A REPORT ON MAINE'S CATASTROPHIC ILLNESS AND MEDICALLY NEEDY PROGRAMS

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The Health Policy Analysis Project is a cooperative undertaking of the Maine Legislature and the University of Maine's Health Education Resource Center.

The purpose of the Project is to provide independent research and analysis services to legislative decision-makers who have responsibility for health care policies and programs.

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ABSTRACT OF THE REPORT:

The Medically Needy and Catastrophic Illness Programs.

The Health Policy Analysis Project was asked to examine the State's Medically Needy and Catastrophic Illness Programs to determine whether they were meeting their legislative objectives and whether they could be improved administratively.

In 1975 the Legislature passed L.D. 2535 creating the Catastrophic Illness Program (22 MRSA 3283). The Medically Needy Program, and optional Medicaid Program, while previously authorized under the State Medicaid Act (22 MRSA 3172) was implemented through funds appropriated with the Catastrophic Illness Act. This was done to utilize federal matching funds for those categorically related needy individuals who did not qualify for the mandated Medicaid Program but might otherwise qualify for the Catastrophic Illness Program, a wholly State financed program.

The intent of both programs is to provide assistance to families or individuals whose costs for medical care cannot be met when such costs are of a magnitude to constitute a financial catastrophe or when medical indigency exists.

The key issues in this report for the Medically Needy Program relate primarily to its administration. Several factors affecting program operation were so noted along with the suggestions for improvement.

They are: 1) to shorten the time it takes to make a decision on a completed application; 2) to improve program outreach and availability; 3) to deny eligibility to cases with little prospect of meeting financial eligibility requirements; 4) to improve the continuity of administration for persons moving from one medical assistance program to another and for persons re-applying, and, 5) to extend scope of coverage to provide payment for one or more of the optional medicaid services.

B. CATASTROPHIC ILLNESS

In the Catastrophic Illness Program, the key issue is what constitutes a financial catastrophe. Under present eligibility criteria, many low-income persons who suffer severe financial hardship due to medical expenses do not qualify for the Catastrophic Illness Program. This is primarily due to the $1,000 spend-down requirement. The effect of this particular

requirement is that low income persons must apply a proportionately higher percentage of their incomes to spend-down than higher income persons. For example, a person with an income of $4,000 must incur costs in excess of 45% of income to meet spend-down criteria compared to 28% for persons whose income is $15,000.

A possible solution to this problem is a standard that provides financial assistance when medical costs exceed a certain percentage of a person's income (e.g., 25%). This is suggested as a more realistic way of defining what constitutes a financially catastrophic illness. Changing the criteria for the catastrophic illness in this way would result in a potential increase in costs but not one that would exceed the original amounts raised by the Legislature to fund for programs.

State expenditures for both programs have been well below what has been raised with the 2¢ per pack increase in the cigarette tax. As such, there exists a potential of $5 million in general revenue funds for use in the two programs.

INTRODUCTION

The Health Anaylsis Project was asked to evaluate the state's Medically Needy and Catastrophic Illness Programs to determine whether they were meeting their legislative objectives and to see whether they could be improved administratively. From the outset there was full cooperation from the Department of Human Services in this endeavor. However, early in the evaluation it became evident that this evaluation would be limited due to the lack of client-based data at the Department on each of the programs. This hindered our ability both to evaluate the scope of the program--the age, income, medical needs, and other characteristics of the groups utilizing the program--and to assess the impact of recommended changes in each of the programs. One can only hope that with the implementation of the new Medicaid information system, this drawback will be eliminated because without this type of data, not only is program evaluation limited but program management as well.

In 1975 the Legislature passed L.D. 2535, creating the Catasgrophic Illness Program (22 MRSA 3283). The Medically Needy Program, an optional Medicaid Program, while previously authorized under the State Medicaid Act (22 MRSA 3172) was implemented through funds appropriated with the Catastrophic Illness Act. This was done to utilize federal matching funds for those categorically-related needy individuals who did not qualify for the federally mandated Medicaid Program but might otherwise qualify for the Catastrophic Illness Program, a wholly state-financed program.

The intent of both the Medically Needy and Catastrophic Illness Programs is to provide assistance to families or individuals whose costs for hospital in-patient or out-patient care and physicians services, exclusive of nursing home care, cannot be met from their own resources when such costs are of a magnitude to constitute a financial catastrophe, or when medical indigency exists. The key substantive issue in the Catastrophic Illness Program is what constitutes a financial catastrophe. For the Medically Needy Program, the issues relate primarily to the way in which it is administered.

