Medicaid Funding for Nonprofit Healthcare Organizations

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for the
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Need for & Purpose of Research

- **Need**: Scarce research on nonprofits in certain health sectors; no comprehensive database of funding by sub-sector; little understanding of organizational effects of recent changes

- **Purpose**: Use available data to estimate role Medicaid plays in funding nonprofits and how changes in Medicaid funding affects nonprofit organizations reliant on this funding source
Background on Medicaid

- Publicly funded health insurance program
- Enrolls over 50 million people
- Paid for 16% of all healthcare in 2005
- Jointly funded by federal & state government
- Primarily administered by states
- State flexibility in benefits & coverage
- Total spending was about $300 billion FY 2006
- Largest funding source for long-term care
- State action just as important as federal action
Overview: Medicaid & Nonprofits

• Many healthcare providers are nonprofit (predominant in health and social-assistance)

• Because Medicaid is a major funding source for healthcare, nonprofits rely on this funding – but to differing degrees

• The percent of health care providers that are nonprofit varies with the services they provide (home care, hospital, skilled nursing care, etc.)
# Number & Percent of Tax Exempt Healthcare Establishments, 2002

*Source: U.S. Economic Census*

<table>
<thead>
<tr>
<th>Service/Industry</th>
<th>Total number</th>
<th>Tax exempt</th>
<th>Percent tax exempt</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Medical Hospitals</td>
<td>3,782</td>
<td>3,085</td>
<td>81.6%</td>
</tr>
<tr>
<td>Outpatient MH &amp; SA</td>
<td>7,978</td>
<td>5,199</td>
<td>65.2%</td>
</tr>
<tr>
<td>Residential MR</td>
<td>28,508</td>
<td>18,730</td>
<td>65.7%</td>
</tr>
<tr>
<td>Community Care for Elderly</td>
<td>17,988</td>
<td>4,649</td>
<td>25.8%</td>
</tr>
<tr>
<td>Nursing Care Facilities</td>
<td>16,568</td>
<td>3,467</td>
<td>20.9%</td>
</tr>
</tbody>
</table>
How Medicaid Money Flows to Nonprofits

- Payments/fees for services
- Contracts for services
- Intergovernmental transfers
- Disproportionate share hospital payment (DSH)
- Administrative costs
Methods & Data Sources for Estimating the Amount of Medicaid Money Going to Nonprofits

- Medicaid expenditures: CMS Form 64

- Percent of nonprofits by industry and reliance on Medicaid: Existing literature, U.S. Economic Census, industry estimates, healthcare data from Kaiser Commission
Health Sub-Sectors Examined

- Hospitals
- Nursing homes
- Mental health
- Managed care
- Home and community care
Hospitals

- Not-for-profit community hospitals were 71% of all hospital beds (2001)
- Percent of hospitals that are nonprofit varies greatly by state (33% of total – nearly 100%)
- Total hospital spending (including inpatient, outpatient & DSH) was $62 billion in 2004
- **Estimate:** $44 billion in Medicaid funding went to nonprofit hospitals in FY 2004
Nursing Homes

- 27.1% of nursing home beds are in not-for-profit nursing homes
- Medicaid spent $40 billion on nursing care in 2004
- **Estimate:** $11 billion in Medicaid funds went to nonprofit nursing homes in FY 2004
Mental Health & Substance Abuse

- Difficult to pinpoint mental health and substance abuse spending (could include Rx, case management, inpatient/outpatient hospital or other services)
- One estimate claimed that $26 billion went to SA/MH providers in 2001
- Estimated that nonprofits constitute 65%
- The one defined category is Mental Hospital and Mental Hospital DSH – which is $5.5 billion
- **Estimate: $5.5-$16.9 billion in Medicaid funds went to nonprofit substance abuse and mental health providers in 2004**
Managed Care

- 25-37% of managed care enrollees are in nonprofit managed care plans
- Medicaid spent approximately $37.4 billion on managed care in FY 2004
- **Estimate: $9.4-$13.8 billion in Medicaid funds went to nonprofit managed care organizations in FY 2004**
# Home and Community-Based Long-Term Care

