

Center *for* Mississippi  
Health Policy

# HEALTH CARE SPENDING IN MISSISSIPPI

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## ■ Executive Summary

This paper examines health care spending in Mississippi with a focus on the appropriation and expenditure of public dollars. The availability of information related to health care spending is severely limited in Mississippi. Data on spending by categories such as disease or condition, population characteristics, or geographic area are generally not obtainable. One contributing factor is the absence of certain data systems prevalent in other states, such as a hospital discharge data system or a comprehensive injury surveillance system. Mississippi does not participate in national data collection systems such as the Medical Expenditure Panel Survey (MEPS) or the Hospital Cost and Utilization Project (HCUP). National data from the Office of the Actuary of the Centers for Medicare and Medicaid Services are used to track overall spending trends in the state over time and to examine total payments to providers by type of health care provider. Surveys conducted by the National Association of State Budget Officers and other organizations are used to compare health care spending in Mississippi's state budget with that of other states.

- In 2004, \$13.9 billion was paid to Mississippi providers for personal health care services, equivalent to 18.3 percent of Mississippi's Gross State Product.
- Almost half (46.2 percent) of payments to health care providers in Mississippi in 2004 were from Medicare and Medicaid.
- The largest portion of health care spending was to hospitals, followed by physicians, pharmacies, and nursing homes.
- Health care accounts for approximately 32 percent of the budgets on average for the fifty states and 36 percent in Mississippi. Medicaid alone represents 22 percent of the states' budgets on average and 32 percent of Mississippi's budget.
- Mississippi relies heavily on federal funds to finance health care programs in its state budget.
- Mississippi ranks 44<sup>th</sup> among the states in the percentage of State General Funds allocated to Medicaid.
- Mississippi ranks fourth lowest in the nation in terms of the percentage of the state's public health agency's budget supported by State General Funds.
- Public health expenditures reflect a heavy emphasis on maternal and child health services, a decline in funding for chronic illness programs, a recent influx of funding for bioterrorism, a significant drop in State General Funds, and increasing reliance on fees and other special funds.

**Summary Comparison of Health Care Funding in State Budgets**

	<u>Mississippi</u>	<u>All States</u>
Health expenditures as % of total state expenditures from all sources	36%	32%
Health expenditures as % of State General Fund expenditures	15%	26%
Medicaid as % of total state expenditures from all sources	32%	22%
Medicaid as % of State General Fund expenditures	8%	17%
Public Health as % of total state expenditures from all sources	2.9%	2.6%
Public Health as % of State General Fund expenditures	1.6%	1.8%
Percentage of Public Health Agency's Budget Funded from State General Funds	9.2%	38.8%

Health care spending in Mississippi reflects a strong reliance on federal support. The investment of public dollars in public health and health care in Mississippi is also overwhelmingly focused on treatment rather than prevention.

The current distribution of public funds for health care in Mississippi presented in this report illustrates the result of years of crisis funding. The appropriations process tends to be reactive in nature, driven by budget requests and the availability of federal funds. Competition for limited dollars generally results in the funding of immediate, more critical needs.

The pressure to pay for the increasingly higher costs of disease and disability in Mississippi will continue until the State takes aggressive action to address the underlying factors driving the rapid growth in health care costs. To do so, there must be a proactive and cooperative process implemented that identifies the factors most amenable to prevention and targets additional resources accordingly.

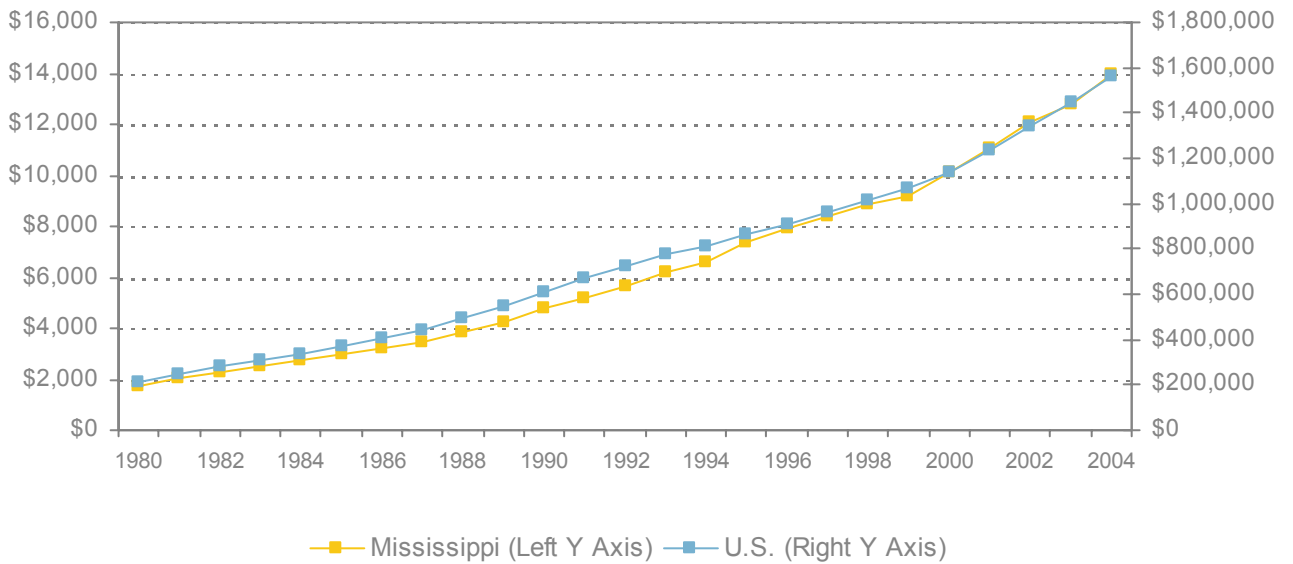
## ■ Payments to Health Care Providers

Health care is a significant part of Mississippi's economy. In 2004, \$13.9 billion was paid to in-state providers for personal health care. This amount represents 18.3 percent of Mississippi's Gross State Product, a proportion which was higher than that of 48 other states. Only in Maine and West Virginia does health care spending represent a greater proportion of the Gross State Product.

