

# CALIFORNIA SENATE OFFICE OF RESEARCH

SEPTEMBER, 2015

---

## *Federal Update*

### **MEDICARE AND MEDICAID TURN 50**

On July 30, 1965, President Lyndon B. Johnson signed into law legislation that established the Medicare and Medicaid programs. These two programs are the main health care programs for the elderly, individuals with disabilities, and low-income Americans.

#### **WHAT ARE MEDICARE AND MEDICAID?**

*Medicare* is a federal program funded by federal funds, enrollees' premiums, and other contributions. It is administered by the federal government; states have no involvement in the administration of this program. Eligibility for Medicare is open to individuals age 65 and older; people younger than age 65 with certain disabilities or permanent kidney failure also can qualify for Medicare. Medicare is composed of four parts:

- Part A—Hospital insurance;
- Part B—Medical insurance that pays for services from providers, outpatient care, home health care, and medical equipment;
- Part C—Medicare Advantage Plans, which combine Parts A and B in a managed care plan;
- Part D—Prescription drug coverage that helps pay for prescription drug costs.

More than 5.6 million Californians and 55 million Americans are enrolled in some or all parts of Medicare. Forty-two percent of Californians enrolled in Medicare are enrolled in a Medicare Advantage Plan.<sup>1</sup>

*Medicaid* is the federal- and state-funded health care program for low-income Americans. In California, Medicaid is called Medi-Cal. Although Medi-Cal is partially

funded by the federal government, it is administered by states according to federal rules. In the current year, California received \$54.7 billion in federal Medicaid funds, paying for two-thirds of the Medi-Cal program.<sup>2</sup> Medi-Cal not only serves low-income individuals and families but also serves many low-income seniors and people with disabilities. Those who meet the Medi-Cal income requirements and are eligible for Medicare are eligible for both programs.<sup>3</sup> In these instances, Medi-Cal pays for some or all of the Medicare premiums and other costs. Medi-Cal also covers more services than Medicare. The Affordable Care Act, signed by President Obama in 2010,<sup>4</sup> allowed states to expand their Medicaid eligibility to single adults beginning on January 1, 2014, with the federal government paying 100 percent of the cost of the expansion for the first three years. California participated in this expansion and saw its Medi-Cal population increase by 53 percent between 2012–13 and 2014–15.

There are more than 12.1 million Californians enrolled in Medi-Cal. Thirty-one percent of Californians are enrolled in Medi-Cal, and federal Medicaid funds are a major funder of California's health care services and hospitals. Also of note, Medi-Cal pays for half of the births in California.<sup>5</sup>

Medi-Cal beneficiaries are predominately served through managed care plans. As of December 1, 2014, 75 percent of Medi-Cal beneficiaries received their physical health care services through Medi-Cal managed care plans. The remaining 25 percent of beneficiaries receive their health care through the fee-for-service system.<sup>6</sup> Enrollment in Medi-Cal managed care has grown since the state and Legislature have expanded these programs in rural areas and to populations that typically weren't heavily enrolled in managed care, such as the elderly and people with disabilities.

At the end of 2014, 48 percent of Medi-Cal managed care members were children and 30 percent were between the ages of 18 and 44. Almost half of Medi-Cal managed care members were Latino, 21 percent were white, 12 percent Asian/Pacific Islander, 9 percent African-American, and 11 percent other or unknown.<sup>7</sup>

## **WHY ARE THESE PROGRAMS IMPORTANT?**

In 1965, when Medicare and Medicaid were created, the poverty rate for seniors was almost 33 percent, three times higher than the poverty rate for adults ages 18–65.<sup>8</sup> In 2013, the national poverty rate for seniors was 10 percent, slightly lower than the poverty rate for adults at 13 percent. Many credit Medicare with lifting seniors out of poverty.<sup>9</sup> Today, children have the highest poverty rate. In 2013, 20 percent of children in America were living in poverty.<sup>10</sup>

Given that one in three Californians is enrolled in Med-Cal, the importance of the program cannot be understated. Similarly, seniors enrolled in some or all parts of Medicare make up almost 15 percent of the state's population. As such, Medicare's importance is only expected to increase in the coming years as the number of elderly Californians is expected to grow.

