

***Not Just a One-Time Cut:***  
**Permanent Policy Changes in Governor's Budget**  
**Would Deny Coverage to More Than One Million Californians**

More than one million Californians could either lose or be denied health coverage, under the permanent policy changes included as part of the budget cuts proposed by Gov. Arnold Schwarzenegger.

In denying or eliminating coverage for one million Californians, these permanent policy changes would significantly impact the entire healthcare system, increasing the number of uninsured from 6.5 million to an estimated 7.5 million, while reducing benefits or access for another 3.6 million low-income Californians dependent on public programs. The increase in the uninsured alone would threaten the health care system; the cuts in benefits or access further endanger it.

Summaries of the Governor's budget proposals, including the May Revision, only show the impact of the cuts in the first year – with tens of thousands losing coverage or being barred from enrollment for each proposed cut. The governor's presentation of the budget cuts in one year understates the profound impact of the proposed cuts as a whole.

- **The Governor's budget is not proposing one-time budget savings, but lasting policy changes and coverage reductions** for the health care system, something not covered in press reports.
- **A snapshot of the savings in the budget year does not reveal the full impact** in the following years, once the reductions have been enacted and all the administrative changes have occurred to continue the reductions.
- **The cumulative impact of all the proposed cuts** will leave as many as one million uninsured, hurting not only those families, but weakening the health system as a whole.

The permanent policy changes reflected in the budget will remain in place long after the 2008-09 budget year comes and goes. This budget, which also includes cuts to eliminate Medi-Cal benefits and reductions in provider rates, would represent the most profound roll-back of California health protections in state history.

The reductions discussed in this paper would have a significant impact on the number of Californians currently covered, including:

- A roll-back of eligibility for low-income working parents down to 61% of the poverty level, from 100% of the poverty level;
- Additional paperwork burdens for children and adults designed to reduce enrollment;
- Suspension of recently passed legislation that would ease enrollment burdens on children.
- Increased premiums for low-income families with Healthy Families coverage.

### **Loss of coverage understated**

These policy changes directly contradict health reform proposals the Governor previously put forward, which would have expanded eligibility for public program coverage to working families up to 250% of the poverty level (and up to 300% of the poverty level for children); would have removed the paperwork burdens to stay on coverage that are now proposed to be doubled or quadrupled; and would have further streamlined the process of enrolling children and adults into these coverage programs. (See Appendix II).

Figure 1 shows that the real loss and impact to families does not come until the cuts to programs are fully implemented in approximately three years, in the last months of the Schwarzenegger Administration.

**Figure 1**

	<b># of people without coverage in budget year 2008-09</b>	<b># of people without coverage once fully implemented (~3 years)</b>
<b>Imposing Quarterly Status Reports (QSRs) for children on Medi-Cal</b>	86,000 <sup>1</sup>	471,500 <sup>1</sup>
<b>Denying Low-income working families denied Medi-Cal</b>	39,000 <sup>1</sup>	429,000 <sup>1</sup>
<b>Suspending implementation of passed enrollment reforms for children and parents</b>	28,686 <sup>2</sup>	~97,000 <sup>3</sup>
<b>Increasing premiums for Healthy Families enrollees</b>	Not reflected in budget	~60,000 <sup>4</sup>

<sup>1</sup> Department of Health Care Services

<sup>2</sup> "SB437 Self-Certification" estimates. November 2007. Fiscal Forecasting and Data Management Branch, Department of Health Care Services and Senate Budget Subcommittee Analysis, April 28th, 2008.

<sup>3</sup> Fiscal Analysis of SB437 by Department of Health Care Services provided to the 100% Campaign. Based on 2004 enrollment figures.

<sup>4</sup> Carroll, David. "Governor's Proposed Health Cuts Would Increase Ranks of Uninsured, Reduce Access." California Budget Project. May 2008.

