

Minnesota's state health spending nearly doubled since 1980

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Spending on health by Minnesota state government came close to doubling since 1980, reaching nearly \$1.5 billion in 1993. Demands for health services will likely intensify in the next 10 years as the number of elderly grows.

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Other forces that have been driving health spending are increasing numbers of low-income people, rising costs of medical care and public policies that have expanded the numbers of people eligible for publicly financed health services.

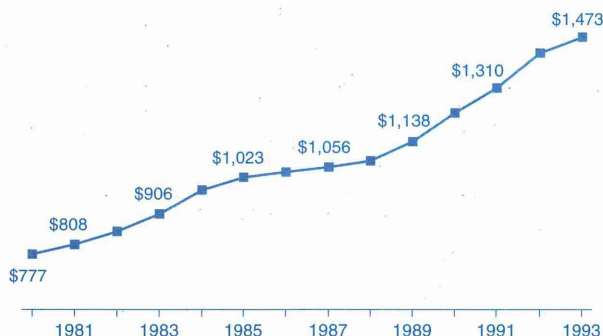
This *Line Item*, part of an eight-month study on government spending, focuses on state general fund expenditures for health programs. Some programs are not included, such as those for prisoners and public school students, and health insurance benefits and workers' compensation for public employees. Federal transfers and payments also are not included in the state government figures. All dollar amounts are adjusted for inflation to 1993 dollars. Unless otherwise noted, all years cited are fiscal years; for example, 1993 is fiscal year July 1, 1992, to June 30, 1993.

Health spending crowding out other programs

State government's spending on health is consuming a larger share of state general fund revenue and crowding out other programs. Health spending from the general fund rose almost 90 percent, from slightly less than \$777 million in 1980 to nearly \$1.5 billion in 1993, while general revenue went up 33 percent.

Fourteen years ago, health spending accounted for 13 percent of the state budget, compared to 11 percent for state agencies and 23 percent for property tax relief. Last year, health used 20 percent of the general fund, while state agencies' share slid to 8 percent, and property tax aids' dropped to 15 percent. The same trend is occurring in other states, as health grows disproportionately compared to other spending areas.

Health Spending in Millions by State Government



Note: All figures have been adjusted for inflation to 1993 dollars.

Source: Minnesota Department of Finance

This growth in health spending by state government translated into an additional \$136 per Minnesotan between 1980 and 1993.

State and federal governments paid the greatest share for Minnesota's publicly financed health services. Local governments paid less than 5 percent. In calendar year 1992, local governments spent slightly more than \$140 million on health; of this total, 81 percent came from counties and 19 percent from cities.

Most spending went to services for individuals

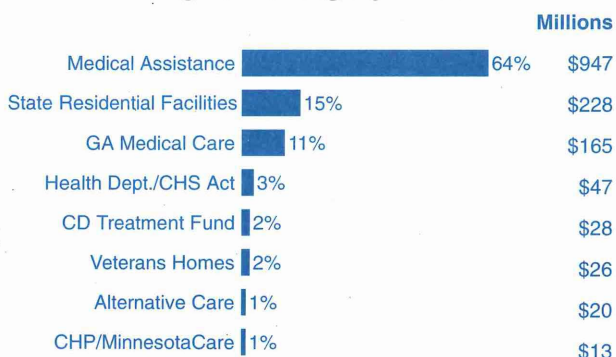
Nearly all — 97 percent — of state government health spending goes to provide services to people with low incomes or limited assets. These services include nursing homes and home health care, physician and hospital care, dental services and health insurance. Three percent of all health spending is for community public health programs, such as restaurant inspections, health education and disease control efforts.

Seven of the eight programs funded by state health dollars and some federal money provide services to individuals. Only one — Health Department/Community Services Act — provides services to the community or state as a whole. State financed programs are:

■ **Alternative Care Grants Program:** This program provides funding or access to home and community-based services for 8,500 individuals age 65 and older.

■ **Consolidated Chemical Dependency Treatment Fund:** CCDTF provides chemical dependency treatment services to more than 18,000 low-income people.

Spending Share by Program Category — 1993



Notes: Not included in MinnesotaCare are almost \$19 million from the Health Care Access Fund that includes dedicated revenues from cigarette taxes, hospital taxes, premiums and other provider taxes. The total percentage does not equal 100 due to rounding.

Sources: Departments of Finance and Human Services

- **General Assistance Medical Care:** GAMC provides physician and hospital care to about 53,000 low-income people not eligible for Medical Assistance.
- **Health Department/Community Health Services Act:** The Minnesota Health Department is charged with protecting, maintaining and improving the health of citizens. The CHS Act provides disease prevention and control, emergency medical systems, environmental health services, family health services, health promotion and home health services to communities throughout the state.
- **Medical Assistance:** MA funds medical services for about 430,000 low-income individuals, including children and people who are elderly, blind or disabled.
- **MinnesotaCare (Children's Health Plan):** Comprehensive health benefits are provided for more than 60,000 people who had been uninsured. CHP provided basic health care services for children through 1993, when subscribers were transferred to MinnesotaCare.
- **State residential facilities:** Residential care and treatment is provided to about 2,800 people with mental illness, developmental disabilities, chemical dependency and elderly people with complex medical conditions.
- **Veterans homes:** About 570 Minnesota veterans reside in these homes.

Many forces fuel spending gains

Minnesota's population age 65 and older increased by 14 percent — an additional 70,000 people — between 1980 and 1993, contributing heavily to the rise in health spending. During the same time, the general population grew by about 441,000 people.