Medicare and Medicaid paid almost half (46.2 percent) of these payments in Mississippi. The national average is 36.6 percent.

Payments to health care providers in Mississippi grew by 8.6 percent from 2003 to 2004. Mississippi's growth trend from 1980 to 2004 closely mirrors that of the United States (Figure 1). (Centers for Medicare and Medicaid Services, 2006)

**Figure 1 – Personal Health Care Expenditure (in millions of dollars)**



Source: Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group, 2006.

The category receiving the largest portion of health care spending was hospitals, followed by physicians, prescription drugs, and nursing homes. This order by provider type is similar to that for the United States. In Mississippi, however, the percentages spent for hospitals, prescription drugs, and home health were slightly higher, and spending for physicians, dentists, and other health professionals received slightly lower shares (Figure 2).

**Figure 2 - Distribution by Provider Type**

Provider Type	Percentage of Health Care Spending	
	Mississippi	U.S.
Hospitals	40.0%	36.6%
Physicians	22.3%	25.6%
Other Professionals	2.4%	3.4%
Dental	3.7%	5.2%
Home Health	3.5%	2.8%
Prescription Drugs	14.1%	12.1%
Durable Medical Products	1.2%	1.5%
Other Medical Products	1.7%	2.1%
Nursing Homes	7.8%	7.4%
Other	3.3%	3.4%

Source: Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group.

## ■ State Budgets

### Funding Sources

State budgets consist of appropriations from various sources, including federal funds, state general funds, other state funds, and other monies such as fees and assessments.

*Federal Funds* are received directly from the federal government and can include block grants or federal funds obtained by state match.

*State General Funds* represent the predominant source of funds for financing a state's operations. These revenues are received from broad-based state taxes.

*Other State Funds* are state funds provided through sources other than the General Fund, including expenditures from revenue sources that are restricted by law for particular governmental functions or activities. For example, a gasoline tax dedicated to a highway trust fund would appear in "Other State Funds." For Medicaid, other state funds include provider taxes, fees, donations, assessments, and local funds.

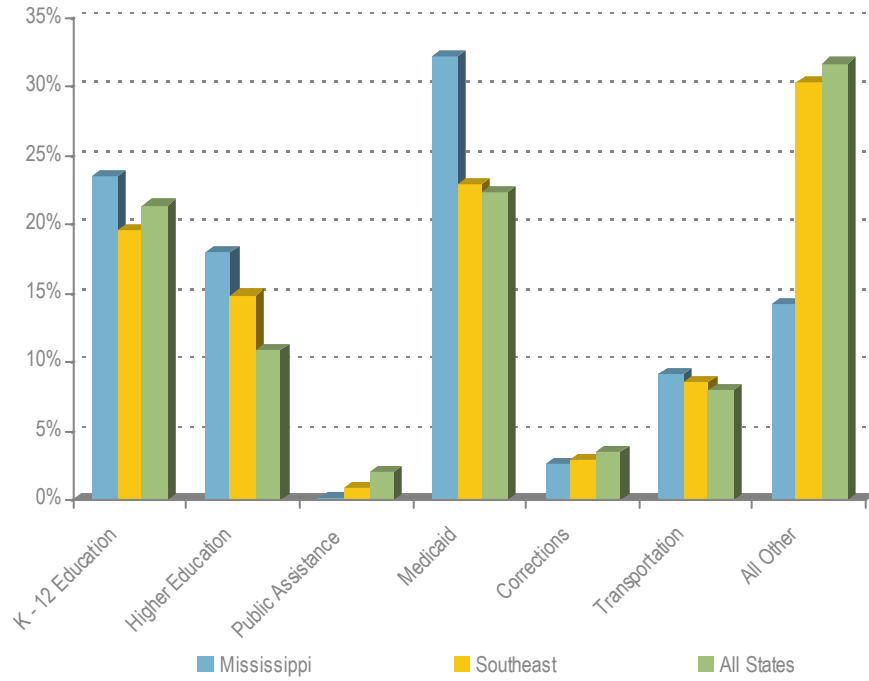
This section will examine state spending on various programs from two perspectives: all sources of funding combined and state general funds alone.

### Health Care's Share of State Budgets

Nationwide, health care accounts for approximately 32 percent of the budgets on average for the fifty states. Medicaid alone represents 22 percent of the states' budgets. This figure slightly exceeds the percentage spent on elementary and secondary education (Figure 3). (National Governors Association & National Association of State Budget Officers, 2006)

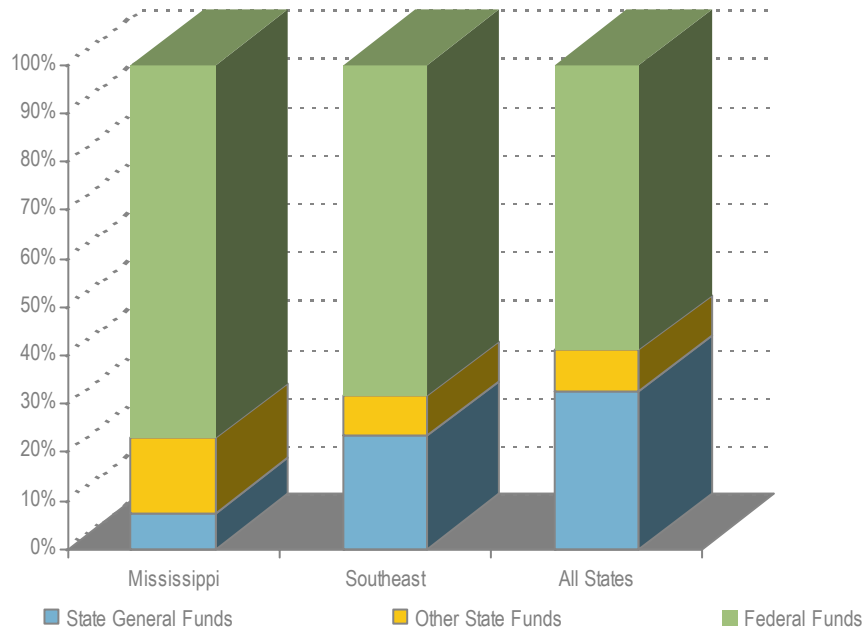
Much of the money in state budgets for Medicaid, however, is comprised of federal funds. The cost of Medicaid is shared by state and federal governments. The federal share is determined annually by a formula that compares the state's average per capita income level with the national income average. States with a higher per capita income level are reimbursed a smaller share of their costs. Mississippi has the highest federal Medicaid matching rate of any state. Consequently, Mississippi Medicaid spending is largely from federal funds (Figure 4). Mississippi also uses Other State Funds to a greater extent than other states in the Southeast or nationally.