As Figure 1 shows, the impacts of these policy changes are not fully reflected in the budget year. There are several reasons: first, many of these proposed changes would need some time, once a budget is approved, to be put in place: The Department of Health Care Services reports it does not anticipate beginning these cuts until September 2008, two months into the new fiscal year.

And just as it takes a few years for a new program to function at full capacity, it also takes a few years to see the full impact on families when a particular program is scaled back.

Take, for instance, the low-income working parents who would be denied coverage under the governor's budget proposal. Currently a family of three earning \$17,600 would qualify for Medi-Cal. But the Medi-Cal and uninsured populations are not static: people change jobs, move in and out of state, and lose coverage at work because of a recession. If the parent in this family earning \$17,600 a year keeps his job, but loses health coverage *two years from now*, then that parent would not feel the impact of the policy change that requires families earn no more than \$11,968 a year until the point that the parent loses coverage.

The additional paperwork to stay on Medi-Cal means more Californians would fall off coverage through quarterly status reports. To compound the problem, some who lose that coverage would then be denied when they try to re-enroll.

### **Specific cuts add up the big numerical impacts:**

The budget cuts would reverse both the enrollment gains made in these programs in the past decade, as well as policy gains.

Once fully implemented:

- **471,500 children** would lose their Medi-Cal coverage through Quarterly Status Reports. The state would require that Medi-Cal beneficiaries fill out a form every three months to verify that they are still eligible for coverage. Currently, children must have their eligibility verified every year and are guaranteed coverage throughout the year regardless of changes. Their parents, meanwhile, must submit forms every six months. The Department of Health Services estimates that a percentage of the Medi-Cal population fall off the program for every report required. (This figure does not include the number of parents who would lose coverage via this proposal as well, in part, because many of these parents would be denied coverage directly through another cut to low-income working families, discussed below.) Even a policy requiring children to renew every six months would lead to a significant drop off in eligible children's coverage. Experience with parents' six-month renewals demonstrate that 59 percent of those that are dropped are re-enrolled within 90 days.<sup>5</sup>

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<sup>5</sup> April 11, 2008 memo to Assembly Budget Subcommittee #1 from California Welfare Director's Association

- **429,000 working parents with low incomes** would also be denied coverage. Currently, a family earning less than 100% of the poverty level (\$17,600 a year for a family of three) could qualify for Medi-Cal, even if the primary wage earner works more than 100 hours a month. Under the budget proposal, these same families would not qualify if they earned more than 61% of the federal poverty level (\$11,968 annually, for a family of three). Additionally, parents would be discouraged from working more than 100 hours a week. This would both deny those parents attempting to transition from welfare to work, as well as those working parents who have fallen into these very low incomes.
- **Approximately 97,000 otherwise eligible children and adults** who qualify for public programs but were not enrolled will remain uninsured. The administration has proposed, for a second straight year, suspending the implementation of SB437 (Escutia) at least until the 2010-11 fiscal year. SB437 makes it easier for low-income families to enroll in, and stay on Medi-Cal or Healthy Families coverage. In addition, a pilot project to have been implemented in Santa Clara and Orange counties would have streamlined enrollment and renewals, by allowing for administrative verification of income, rather than requiring families to provide pay stubs and other proof of income. If implemented this year, the pilot program would have enrolled approximately 29,000 children and adults into Medi-Cal. If the pilot proved successful, that number would substantially grow after two years once the Legislature gives approval for all counties to enact a self-certification process. Approximately 97,000 children who would be enrolled, based on an estimate based on 2004 Medi-Cal enrollment figures, and is the most conservative of the available projections.
- **Approximately 60,000 children** would lose their Healthy Families coverage due to higher premiums, estimates the California Budget Project. Healthy Families covers children between 100 to 250 percent of the poverty level with a sliding scale for premiums. Under the governor's proposal, families between 151-200 percent of the poverty level would see premiums increase by 77 percent to \$16 per child. Families between 201-250 percent of the poverty level would see premiums jump 27 percent to \$19 per child. Studies show that as premiums rise, fewer lower income families are able to participate.<sup>6</sup>

The cumulative impact of these cuts is significant, resulting in more than one million additional uninsured people in the state of California.