Initial state appropriation for these programs was set at $2.8 million state dollars to be raised by a 2¢/per pack increase in the cigarette tax. Revenues were to go to the General Fund rather than a special revenue account. However, any balance of funds budgeted by the Department for the medical expenses of these programs are not to lapse but are to be carried from year to year to be expended for the same purpose.

PROGRAM DESCRIPTION & ELIGIBILITY CRITERIA

I. Medically Needy:

As an optional Medicaid program, the Medically Needy Program is federally matched with 70% federal funding and 30% state. The program covers those families and individuals who meet AFDC and SSI criteria as categorically needy, but are ineligible for assistance as categorically needy because of excess income and/or resources. Such individuals are referred to as categorically-related needy.

A. Program Eligibility Criteria

There are two basic federal regulations governing eligibility for the Medically Needy Program.

1) <u>A person's income level must be within 133 1/3% of the state's AFDC cash payment level for a family of the same size, and,</u>

2) <u>Eligibility period is six months and can be retroactive for three months</u>.

However, federal regulations allow states to determine AFDC cash and payment levels. In effect, then, the state controls the income eligibility criteria by setting the state standard.

NOTE:

(a) The AFDC and SSI income standards established by the state are based on 90% of 1969 income level standards. The protected income level for medically needy (AFDC or SSI standard x 133 1/3%) is $210 for one person per month and $250 for two persons per month.

(b) The amount of personal assets apart from those exempted to qualify for assistance is
   1) for one person: $1500
   2) for two persons: $2250
   3) for each additional person: + $100

(c) A key provision is that income in excess of the above limits must be applied as "spend-down" before a person becomes eligible for medically needy coverage. In other words, a person must incur costs equal to or greater than his excess income before becoming eligible for Medically Needy coverage. The person need only demonstrate a liability for this amount, not an actual expenditure.

B. Scope of Service as Provided

As a Medicaid Program, it is mandatory that certain medical services be covered if the state opts for a Medically Needy Program. These are the services provided in the categorical program. The state does, however, have the option to provide payments in the Medically Needy Program for those Medicaid services which are optional. Thus, payments for services at Intermediate Care Facilities (ICF) or Mental Health Centers or payments for drugs are not required in the Medically Needy Program.

C. Expenditures and Client Use of the Medically Needy Program:

1) Total Federal/State share

TABLE I

	% increase	# clients	% increase	cost per capita	% increase
FY 1976: $1,270,230	-	3,189	-	$398	-
FY 1977: $2,810,417	121%	4,077	28%	$689	73%

2) Total State Share (30% of total Federal/State expenditures)

FY 1976: $390,000

FY 1977: $840,000

3) From the above figures, it is clear there has been a more significant increase in expenditures (121%) compared to the increase in clients (28%). This results in a 73% increase in per client expenditure. The cost increases can be attributed to two general factors:

a) The increased use of the program by clients with more complex medical needs, and,

b) the increased costs of specialized medical services.

The 28% increase in program use might be attributed to an increased awareness of the availability of the program even though it has not been Department of Human Services policy to adveetise its availability.

D. Program Issues

There are a number of issues which relate to the administration of the program.

1) Problems have been noted with the time it takes to process applicants for the Medically Needy Program.

   This is due in part to:

   (a) Complex procedures involved in determining eligibility. In particular, there is great difficulty in determining income levels of applicants who have fluctuating, unstable incomes. This has resulted in a large caseload of applications "pending" approval.

   (b) Lack of adequate staff slows down processing of applications. Twelve (12) staff were funded for the program statewide. As the number of applicants has increased, regional human services offices have had to use other staff to help process applications. In addition, in some areas of the state there are no staff available to process Medically Needy applicants.

   (c) The Department regularly holds many cases on "spend-down" status, thus delaying determination of eligibility until spend-down requirements are met. This results in many cases being held open even when little possibility exists of their meeting the spend-down requirement. A possible ramification of this practice is that applicants who might qualify for some other assistance program may be delayed in doing so.

   (d) Individuals whose coverage is terminated after the six-month eligibility period expires must go through the entire application process again.

II. CATASTROPHIC ILLNESS

A. Program Description and Eligibility Criteria

The formula governing eligibility and amount of aid defines what is a "Catastrophic Illness." The requirements are:

1) Before eligibility and amount of aid are determined, all applicable health insurance benefits and liability benefits must be applied to incurred costs.
2) An applicant must incur certain medical expenses in excess of specified limits before becoming eligible for C.I. This is the "spend-down" requirement. It requires that:
   (a) 20% of income before taxes must be applied to the costs of care,
   (b) and 10% of net worth if net worth is in excess of $20,000.
   (c) if, after the application of (a) and (b), assistance sought is less than $1,000, the person will not be eligible for the Catastrophic Illness Program. That is, bills over $1,000 must be incurred in order for a person to be eligible for aid. The applicant is liable for at least the first $1,000 of medical bills.