**Figure 3 - Distribution of Expenditures from All Sources by Function, FY 2004**



Source: 2004 State Expenditure Report. National Association of State Budget Officers, 2005.

**Figure 4 - Distribution of Medicaid Expenditures by Source of Funds, FY 2004**



Source: 2004 State Expenditure Report. National Association of State Budget Officers, 2005.



The following table shows Mississippi's ranking among other states in the percentage of State General Funds expended in the four largest areas of General Fund spending in FY 2004:

**Figure 5 - Percentage of State General Fund Expenditures for Selected Programs, FY 2004**

	<u>K-12 Education</u>	<u>Higher Education</u>	<u>Medicaid</u>	<u>Corrections</u>
Mississippi	46.1%	18.1%	7.9%	6.6%
All States	35.7%	11.9%	16.9%	7.0%
Mississippi's Rank	10	10	44	48

Source: Henry J. Kaiser Foundation. [Statehealthfacts.org](http://Statehealthfacts.org).

Mississippi ranks in the top ten states in the proportion of its budget spent on health care, largely due to the significant contribution of federal funding. When all sources of funding are considered, Mississippi spent approximately 36.4 percent of its budget in FY 2003 on health care programs, compared to the national average of 31.5 percent. In terms of State General Funds, however, Mississippi spent approximately 14.9 percent on health care, compared to an average for all states of 26.0 percent. (National Association of State Budget Officers, Milbank Memorial Fund, & The Reforming States Group, 2005)

**Figure 6 - Health Programs as a Percentage of Total State Expenditures and State General Fund Expenditures, Mississippi vs. All States, FY 2003**

	Health as % of Total State Budget from All Sources	Health as % of State General Funds
Mississippi	36.4%	14.9%
All States	31.5%	26.0%

Source: 2002 – 2003 State Health Expenditure Report. National Association of State Budget Officers, Milbank Memorial Fund, & the Reforming States Group. Milbank Memorial Fund, 2005.

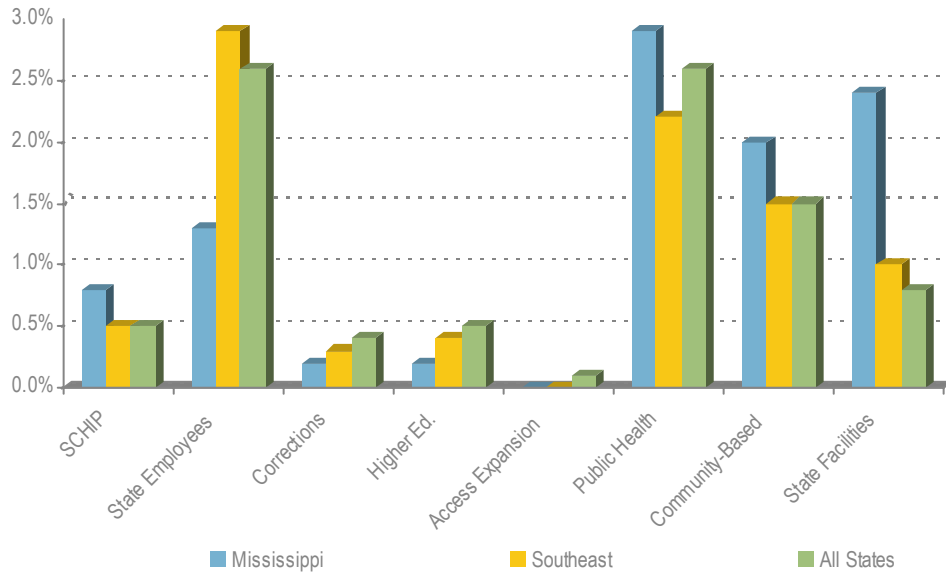
## Health Care Spending by Program

Health programs other than Medicaid are organized into the following categories:

- *Access Expansions* include programs to expand access to health care coverage, for example, state programs to cover the uninsured.
- *Community-Based* program funding includes non-Medicaid funds for rehabilitation services, alcohol and drug abuse treatment, mental health community services, developmental disabilities community services, and vocational rehabilitation services.
- *Corrections* includes expenditures related to health care treatment for residents of state correctional facilities.
- *Higher Education* includes support for state university-based teaching hospitals, including health insurance premiums for teaching hospital employees.
- *Public Health* includes population-based health programs, primarily those of the Department of Health.
- *SCHIP* is the State Children's Health Insurance Program.
- *State Employee* expenditures include premium contributions for state employee health insurance, the medical portion of workers' compensation, and Medicare payroll taxes.
- *State Facilities* includes support for schools for the blind, schools for the deaf, mental health hospitals, facilities for the developmentally disabled, substance abuse facilities, and rehabilitation facilities.