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<sup>6</sup> Ku, Leighton and Victoria Wachino. "The Effect of Increased Cost Sharing in Medicaid: A Summary of Research Findings." Center for Budget and Policy Priorities. Revised July, 2005.

**The Math:** Quarterly Status Reports (471,500) + Low-income working parents (429,000) + otherwise eligible children and adults (~97,000) + children in Healthy Families who cannot pay the higher premiums (~60,000) = **1,057,500 new uninsured** as a result of Governor Schwarzenegger budget proposal.

**Working Families least able to afford these cuts**

**The children and families affected by this cut are the least able to afford health coverage** – even in the best of times. These are working families who are, by definition, near or below the federal poverty level.

The California Budget Project with the University of California Center for Health Policy Research last year recommended that full health care subsidies were needed for families up to 200% poverty level (\$35,200 for a family of three).<sup>7</sup> The governor’s proposal, which scales back subsidies down to 61% of the poverty level, clearly leaves people uninsured, with the health and financial consequences.

During an economic downturn, the demand for public programs increases, tracking an increase in unemployment, which leaves more people with shrinking incomes and qualifying for Medi-Cal or Healthy Families. Additionally, more families are without jobs and without job-based health coverage.

Even without a recession, **there has been growing demand for public insurance coverage as job-based health coverage has been on the decline.** In the span of six years since 2000, the percentage of workers received health coverage on the job has decreased from 60.8% to 54.9%. In that same period, Medi-Cal enrollment increased by 2.1 percent.<sup>8</sup>

In California, specifically, while job-based coverage has been declining, children’s enrollment in public programs increased by nearly 31% between 2001 and 2005.<sup>9</sup> Figure 2, below, shows the decline in job-based coverage, and the shifting of coverage to public programs.

**Figure 2<sup>10</sup>**

	<b>Job-based insurance</b>		<b>Medi-Cal or Healthy Families</b>	
	<b>2001</b>	<b>2005</b>	<b>2001</b>	<b>2005</b>
<b>Children (0-18)</b>	55.1%	50.3%	24.2%	30.9%
<b>Adults (19-64)</b>	57%	56.2%	8.6%	8.7%

<sup>7</sup> Carroll, David et al. “What Does It Take for a Family to Afford to Pay for Health Care?” Health Policy Research Report by California Budget Project and UCLA Center for Health Policy Research. August 2007.

<sup>8</sup> Snapshot: California’s Uninsured 2007. California HealthCare Foundation.

<sup>9</sup> California Health Interview Survey query, 2001 and 2005 data.

<sup>10</sup> Brown, E. Richard et al. “The State of Health Insurance in California: Findings from the 2005 California Health Interview Survey.” July 2007.

As employer-based coverage erodes, public programs have taken up the slack, but would be prevented from doing so under these cuts. Given these trends, there is little reason to believe that those barred or dropped from Medi-Cal will find coverage elsewhere. Overall, under these cuts, many more Californians will be uninsured.

The cuts represent a reversal for the Administration, reducing programs that just a few months ago were being considered for massive expansions to provide coverage to millions more people.

Rather than raising taxes and other revenues –over \$14 billion—to expand coverage and dramatically shrink the number of uninsured, the Schwarzenegger budget would increase the number of uninsured substantially. The budget proposed takes a cuts-only approach, and rejects raising the revenues needed to ensure that Californians keep the coverage they have now.

**Allowing one million more California children and parents to go uninsured creates ripple effects throughout the entire health care system.** It includes:

- an increased burden on “safety net” providers, from emergency rooms to hospitals to community clinics—many of which are dealing with direct cuts of their own;
- a cost-shift, from both the uninsured and reduced Medi-Cal provider payments, to private purchasers of health care—which likely means increased premiums<sup>11</sup>; and
- worse health and economic impacts for California communities, from the destabilizing impact of more children uncovered and getting sicker, to more families facing medical debt and bankruptcy for being uninsured.