B. Total State Expenditures for the Catastrophic Illness Program:

1) TABLE II

	% increase	# clients	% increase	cost per capita	% increase
FY 1975-$457,195.53	-	629	-	$ 727	-
FY 1976-$663,240.28	45%	674	7%	$ 984	34%
FY 1977-$806,116.63	22%	722	7%	$1118	14%

2) While the increase in the number of clients has been rather modest, there has been a substantial increase in fiscal year expenditures. This is reflected in the increase in cost per client which rose 34% from FY 75 to FY 76, and 14% from FY 76 to FY 77. This increase is probably due to two factors:
   (a) the increased cost of specialized services
   (b) the increased use of the program by clients whose condition requires more complex medical services.

C. Program Issues

1) The Catastrophic Illness Program is effectively serving those people who incur, in an absolute sense, enormous medical bills. For example, among those whom the program has benefited are individuals whose bills have been as high as $90,000.
2) The "spend-down" requirements appear reasonable for those persons whose income is above $15,000.

However, the Catastrophic Illness "spend-down" criteria are such that persons with low incomes must apply a proportionately higher percentage of income to "spend-down" than persons with high incomes. The table below illustrates that with present "spend-down" requirements, a person with an income of $4000 must incur bills in excess of 45% of his income to qualify. In contrast, a person with an income of $15,000 is required to spend an equivalent of 26% of his income to qualify.

INCOME	SPEND-DOWN REQUIRED	SPEND-DOWN AS % OF INCOME
$3,000	$1,600 ($1000 +20% x $3000)	53%
$4,000	$1,800 ($1000 +20% x $4000)	45%
$6,000	$2,200 ($1000 +20% x $6000)	37%
$8,000	$2,600 ($1000 +20% x $8000)	33%
$15,000	$4,000 ($1000 +20% x $15000)	26%

The effect is that the lower one's income, the higher the proportion of income that must be applied to bills. It would appear that present Catastrophic Illness eligibility criteria fail to take into account the financial burdens imposed by illness for low income groups. This particularly impacts persons between the ages of 21-65 who are not blind or disabled and therefore are not eligible for the Medically Needy Program regardless of income levels. However, the inadequacy of statistics compiled by the Department of Human Services makes it extremely difficult to determine the numbers of people who suffer financial catastrophe but are not qualifying for the Catastrophic Illness Program. But it is readily apparent from talking to administrators and line staff that the present Catastrophic Illness Program is not providing relief from financial catastrophe for low-income persons with bills equal to a large percentage of their income, but less than "spend-down" requirements.

III. FISCAL ISSUES FOR BOTH PROGRAMS

The table below shows information relating to state appropriations, expenditures and revenues for both the Catastrophic Illness and Medically Needy Programs.

Legislative appropriation based on enabling legislation (LD 2535/1974) (based on 2¢-pack increase in cigarette tax) was $2.8 million.

TABLE IV

	FY 1975	FY 1976	FY 1977
	(in millions of dollars)		
Actual revenues from the 2¢-pack increase in cigarette tax - - - - - -	2.94	3.06	3.10
Total State Expenditures for both programs- - - - - - - - - - - - - - - - -	.457	1.05	2.0

IV. POLICY ISSUES

A. Both Programs

As TABLE IV indicates, the amount of state dollars spent in both programs is considerably less than what the 2¢-pack increase in the cigarette tax actually yields in revenues for the state. While any balances of funds budgeted for the programs are to be carried from year to year to be expended for the same purpose, this rule applies only to the amount budgeted by the Department, not what is raised by the tax. This is because the 2¢ increase per pack was not earmarked as a dedicated revenue account.

Yet a clear policy question for the Legislature arises in regard to the amount of money raised by the tax and the amount expended in the programs since the 2¢-pack increase was added to the cigarette tax to fund these programs. It might be argued that there is a potential $5 million dollars overall or one million last year which should be going to payments for medical services. Or, it might be argued that the tax should be cut to what it is actually costing the state. If the former statement is justifiable, it could be argued that services in these programs ought to be extended, particularly since the services covered under these programs are minimal (they do not include payment for ICF's, for example).

B. Medically Needy

1) The Department of Human Services has considerable discretion in the manner in which it administers the Medically Needy Program. Several issues have been noted in this regard.

   (a) Federal regulations require that a decision be made on applications at least within 45 days after an application form has been completed and received by the Department. However, it has been noted that a large number of applicants are waiting beyond the 45-day limit and some are delayed for more than 60 days before a decision is made. In addition, similar delays occur in the processing of applications for recertification.