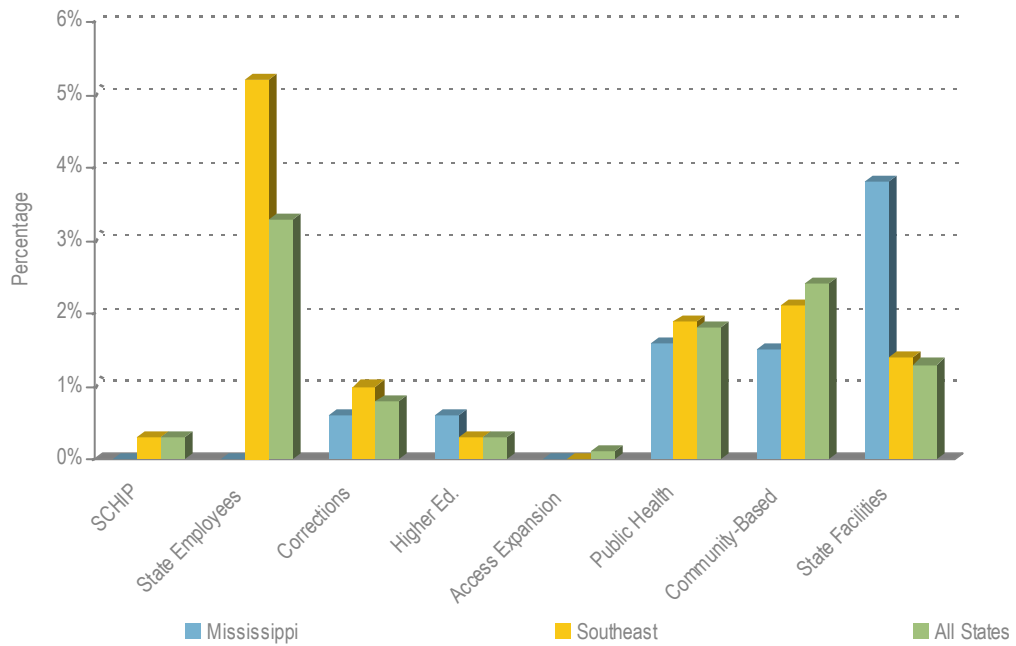
For health programs other than Medicaid, when all sources of funding are considered, Mississippi spends a greater percentage of its budget on State Facilities, Public Health, and Community-Based programs (Figure 7). When only State General Funds are included, however, the only health-related categories where Mississippi spends a greater portion than other states are State Facilities and Higher Education (Figure 8).

**Figure 7 - Percentage of State Budget from All Sources Spent on Health Programs other than Medicaid**



Source: 2002 – 2003 State Health Expenditure Report. National Association of State Budget Officers, Milbank Memorial Fund, & the Reforming States Group. Milbank Memorial Fund, 2005.

**Figure 8 - Percentage of State General Funds Spent on Health Programs other than Medicaid**

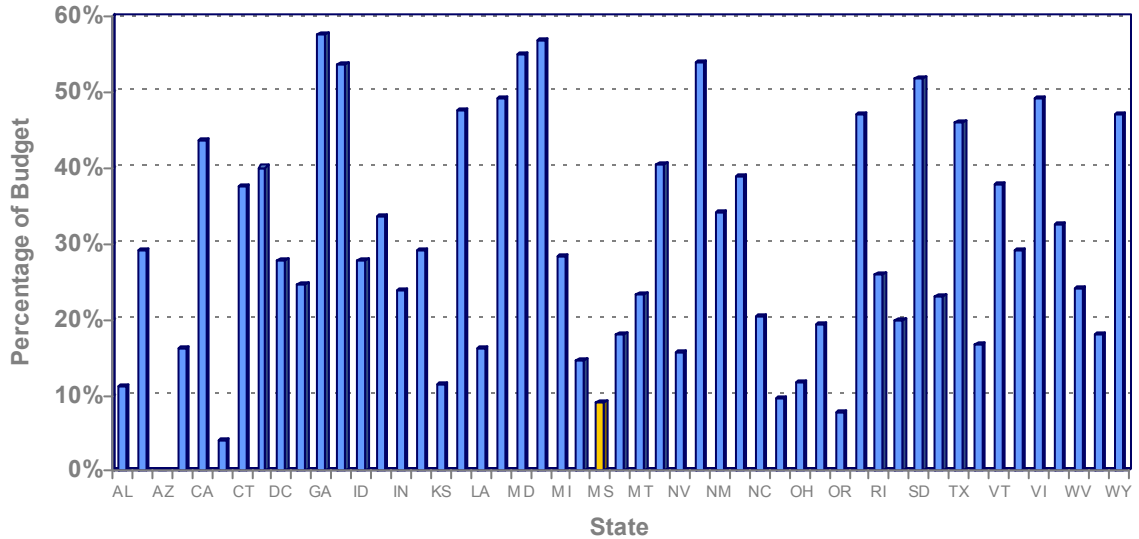


Source: 2002 – 2003 State Health Expenditure Report. National Association of State Budget Officers, Milbank Memorial Fund, & the Reforming States Group. Milbank Memorial Fund, 2005.

Note: Mississippi's expenditures for State Employee health care cannot be determined by source of funds.