**As a result, all Californians—not just the million more uninsured—will be impacted these cuts.** They represent a stark choice of California policymakers, between allowing these cuts to move forward and to make these structural policy changes to our health care system, or to find the revenues needed to prevent these cuts.

Given these impacts, these budget decisions are not just budget decisions, but health policy decisions, and will determine whether California takes significant steps backwards by increasing the number of uninsured and making a broken health care system worse, or whether we will set a strong foundation on which to continue comprehensive health reform in the future.

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<sup>11</sup> Harbage, Peter and Len M. Nichols. “A Premium Price: the Hidden Costs All Californians Pay in our Fragmented Health Care System.” New America Foundation, Health Policy Program. December 2006.

## Appendix I: County impacts of the health care cuts

Below is a county-by-county breakdown of the number of people who would be left uninsured as a result of Gov. Schwarzenegger's budget.

<b>County</b>	<b>Number of low-income, working adults losing coverage<sup>12</sup></b>	<b>Number of children losing coverage because of Quarterly Status Reports<sup>13</sup></b>	<b>Number of children not enrolled due to delayed implementation of SB 437<sup>14</sup></b>	<b>Number of children losing Healthy Families coverage due to increased premiums<sup>15</sup></b>	<b>Total denied coverage<sup>16</sup></b>
<b>Alameda</b>	10,074	10,950	2,852	1,322	25,198
<b>Alpine</b>	9	10	3	0	22
<b>Amador</b>	202	220	49	27	498
<b>Butte</b>	2,355	2,560	590	262	5,767
<b>Calaveras</b>	276	300	63	46	685
<b>Colusa</b>	340	370	69	106	885
<b>Contra Costa</b>	6,633	7,210	1,608	826	16,277
<b>Del Norte</b>	313	340	79	34	766
<b>El Dorado</b>	892	970	211	194	2,267
<b>Fresno</b>	17,563	19,090	3,895	1,532	42,080
<b>Glenn</b>	423	460	98	90	1,071
<b>Humboldt</b>	1,398	1,520	324	215	3,457
<b>Imperial</b>	2,686	2,920	646	370	6,622
<b>Inyo</b>	221	240	49	22	532
<b>Kern</b>	13,331	14,490	2,840	1,767	32,428
<b>Kings</b>	2,236	2,430	460	288	5,414
<b>Lake</b>	773	840	182	114	1,909
<b>Lassen</b>	248	270	65	17	600
<b>Los Angeles</b>	169,731	184,490	37,849	15,501	407,571
<b>Madera</b>	2,760	3,000	583	318	6,661
<b>Marin</b>	1,021	1,110	271	194	2,596
<b>Mariposa</b>	138	150	33	17	338
<b>Mendocino</b>	1,251	1,360	295	159	3,065
<b>Merced</b>	4,278	4,650	943	627	10,498
<b>Modoc</b>	120	130	30	11	291
<b>Mono</b>	101	110	19	27	257
<b>Monterey</b>	5,235	5,690	1,130	1,319	13,374
<b>Napa</b>	819	890	194	239	2,142
<b>Nevada</b>	478	520	112	153	1,263

<sup>12</sup> Estimates based on county and legislative district analysis performed by California Budget Project in "The Governor's Revised Budget would Prevent more than 400,000 parents from obtaining Medi-Cal Coverage" as well as legislative district and county data performed by California Budget Project for children.

<sup>13</sup> Carroll, David. "Governor's Proposed Health Cuts Would Increase Ranks of Uninsured, Reduce Access." California Budget Project budget brief. Updated May 2008

<sup>14</sup> Estimates reflect number of children who would have been enrolled at full implementation had this program been allowed to proceed. The estimates are based on 2004 enrollment figures calculated by the Department of Health Care Services. County figures were calculated based on the proportion of Medi-Cal beneficiaries and Healthy Families enrollees in each county.