   (b) While use of the program has increased, the Department has not made an effort to actively reach out to medically needy persons. The availability of the program is not well known. Also, in some parts of the state such as York County, there are no workers available to process Medically Needy applications. It is our understanding that a person from York County must travel to Portland for assistance.

   (c) There is no procedure for transferring persons from the categorically needy programs (those which are mandatory) to the Medically Needy Program. This is particularly relevant in the cases of persons who, because of income, are no longer eligible for categorically needy related programs but are still within the 133 1/3% income limitation of the Medically Needy Program and thus qualify for assistance under it.

   (d) There are a large number of persons with high "spend-down" requirements and low expenses who have little chance of qualifying for assistance whose cases are kept open. The practice of maintaining cases "spending-down" greatly inflates the caseload of workers, and contributes to administrative delays. It should be noted that the Department of Human Services is presently working on a procedure to inform persons who clearly do not appear to have a chance of meeting "spend-down" requirements. This would result in more denials of applications and thereby reduce the numbers of those waiting to meet "spend-down" requirements. Whether this approach will improve administration of the program will depend on the criteria used to determine the cut-off, or denial point. For example, while present "pending" caseloads might be reduced, there may, over time, be an increase in the number of reapplications.

C. Catastrophic Illness

1) The critical issue is whether to change the definition of Catastrophic Illness to cover those persons in lower income groups who in terms of percent of income or assets, suffer financial catastrophe because of illness. The present definition eliminates the possibility of coverage for those persons who incur bills less than $1,000. But TABLE II illustrated how a low income person may incur bills equaling 50% of his income without qualifying for Catastrophic Illness coverage. The effect of present C.I. criteria does not relieve extraordinary financial burdens for many people in low income categories.

2) To change the definition of what constitutes a financial catastrophe one must address the issue of the $1,000 minimum "spend-down" requirement. In order to change eligibility criteria to provide low income persons with reasonable catastrophic illness coverage,

the $1,000 minimum "spend-down" could either be reduced, or eliminated altogether.

(a) It is obvious that reducing the $1,000 minimum would qualify more persons at all levels of income. However, the essential problem still remains: to tie "spend-down" requirements to an absolute dollar amount will always result in low income persons having to apply a larger percentage of their income as "spend-down."

(b) The second option is to eliminate a dollar "spend-down" requirement. In its place, a percentage of income would serve as the "spend-down" requirement. Financial assistance would be provided when medical costs exceed a certain percentage of a person's income. A constant percentage of income equalizes the definition of catastrophic illness for all income levels.

(It is interesting to note that the latest national health insurance proposal -- HR 9091 National Catastrophic and Major Medical Health Care & Benefits Act -- qualifies a person for C.I. aid when medical costs (including mental or emotional illness which the state C.I. program does not cover) in any calendar year exceed 25% of an individual's annual gross income for that year).

3) The cost of removing the $1,000 minimum and simply using percentage of income as the "spend-down" is difficult to estimate. Such an estimate would of course depend on the number of persons and nature of illness of persons who might become "catastrophically ill."

However, some tentative estimates can be made. First, an increase in expenditures would occur for those with relatively smaller bills (costs exceeding $1,000 plus 20% of income would have been covered anyway). Second, Department of Human Services officials estimate an additional 700 persons qualifying under a 25% of income standard. Using TABLE I as a guide, the difference the state would pick up for a person earning $4,000 would be $800. All other things being equal, the estimated cost would be $560,000. Such an increase would be well within the budget allocation for the Catastrophic Illness and Medically Needy Programs based on the 2¢ increase in the cigarette tax.

SUMMARY

Because of federal regulations governing basic eligibility criteria for the Medically Needy Program, the Legislature is limited to ways of improving the administration of the program. Several alternatives to present administrative practice have been noted. They are (1) to improve the time it takes to make a decision on a completed application; (2) to improve program outreach to those areas that at present are not processing Medically Needy applications; (3) to deny eligibility to persons who have little prospect of meeting "spend-down" requirements; (4) to improve the continuity for persons moving from one medical assistance program to another and for persons reapplying; and, (5) to expand the coverage of the program to include payments for one or more of the optional Medicaid services.

In the Catastrophic Illness Program a basic policy issue is apparent. It concerns whether to change the definition of Catastrophic Illness to include persons who are suffering financial catastrophe but are ineligible under the present criteria. Eliminating the $1,000 minimum and substituting a flat 25% of income "spend-down" requirement is one way that would result in more persons at lower income levels becoming eligible for Catastrophic Illness coverage. A rough cost analysis indicates the potential increase in costs to be within the original allocation made by the Legislature. There are other changes of this type which might improve the definition of what constitutes a financial catastrophe and also changes in medical services covered under the Catastrophic Illness program.