In addition, prior to Medicare and Medicaid, about half of America's seniors did not have hospital insurance. According to the federal government, Medicare covers nearly all of the elderly (about 97 percent). Similarly, before the creation of these two programs, 25 percent of adults younger than 65 didn't have hospital insurance.<sup>11</sup> According to the most recent national estimate, the uninsured rate for people younger than 65 was 11.5 percent in 2014.<sup>12</sup>

## ENDNOTES

- 
- <sup>1</sup> Health and Human Services Region IX Weekly Message—Week of July 27–31, 2015, e-mail, August 4, 2015.
  - <sup>2</sup> California Department of Health Care Services, “Medi-Cal May 2015 Local Assistance Estimate for Fiscal Years 2014–15 and 2015–16,” May 6, 2015.
  - <sup>3</sup> Nationwide, 20 percent of Medicare enrollees also receive Medicaid.
  - <sup>4</sup> The comprehensive health care reform act was enacted in two parts: the Patient Protection and Affordable Care Act (Part 1) was signed into law on March 23, 2010, and was amended by the Health Care and Education Reconciliation Act (Part 2) on March 30, 2010. The term Affordable Care Act is used to refer to the final, amended version of the law.
  - <sup>5</sup> California Department of Health Care Services, “Medi-Cal May 2015 Local Assistance Estimate for Fiscal Years 2014–15 and 2015–16,” May 6, 2015 and May 2014 Estimate, May 5, 2014.
  - <sup>6</sup> The difference between managed care and fee-for-service (FFS) is that in managed care, a beneficiary is assigned to a managed care plan that oversees all of the member’s care. The managed care plan is paid a set amount and thus has an incentive to prevent serious conditions that would cost the plan more to treat. In FFS, there is no plan or doctor overseeing the patient’s care, and instead each Medi-Cal doctor or provider bills Medi-Cal separately for each service provided. For this reason, the department has been working to move more beneficiaries into managed care plans.
  - <sup>7</sup> California Department of Health Care Services, “Medi-Cal Managed Care Performance Dashboard,” June 16, 2015.
  - <sup>8</sup> Nancy De Lew, “Medicare: 35 Years of Service,” *Health Care Financing Review*, fall 2000/vol. 22, no. 1.
  - <sup>9</sup> The Social Security Act was signed into law in 1935 and provided cash benefits to the elderly beginning in January 1942. Social Security is seen as a major contributor to the decline in the poverty rate among seniors. See <http://www.nber.org/bah/summer04/w10466.html>.
  - <sup>10</sup> Henry J. Kaiser Family Foundation, “Poverty Rate by Age,” <http://kff.org/other/state-indicator/poverty-rate-by-age/>.
  - <sup>11</sup> Nancy De Lew, “Medicare: 35 Years of Service,” *Health Care Financing Review*, fall 2000/vol. 22, no. 1.
  - <sup>12</sup> Centers for Disease Control and Prevention, National Center for Health Statistics, “Nation at a Glance: Uninsured Americans,” June 25, 2015. See [http://www.cdc.gov/nchs/features/nation\\_jun2015/nation\\_at\\_a\\_glance\\_jun2015.htm](http://www.cdc.gov/nchs/features/nation_jun2015/nation_at_a_glance_jun2015.htm).

**Written by Kim Flores.** The California Senate Office of Research is a nonpartisan office charged with serving the research needs of the California State Senate and assisting Senate members and committees with the development of effective public policy. The office was established by the Senate Rules Committee in 1969. For more information, please visit <http://sor.senate.ca.gov> or call (916) 651-1500.

---