<sup>15</sup> Estimates reflect proportion of Healthy Families enrollees by county multiplied by the total number of enrollees projected to lose coverage due to increased premiums as calculated by the California Budget Project.

<sup>16</sup> Totals differ slightly from other estimates due to rounding

<b>Orange</b>	27,931	30,360	5,880	5,593	69,764
<b>Placer</b>	1,334	1,450	328	285	3,397
<b>Plumas</b>	129	140	32	22	323
<b>Riverside</b>	21,243	23,090	3,965	5,043	53,341
<b>Sacramento</b>	13,386	14,550	3,211	1,819	32,966
<b>San Benito</b>	543	590	116	130	1,379
<b>San Bernardino</b>	23,009	25,010	4,566	4,513	57,098
<b>San Diego</b>	20,985	22,810	4,473	4,979	53,247
<b>San Francisco</b>	4,812	5,230	1,482	786	12,310
<b>San Joaquin</b>	7,884	8,570	1,810	1,361	19,625
<b>San Luis Obispo</b>	1,858	2,020	432	347	4,657
<b>San Mateo</b>	4,315	4,690	1,044	676	10,725
<b>Santa Barbara</b>	5,115	5,560	1,129	706	12,510
<b>Santa Clara</b>	13,193	14,340	3,443	1,994	32,970
<b>Santa Cruz</b>	2,548	2,770	612	400	6,330
<b>Shasta</b>	1,665	1,810	405	295	4,175
<b>Sierra</b>	18	20	6	4	48
<b>Siskiyou</b>	478	520	114	55	1,167
<b>Solano</b>	3,229	3,510	798	359	7,896
<b>Sonoma</b>	3,183	3,460	737	782	8,162
<b>Stanislaus</b>	7,415	8,060	1,629	900	18,004
<b>Sutter</b>	1,251	1,360	273	246	3,130
<b>Tehama</b>	856	930	185	105	2,076
<b>Trinity</b>	147	160	33	19	359
<b>Tulare</b>	10,286	11,180	2,238	965	24,669
<b>Tuolumne</b>	331	360	83	69	843
<b>Ventura</b>	8,188	8,900	1,839	1,352	20,279
<b>Yolo</b>	1,592	1,730	380	262	3,964
<b>Yuba</b>	966	1,050	217	136	2,369
<b>TOTAL</b>	433,795	471,520	97,002	60,000	1,062,317 <sup>15</sup>

These estimates are conservative. The impact of the SB437 delay is based on 2004 figures, while enrollment in public programs has increased since that time. Also, while there are impacts of the quarterly status reports on both children and adults, we did not include the adult reductions, because we believe there is significant overlap with the reduction in enrollment resulting from the eligibility cut for working parents.