Mississippi ranks fourth lowest in the nation in terms of the percentage of the state's public health agency's budget supported by State General Funds. In 2005, the average state contribution was 38.8%, and Mississippi's was 9.2%. (Association of State and Territorial Health Officials, 2005)

**Figure 9 – Percentage of Public Health Agency Budget Funded by State Dollars by State/Territory, 2004**



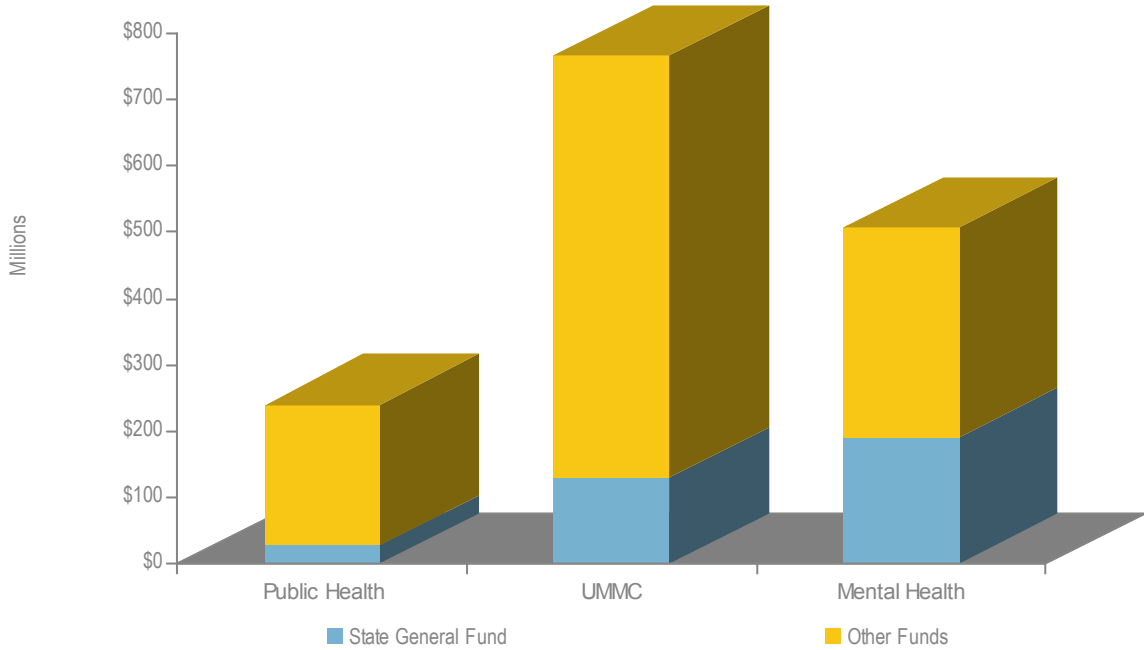
Source: Association of State and Territorial Health Officials. (2005). *2005 SHO salary and agency infrastructure survey*. Washington, DC: ASTHO.

Mississippi also differentiates itself from other states in its use of State General Funds to support state facilities to a greater degree than home and community based services. Expenditures in the Higher Education category include primarily those of the University of Mississippi Medical Center (UMMC), Mississippi's only academic health center. An analysis of UMMC's financial operations by The Lewin Group (2006) noted that the institution was faced with large amounts of uncompensated care, requiring public funds to offset payment shortfalls from third party payers and other sources.

■ Mississippi State Agency Appropriations

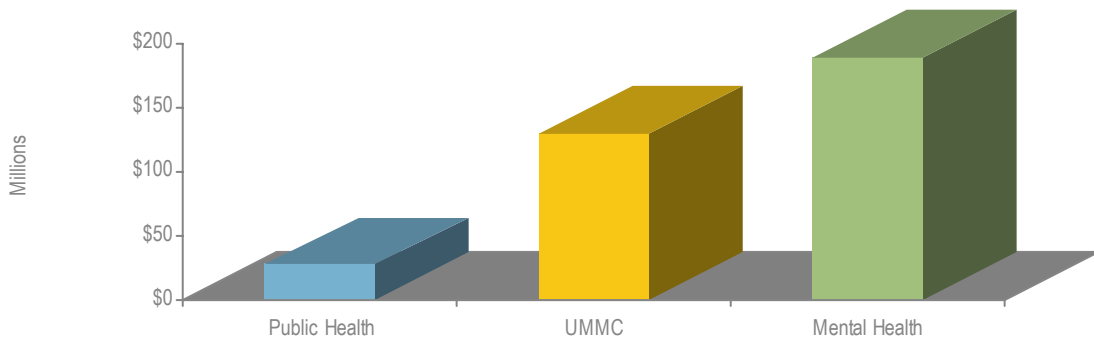
The following figures illustrate the relative amount of funds from all sources and from State General Funds appropriated by the Mississippi Legislature to the primary health agencies other than Medicaid for FY 2006:

**Figure 10 - FY 2006 Appropriations to Selected Health Agencies in Mississippi**



Source: Legislative Budget Report for FY 2007. Joint Legislative Budget Committee.