Spending Increase in Millions by Program Category — 1980 to 1993

		Growth
Medical Assistance	\$498	111%
GA Medical Care	\$101	257%
Veterans Homes	\$18	226%
Alternative Care	\$11	121%
Health Dept./CHS Act	\$8	18%
CHP/MinnesotaCare	\$7	194%
State Residential Facilities	\$1	6%
CD Treatment Fund	-\$3	-9%

Notes: Alternative Care was implemented in 1985, Consolidated Chemical Dependency Treatment Fund in 1989, and Children's Health Plan in 1988.

Sources: Departments of Finance and Human Services

Many health services are provided to low-income people. As the number of low-income people grows, so do the number of people eligible for Medical Assistance and other health services. The latest data available shows about 60,000 more Minnesotans in poverty in 1989 than in 1979.

Policy decisions to broaden Medical Assistance eligibility, primarily for children, have boosted health spending. Eligibility changes were a factor in the near doubling of people on Medical Assistance during the last 14 years. The creation of new health programs also have added to the health bill.

Medical costs have outpaced other costs. Between 1982 and 1990, for example, the average annual rate of income growth for physicians nationally was 6.6 percent, compared to 4.3 percent for all full-time employees.

Greater knowledge about available programs and an expansion of health services, such as community-based care, have increased the demand for benefits.

Biggest program was Medical Assistance

Of all these programs, Medical Assistance is the largest, consuming 64 percent of all state health spending in 1993.

More than one-third of Medical Assistance spending, about \$319 million, went for nursing homes in 1993, up from \$185 million in 1989. While the share of Medical Assistance spending for nursing homes has been rising, that for intermediate care facilities has been declining as more residents are moved to community settings.

In 1992, 14 other states spent more state and federal dollars per capita than Minnesota for Medi-

Medical Assistance Spending Top Seven Categories — 1993

Nursing Homes	\$319	34%
Intermediate Care Facilities	\$129	14%
Inpatient Hospital	\$116	12%
Home Health and Community Care	\$78	8%
Health Maintenance Organizations	\$68	7%
Physician Services	\$51	5%
Pharmaceuticals	\$44	5%

Notes: Figures include state dollars only. In 1993, Medical Assistance also received \$1.2 billion in federal funds.

Source: Department of Human Services

cal Assistance. Excluding Arizona, Medical Assistance spending grew faster in every state other than Minnesota and four other states — Pennsylvania, New Jersey, Massachusetts and Georgia. The highest rate of growth in 1992 was in West Virginia, a 120 percent jump compared to Minnesota's 24 percent climb.

Medical Assistance has consumed more than 75 percent of the additional \$697 million Minnesota state government has spent on health since 1980. Driving this increase was an explosion in the number of people eligible for Medical Assistance between 1980 and 1993. About 193,000 people were added to Medical Assistance rolls during this period, almost 15 times more than the about 13,000 expected just from the growth in the general population.

Several factors account for this increase, including eligibility changes that broadened the base of people, particularly children, who could receive services. Eligibility was expanded to include more children; low-income blind, aged and disabled people; and pregnant women, among others.

New services, such as community care alternatives to nursing homes, also attracted more individuals. In addition, more disabled individuals received services due to changes in definitions of disability and demand for public payment of those services. More children also were identified as eligible for Medical Assistance and other services through screening for the state's Children's Health Plan and MinnesotaCare.

Medical Assistance expected to rise

While people age 65 and older were 13 percent of the general population and 11 percent of the people on Medical Assistance in 1990, they accounted for nearly half — 46 percent — of the spending for that program.

A greater share of Minnesota's people will be older and needing nursing home care and other medical services. The number of elderly enrolled in Medical Assistance is expected to rise 17 percent from 46,000 in 1993 to an estimated 54,000 in 1999. At the same time, state and federal costs for this age group are estimated to grow by almost half, from \$838 million to \$1.2 billion.

Most of this increase will be for nursing home care, which already consumes 34 percent, the largest share of Medical Assistance spending. In 1993, 81 percent of Medical Assistance for people over age 65 was spent on nursing homes, but this proportion is expected to decline to 78 percent by 1999 as alternative community care services become more available. Twenty-five out of every

1,000 Minnesotans aged 65 to 84 received Medical Assistance for nursing home care in 1993, compared to 191 out of every 1,000 aged 85 and over.

In addition to Medical Assistance, the aging of the population will place large demands on state veterans homes as the number of elderly World War II veterans needing nursing home care increases. In 1990, there were almost 3,800 male veterans age 85 and older in Minnesota. This number is expected to nearly double to 7,200 in the year 2000 and to almost double again five years later, to 13,000. The number of veterans needing nursing home care could triple in that time from the 570 now being cared for in state veterans homes.

Technical notes

Data on expenditures come from the Minnesota Department of Finance and the State Auditor. Population estimates are based on data from the State Demographer at Minnesota Planning. Data on Medical Assistance and residential facilities are from the Department of Human Services. The departments of Health and Human Services supplied additional data. All figures have been rounded to the nearest million.

Line Item is a series of brief publications highlighting key facts and findings from Minnesota Planning's in-progress study of government spending. The study will examine past local and state government spending and revenues, identify major driving forces and forecast what is expected to happen in the next five to 10 years.

Line Item reports will be issued periodically during the course of the study, and a final report will be released in December 1994.

Upon request, *Line Item* will be made available in an alternate format, such as Braille, large print or audio tape. For TDD, contact Minnesota Relay Service at (612) 297-5353 or (800) 627-3529 and ask for Minnesota Planning.

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