## Appendix II: Comparison of Health Reform (ABx1 1, Nunez) policies with Governor's 2008-09 Budget Proposal

	ABx1 1 (Nunez)	Number of people affected <sup>17</sup>	Governor's 2008-09 Budget Proposal	Number of people affected
<b>Low-income adults</b>	Low-income families below 250% of poverty (\$26,400) would qualify for a low-cost-sharing Healthy Families-like plan <i>AND</i> Low-income adults with <i>no</i> children below poverty level (\$10,400) would qualify for Medi-Cal	+420,000 more adults with public program coverage	Denies Medi-Cal to low-income working adults, with children, who earn more than 61% of the poverty level (\$11,968 for a family of three)	-429,000 fewer adults
<b>Quarterly Status Reports</b>	Required semi-annual <i>address</i> verification from adults for Medi-Cal beneficiaries  (Children and pregnant women would have been exempt)	See above and below	Requires quarterly reporting of <i>income and address</i> information for Medi-Cal beneficiaries – adults <i>and</i> children  (Some pregnant women would be exempt)	-471,000 fewer children
<b>Streamlined enrollment in public programs</b>	Eases administrative requirements, such as measurement of a potential applicant's assets, which makes enrolling in and staying enrolled in Medi-Cal easier	+240,000 additional children enrolled in Medi-Cal	Delays for two years the implementation of legislation that would have made it easier for Medi-Cal and Healthy Families recipients to stay enrolled in programs	-~97,000 fewer children
<b>Children in Healthy Families</b>	Expanded Healthy Families to children up to 300% of the poverty level (\$52,800 for a family of three). Monthly premium levels: <ul style="list-style-type: none"> <li>• 0-150% FPL = \$7/child; \$14 max</li> <li>• 151-200% FPL = \$9/child; \$27 max</li> <li>• 201-250% FPL = \$15/child; \$45 max</li> <li>• 251-300% FPL = \$25/child; \$75 max</li> </ul>	+720,000 more children enrolled in Healthy Families	Retains existing eligibility up to 250% of the poverty level (\$44,000 for a family of three)  Monthly premium levels: <ul style="list-style-type: none"> <li>• 0-150% FPL = \$7/child; \$14 max</li> <li>• 151-200% FPL = \$16/child; \$48 max</li> <li>• 201-250% FPL = \$19/child; \$57 max</li> </ul>	-~60,000 fewer children
<b>TOTAL</b>		1,380,000 more Californians with public coverage		1,057,500 fewer with public coverage

<sup>17</sup> Gruber, Jonathan. "Population Movement Estimates for Health Care Reform under Abx1-1 with the Voter Initiative Filed December 28, 2007." MIT Department of Economics. January 11, 2008.

## Appendix III: More than 3.5 million Californians would pay more or get less for health care

The Schwarzenegger budget would also mean millions of low-income and disabled Californians would need to pay more for the medical care they need or make do with fewer health benefits.

Many studies, including the RAND Health Insurance Experiment have consistently shown that higher cost sharing, particularly for low-income populations, causes people to use less care – both essential and less-essential services. RAND HIE researchers also showed low-income persons, already in poor health, died more frequently, had poor blood pressure control, and poorer vision than those who received free care.<sup>18</sup> Forcing lower income populations to use less care, either by shifting more costs onto them, or limiting access and cutting benefits, ultimately impairs their health at greater costs to the public system in the future.

To that end, Schwarzenegger’s budget would harm Californians by causing:

- **2.5 million** adults, many of whom are blind, elderly or disabled with incomes of less than \$1,000 to lose access to vital benefits such as dental care, podiatry, glasses and incontinence creams and washes.
- **955,000** children in Healthy Families to pay premiums that are as much as 77% higher and pay more per doctor’s visit or prescription drug. (~60,000 children could also lose coverage as a result of this increase)
- **80,600** legal immigrants to see their comprehensive health benefits scaled down to four basic services: emergency, pregnancy, some long-term and some cancer care.
- **60,000** seniors with incomes of less than \$1,000 a month to spend one-tenth of their income to pay for Medicare coverage that would provide access to physicians.
- **39,000** children with genetic or chronic conditions to lose coverage and access to medical care because there was not enough staff to ensure their cases were properly monitored.
- **22,000** undocumented immigrants to lose their access to emergency care as a result of monthly reporting requirements.

*The Math:* Healthy Families enrollees (955,000) + Adults in Medi-Cal (2.5 million) including the “dual eligible” seniors + Legal Immigrants (80,600) + Children with chronic or genetic conditions (39,000) + immigrants who must report monthly in order to have access to emergency care (22,000) = **3,618,600** Californians who would pay more, get less, or both.

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<sup>18</sup> “Issue Brief: Policy Considerations Relevant to Senate Bill 1522: Coverage Choice Categories,” California Health Benefits Review Board analysis. June 2008.