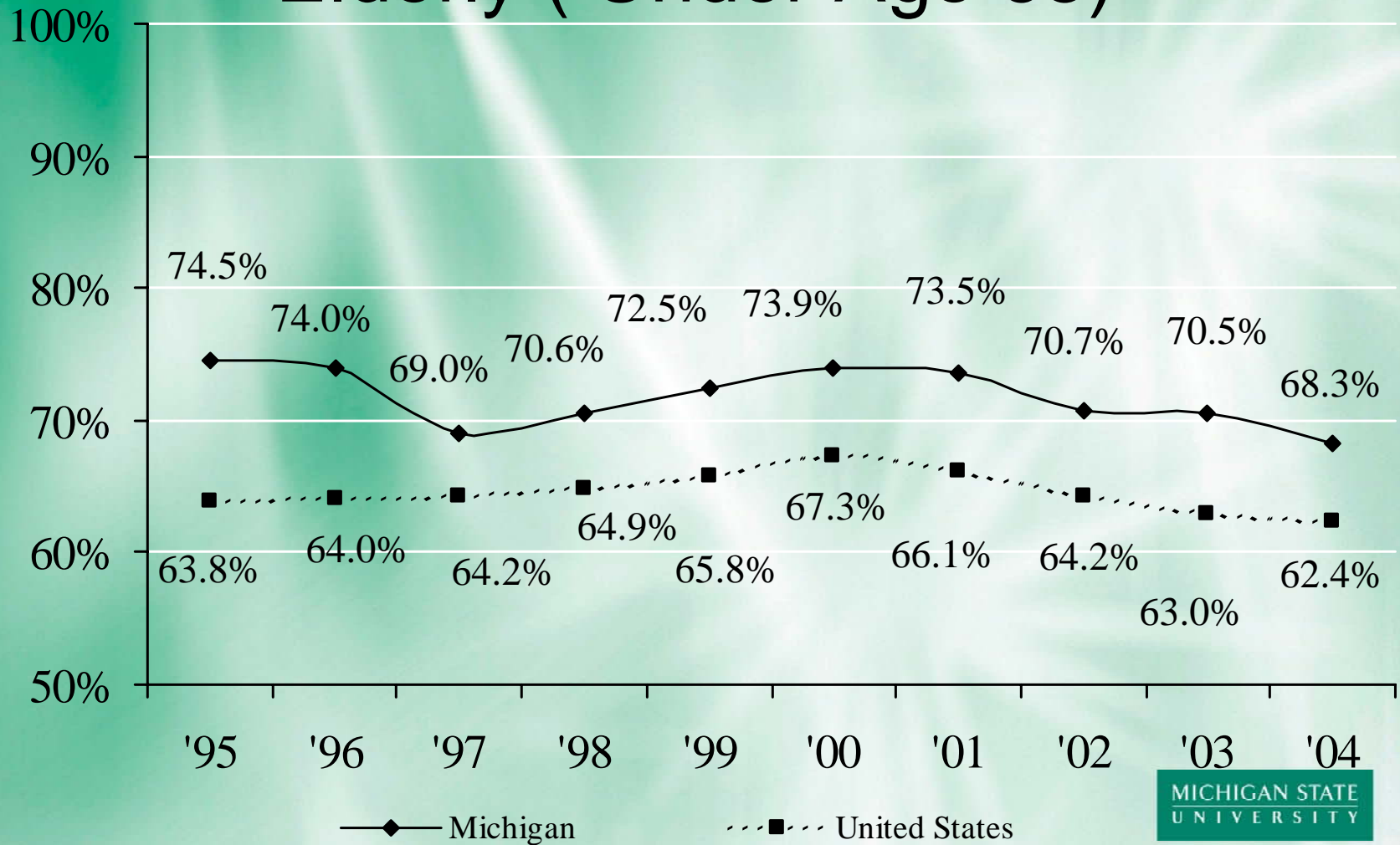
Sources: *Employer Health Benefits Survey, HRET, 2004*; and Bradley Strunk and Paul Ginsburg, “Tracking Health Care Costs: Trends Turn Downward in 2003,” *Health Affairs, Web Exclusive*, 9 June 2004.

Source: Vernon K. Smith, HMA, *Medicaid Challenges in 2005: How States Are Trying to Control Medicaid Costs (And Why It Is So Hard)*, February 2005.

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Employer Based Coverage Non Elderly (Under Age 65)



Source: Steve Fitton, MDCH, *Medicaid Update Including Governor Granholm's MI 1st Healthcare Plan*, October 2006.

Federal Budget Is Expected to Propose Cuts in Medicaid ... but

- “If you can’t get Medicaid reform at the federal level, what can you get on a state-by-state basis?”
 - Leslie Norwalk, Deputy Administrator, Centers for Medicare and Medicaid Services, speaking to Medicaid directors annual meeting, November 18, 2004. She added that “...any reform would be based on consumer-directed care and quality.”

Source: Vernon K. Smith, HMA, *Medicaid Challenges in 2005: How States Are Trying to Control Medicaid Costs (And Why It Is So Hard)*, February 2005.

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Key Indicators of Federal Direction: Confirmation Hearing 1/19/05 for HHS Secretary Michael Leavitt

- “We can expand the number of people served with quality basic care by giving states additional flexibility [for optional populations].”
- “It’s always been my belief that we can expand the number of people we serve within available resources.”
- “I passionately believe that we could and should use Medicaid as a part of the transformational movement in the delivery of health in general.”

Source: Vernon K. Smith, *Medicaid Challenges in 2005: How States Are Trying to Control Medicaid Costs (And Why It Is So Hard)*, February 2005.

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State Reform Efforts

- Medicaid Waivers
- Massachusetts Health Care Reform
- Michigan First Healthcare Plan

Michigan First Healthcare Plan Principles

- No big government program
- Public/private partnership
- Market approach
- Promote a culture of health insurance
- Reinforce personal responsibility

Source: Steve Fitton, MDCH, *Medicaid Update for the Michigan Oral Health Conference*, June 2006.

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Michigan First Healthcare Plan Basics & Timing

- State – establish guidelines for benefit package & cost sharing on a sliding fee scale
- Insurers – design products that conform with guidelines
- Individuals & small employers – choose products that best meet their needs
- Medicaid waiver implementation date – April 1, 2007

Source: Steve Fitton, MDCH, *Medicaid Update for the Michigan Oral Health Conference*, June 2006.

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