Sources: CMS Form 64/Economic Census for home health

<table>
<thead>
<tr>
<th>Expenditure Category / Service</th>
<th>Percent of Industry that is Nonprofit</th>
<th>Total Expenditures 2004 (billion)</th>
<th>Estimate of Total MA $ Going to Nonprofits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frail Elderly</td>
<td>at least 50%</td>
<td>$0.37</td>
<td>$185 million</td>
</tr>
<tr>
<td>HCBS Waiver</td>
<td>at least 50%</td>
<td>$20.50</td>
<td>$10.3 billion</td>
</tr>
<tr>
<td>Home Health</td>
<td>19.2%-48%</td>
<td>$3.45</td>
<td>$662 m-$1.7 billion</td>
</tr>
<tr>
<td>Hospice</td>
<td>34.20%</td>
<td>$1.14</td>
<td>$390 million</td>
</tr>
<tr>
<td>ICFMR (private)</td>
<td>65.70%</td>
<td>$4.55</td>
<td>$3.0 billion</td>
</tr>
<tr>
<td>Personal Care</td>
<td>50-80%</td>
<td>$6.11</td>
<td>$3.1-4.9 billion</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$43.08</td>
<td>$17.5-$20.9 billion</td>
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</tbody>
</table>
# Summary of Estimated Medicaid Funding to Nonprofits by Sub-Sector

<table>
<thead>
<tr>
<th>Health sub-sector</th>
<th>Estimate of MA $ going to NP</th>
<th>Medicaid spending in this category</th>
<th>Proliferation of nonprofits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitals</td>
<td>$42 billion</td>
<td>Stable</td>
<td>Decreasing</td>
</tr>
<tr>
<td>Nursing Homes</td>
<td>$11 billion</td>
<td>Slowing</td>
<td>Stable</td>
</tr>
<tr>
<td>Mental Health</td>
<td>$5.5-16.9 billion</td>
<td>Volatile</td>
<td>Volatile</td>
</tr>
<tr>
<td>Managed Care</td>
<td>$9.4-13.8 billion</td>
<td>Stabilizing soon</td>
<td>Decreasing</td>
</tr>
<tr>
<td>Home &amp; Community Care</td>
<td>$17.5-20.9 billion</td>
<td>Increasing</td>
<td>Stable</td>
</tr>
</tbody>
</table>

**Estimated Total**  
$85-$105 billion
## Recent Trends in Medicaid Spending

Source: CMS Form 64 data

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>2004 total (billion)</th>
<th>1994-2004% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inpatient Hospital</td>
<td>$38.5</td>
<td>48%</td>
</tr>
<tr>
<td>Case Management</td>
<td>$2.7</td>
<td>214%</td>
</tr>
<tr>
<td>Prescription Drugs</td>
<td>$40.0</td>
<td>332%</td>
</tr>
<tr>
<td>Nursing Facilities</td>
<td>$45.4</td>
<td>61%</td>
</tr>
<tr>
<td>Home &amp; Community Waiver</td>
<td>$20.5</td>
<td>446%</td>
</tr>
<tr>
<td>Home Health</td>
<td>$3.5</td>
<td>110%</td>
</tr>
<tr>
<td>Intermediate Care Facility (private)</td>
<td>$4.6</td>
<td>40%</td>
</tr>
<tr>
<td>Personal Care</td>
<td>$6.1</td>
<td>104%</td>
</tr>
<tr>
<td>Managed Care</td>
<td>$37.4</td>
<td>8.5% since 1999</td>
</tr>
<tr>
<td>Mental Hospital Services</td>
<td>$3.1</td>
<td>29.1%</td>
</tr>
<tr>
<td>Total (All services beyond &amp; including this list)</td>
<td>$279.4</td>
<td>104.1%</td>
</tr>
</tbody>
</table>
Recent Changes in Medicaid That Will Affect Nonprofits

- States recently expanded Medicaid covered populations and services
- Federal government increased state flexibility (DRA)
- Waivers & policies shifting where patients get care (i.e., home, community)
- Federal spending constraints (UPL, IGT) impact certain types of healthcare providers
- Health spending grows faster than social service spending, so nonprofits adapt
Organizational Effects of Nonprofit Reliance on Medicaid Funding

- “Medicalization” of services
- Professionalization of quasi-health services
- Instability in funding
- State-by-state variance
Future Research Questions

• Are smaller nonprofits likely to consolidate and form larger, professionalized entities when/if Medicaid retrenches?

• How do multi-state nonprofits deal with state differences/changes in Medicaid funding?

• Are there certain types of nonprofit organizations that are winners/losers given Medicaid funding trends?

• What is the combined impact on nonprofits of changes in Medicaid and other funding?
Acronyms

• CMS – Center for Medicare & Medicaid Services
• DSH – Disproportionate share hospital
• HCBS – Home and community based services
• ICF/MR – Intermediate care facility/mentally retarded
• IGT – Intergovernmental transfer
• MA – Medicaid
• NP – Nonprofit
• SA/MH – Substance abuse mental health
• UPL – Upper payment limit
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