**Figure 11 - FY 2006 State General Fund Appropriations to Selected Health Agencies in Mississippi**

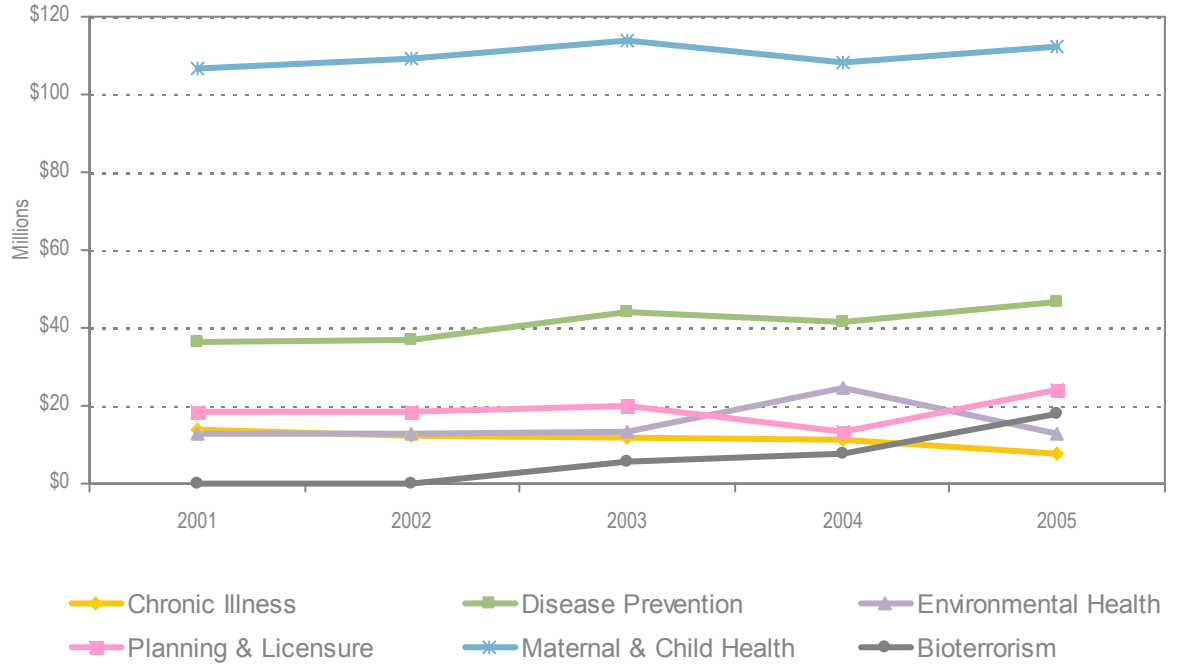


Source: Legislative Budget Report for FY 2007. Joint Legislative Budget Committee.

### Public Health Funding

The distribution of funds by program within the state’s public health agency reflects a heavy emphasis on maternal and child health services, a decline in funding for chronic illness programs, and a recent influx of funding for bioterrorism:

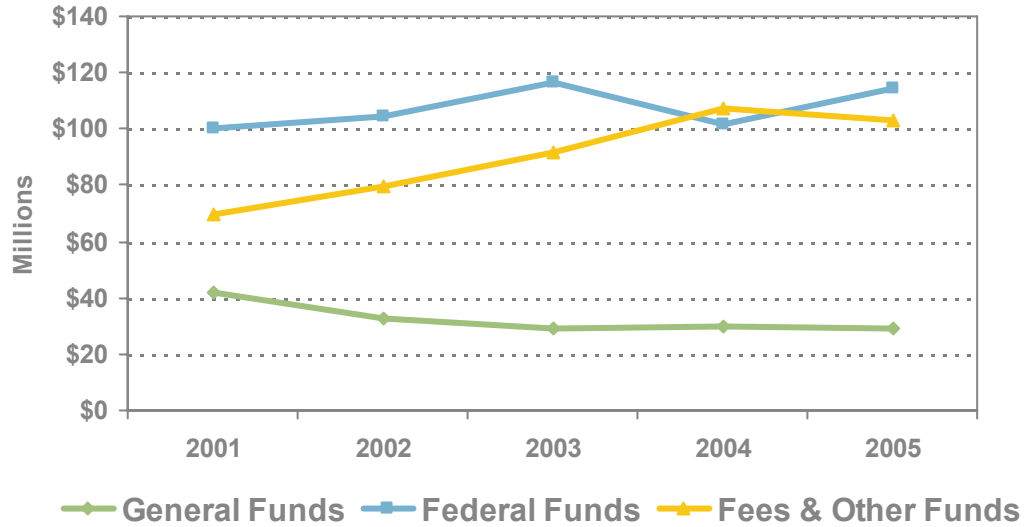
**Figure 12 - Mississippi Department of Health, Expenditures by Program, FY 2001-2005**



Source: Mississippi Department of Health. Annual Report 2006.

An examination of public health funding by source of funds reveals declining support in State General Funds and increasing reliance on fees and other special funds:

Figure 13 - Mississippi Department of Health, Expenditures by Source of Funds, FY 2001-2005

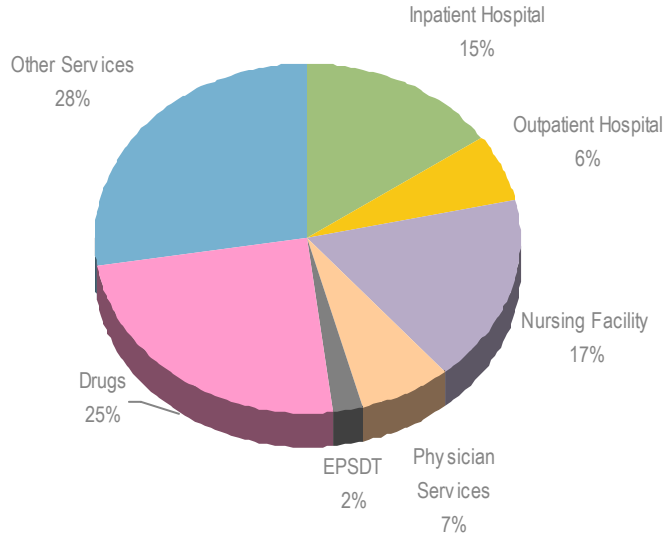


Source: Mississippi Department of Health. Annual Report 2006.

### Medicaid Funding

Medicaid funding will be addressed in more detail in a separate Center for Mississippi Health Policy report. In general, Medicaid dollars overwhelmingly support acute treatment and long term care services:

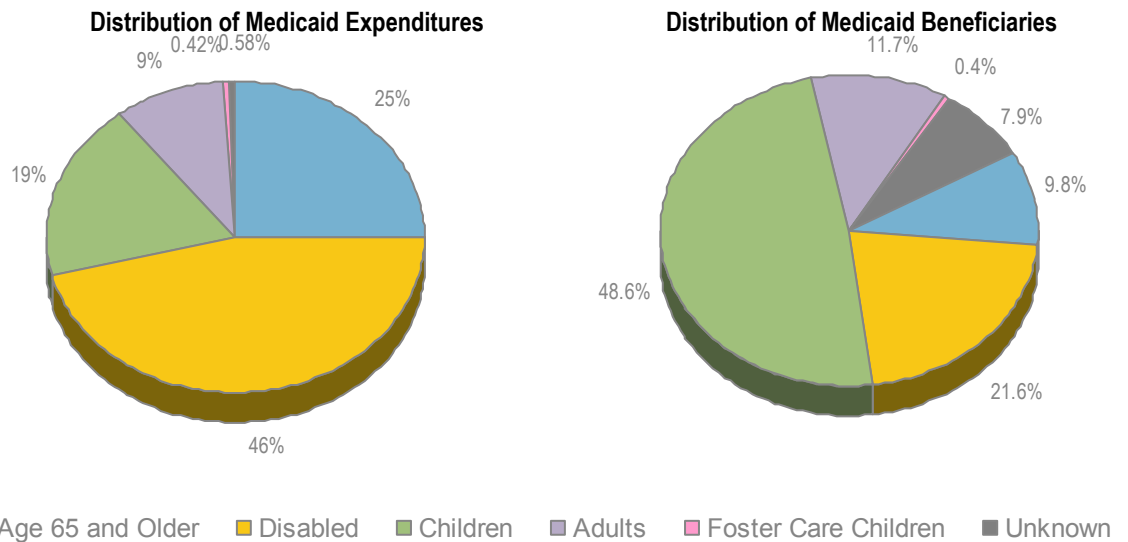
**Figure 14 - Medicaid Expenditures by Type of Service, FY 2004**



Source: Division of Medicaid 2004 Annual Report Summary

Almost half (49 percent) of Medicaid beneficiaries are children, but children represent only 19 percent of Medicaid expenditures. Preventive services for children through the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) program account for only 2 percent of spending. Almost half of Medicaid expenditures (48 percent) in FY 2003 were attributable to recipients in the Disabled category, which represents approximately 22 percent of Medicaid beneficiaries.

**Figure 15: Distribution of Medicaid Expenditures and Beneficiaries by Eligibility Category**



Source: MSIS State Summary FY 2003



## ■ Policy Implications

Health care spending in Mississippi reflects a strong reliance on federal support. The investment of public dollars in public health and health care in Mississippi is also overwhelmingly focused on treatment rather than prevention. This funding emphasis is not unique to Mississippi, however, and given Mississippi's high rates of death, disease, and disability, the need for treatment dollars is substantial. Mississippi has the highest age-adjusted death rate, the highest infant mortality rate, the highest age-adjusted death rate by heart disease, the highest percentage of adults who were obese, the highest rate of adults with high blood pressure, and the third highest percentage of the population receiving Social Security Disability Insurance (SSDI) payments. (Morgan, K. O., Morgan, S., 2006)

The reduction in State General Funds supporting public health in Mississippi and the drop in support of programs targeting chronic illness are particularly striking in contrast to the need to increase prevention and health promotion efforts in the State. Chronic diseases have a significant impact on health care costs (Suhrcke, M. et al., 2005). Data from the Centers for Disease Control and Prevention (2004) indicate that health care services for persons with chronic disease account for 75 percent of the nation's total health care costs. Researchers (Thorpe, 2005) attribute almost two-thirds of the increase in health care spending to the rise in the prevalence of treated disease, partially accounting for the cost increases exhibited in Figure 1. Current data show increasing prevalence of chronic conditions in younger age groups, indicating the trends are worsening (The Council of State Governments, 2006).

Overweight and obesity are strong risk factors for the development of chronic disease (Finkelstein, E. A., Fiebelkorn, I. C., & Wang, G., 2003). The estimated annual health care cost attributed to adult obesity (in 2003 dollars) in Mississippi is \$757 million, of which \$223 million is cost to Medicare and \$221 million is cost to Medicaid (Finkelstein et al., 2004). Researchers (Thorpe et al., 2004) have estimated that the growing prevalence of obesity accounted for 27 percent of the increased spending between 1987 and 2001.

Many states have recognized the need to address these underlying issues driving health care costs. The Council of State Governments notes that state leaders are beginning to target their efforts more toward prevention:

*“Until recently, state policymakers have tried to control rising health care costs primarily through cost-containment measures. Now, however, states are paying more attention to the root causes of skyrocketing medical expenditures....Costly, debilitating and preventable chronic diseases are among the key contributors to the increased costs states face. And states are realizing it is important to focus on strategies that reduce the prevalence and costs of preventable diseases.”* (The Council of State Governments, 2006)

In response, states have initiated disease management, wellness, and health promotion programs and have focused on improving the health of children through comprehensive school health programs. Arkansas, for example, has halted the growth in its rate of overweight children through an aggressive initiative directed at improving nutrition and physical activity in school children (Ryan et al., 2006 and Boozman, 2006).

Research in Mississippi (Kolbo et al. 2006) indicates that the prevalence of overweight among school children is even higher than previously estimated. If attention is not given to reversing the current trends, the financial burden to the State in terms of health care costs and lost productivity will only continue to grow.

Mississippi has taken advantage of its favorable federal matching rate through the Medicaid program to access federal dollars to support health care for Medicaid eligible populations. Here again, the spending emphasis is on treatment rather than prevention. Only two percent of Mississippi's Medicaid dollars are spent on screening and preventive services for children, although children represent the single largest category of beneficiaries (Figures 13 and 14).

The current distribution of public funds for health care in Mississippi presented in this report illustrates the result of years of crisis funding. The appropriations process tends to be reactive in nature, driven by budget requests and the availability of federal funds. Competition for limited dollars generally results in the funding of immediate, more critical needs.

The pressure to pay for the increasingly higher costs of disease and disability in Mississippi will continue until the State takes aggressive action to address the underlying factors driving the rapid growth in health care costs. To do so, the state should implement a proactive and cooperative comprehensive planning process that identifies Mississippi's most significant health problems and the contributing factors most amenable to prevention and targets additional resources accordingly.

