



# **Medicaid and Nonprofits: Dollars or Nonsense?**

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# 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 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

<b>Service/Industry</b>	<b>Total number</b>	<b>Tax exempt</b>	<b>Percent tax exempt</b>
General Medical Hospitals	3,782	3,085	81.6%
Outpatient MH & SA	7,978	5,199	65.2%
Residential MR	28,508	18,730	65.7%
Community Care for Elderly	17,988	4,649	25.8%
Nursing Care Facilities	16,568	3,467	20.9%

# How Medicaid Money Flows to Nonprofits

- Payments/fees for services
- Contracts for services
- Intergovernmental transfers
- Disproportionate share hospital payment
- Administrative costs

# Methods 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

# Summary of Estimated Medicaid Funding to Nonprofits by Sub-Sector

Health sub-sector	Estimate of MA \$ going to NP	Medicaid spending in this category	Proliferation of nonprofits
Hospitals	\$42 billion	Stable	Decreasing
Nursing Homes	\$11 billion	Slowing	Stable
Mental Health	\$5.5-16.9 billion	Volatile	Volatile
Managed Care	\$9.4-13.8 billion	Stabilizing soon	Decreasing
Home & Community Care	\$17.5-20.9 billion	Increasing	Stable
<b>Estimated Total</b>			<b>\$85-\$105 billion</b>



# Recent Trends in Medicaid Spending

Source: CMS Form 64 data

Expenditure Category	2004 total (billion)	1994-2004% change
Inpatient Hospital	\$38.5	48%
Case Management	\$2.7	214%
Prescription Drugs	\$40.0	332%
Nursing Facilities	\$45.4	61%
Home & Community Waiver	\$20.5	446%
Home Health	\$3.5	110%
Intermediate Care Facility (private)	\$4.6	40%
Personal Care	\$6.1	104%
Managed Care	\$37.4	8.5% since 1999
Mental Hospital Services	\$3.1	29.1%
Total (All services beyond & including this list)	\$279.4	104.1%

# Recent Changes in Medicaid That Will Affect Nonprofits

- Some states expand Medicaid covered populations and services but – federal rules may limit state expansions
- Federal government increased state flexibility (DRA) but also cut back on Medicaid maximization
- Waivers & policies shifting *where* patients get care

# Other Factors that May Affect Medicaid Funding for Nonprofits

- Economic slowdown
- Fiscal pressure on states (e.g., GASB 45, federal limits)
- Changes in federal legislation & administrative rules
- Health spending grows faster than social service spending

# Organizational Effects of Nonprofit Reliance on Medicaid Funding

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

# Questions for the Audience

- 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?
- How do nonprofits adapt?

# Acronyms

- CMS – Center for Medicare & Medicaid Services
- DSH – Disproportionate share hospital
- GASB – Government Accountability and Standards Board
- HCBS – Home and community based services
- ICF/MR – Intermediate care facility/mentally retarded
- MA – Medicaid
- NP – Nonprofit
- SA/MH – Substance abuse mental health

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