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## ■ Glossary

**Community-Based Health Expenditures** – State funds spent on health services provided in a community setting. Examples include rehabilitation services, alcohol and drug abuse treatment, mental health community services, developmental disabilities community services, and vocational rehabilitation services. These expenditures do not include funds spent on services eligible for Medicaid reimbursement, which are reported under Medicaid. [Source: National Association of State Budget Officers]

**Federal Funds** – Funds received directly from the federal government. Can include block grants or federal funds obtained by state match. [Source: National Association of State Budget Officers]

**Gross State Product (GSP)** – As defined by the Bureau of Economic Analysis (BEA) of the United States Department of Commerce, GSP is the value added in production by the labor and capital located in a state. GSP for a state is derived as the sum of the gross state product originating in all industries in a state. In concept, an industry's GSP, referred to as its "value added," is equivalent to its gross output (sales or receipts and other operating income, commodity taxes, and inventory change) minus its intermediate inputs (consumption of goods and services purchased from other U.S. industries or imported). Thus, GSP is often considered the state counterpart of the nation's gross domestic product (GDP), BEA's featured measure of U.S. output. In practice, GSP estimates are measured as the sum of the costs incurred and incomes earned in the production of GDP. GSP for the nation differs from GDP for the following reasons: GSP excludes and GDP includes the compensation of federal civilian and military personnel stationed abroad and government consumption of fixed capital for military structures located abroad and for military equipment, except office equipment; and GSP and GDP have different revision schedules. BEA prepares estimates of GSP in millions of current dollars and of real GSP in millions of chained (2000) dollars. The estimates of real GSP are derived by applying national implicit price deflators to the current-dollar GSP estimates for the detailed industries. These estimates of real GSP reflect the uniqueness of each state's industry mix, but they do not reflect differences by state in the prices of goods and services produced for local markets. [Source: Bureau of Economic Analysis, U.S. Department of Commerce]

**Higher Education Health Expenditures** – State support to fund the operation of state university-based teaching hospitals, including any state funds for health care premiums or coverage of teaching hospital employees. Includes state funds for professional education (such as residency programs) conducted in combination with clinical practice. Excludes physician loan-repayment programs, other incentive programs, student health clinics, and state funds for degree-granting programs in any health professions. [Source: National Association of State Budget Officers]

**Medicaid Expenditures** – Information reported on the CMS-64 report, with the subcategories of the report incorporated and converted to state fiscal year. All Medicaid expenditures are reported under this category. To avoid double counting, Medicaid expenditures are not included in any other category with the exception of SCHIP expenditures. [Source: National Association of State Budget Officers]

**Other State Funds (or Special State Funds)** – Usually, state funds provided through sources other than the General Fund, including expenditures from revenue sources that are restricted by law for particular governmental functions or activities. For example, a gasoline tax dedicated to a highway trust fund would appear in "Other State Funds." For Medicaid, other state funds include provider taxes, fees, donations, assessments, and local funds. [Source: National Association of State Budget Officers]

**Personal Health Care Expenditures** – Personal Health Care Expenditures are accounted for by the state of the provider and estimate health care spending by type of establishment delivering care (hospitals, physicians and clinics, nursing homes, etc.) and for medical products (prescription drugs, over-the-counter medicines, and sundries and for durable medical products such as eyeglasses and hearing aids) purchased in retail outlets. Source of funding estimates by state are also provided for Medicare and Medicaid. These estimates are useful in measuring health spending's role in a state's economy. These estimates should not be used to calculate estimates of spending per person in a state. [Source: Centers for Medicare and Medicaid Services, State Health Accounts.]

**Public Health Expenditures** – Includes local health clinics, Ryan White AIDS Grant expenditures, and Indian health. Expenditures may include funds spent on pharmaceutical assistance for the elderly; childhood immunization; chronic disease hospitals and programs; hearing aid assistance; adult day care for persons with Alzheimer's disease; health grants' services for medically handicapped children; the Women, Infant and Children (WIC) program; pregnancy outreach and counseling; chronic renal disease treatment programs; AIDS testing; breast and cervical cancer screening; tuberculosis (TB) programs; emergency health services; adult genetics programs; and phenylketonuria (PKU) testing. [Source: National Association of State Budget Officers]

**State Facility Expenditures** – All costs not covered by Medicaid for veterans' homes and other nursing facilities that receive state support, and State funds spent for health services provided in a state facility. Facilities may include schools for the blind, schools for the deaf, mental health hospitals, facilities for the developmentally disabled, substance abuse facilities, and rehabilitation facilities. These expenditures do not include funds spent on services eligible for Medicaid reimbursement, which are reported under Medicaid. [Source: National Association of State Budget Officers]

**State General Funds** – The predominant fund for financing a state's operations. Revenues are received from broad-based state taxes. There are differences in how specific functions are financed from state to state. [Source: National Association of State Budget Officers]

**Social Security Disability Insurance (SSDI)** – Social Security Disability Insurance is a federal entitlement program that provides disability payments to individuals (and in certain instances to their surviving spouses and children) who have been (a) deemed medically disabled due to a physical or mental impairment that prevents them from working for a year or more or that is expected to result in death; and who (b) have earned enough work credits to receive SSDI payments (the number of credits needed depends on age). Federal law requires a 5-month waiting period after becoming disabled before receipt of SSDI cash benefits. SSDI recipients are eligible for Medicare coverage following an additional 24-month waiting period, resulting in a total of 29 months before receipt of health benefits through Medicare for SSDI recipients. [Source: Kaiser Family Foundation, [statehealthfacts.org](http://statehealthfacts.org)]

**Supplemental Security Income (SSI)** – Supplemental Security Income is a federal entitlement program that provides cash assistance to low-income aged, blind, and disabled individuals. Individuals receiving SSI benefits are eligible for Medicaid coverage in all states except eleven "section 209(b)" states (does not include Mississippi), which have opted to use their more restrictive 1972 criteria in determining Medicaid eligibility for SSI recipients. [Source: Kaiser Family Foundation, [statehealthfacts.org](http://statehealthfacts.org)]

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