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## MEDICAID CUTS IN PRESIDENT'S BUDGET WOULD HARM STATES AND LIKELY INCREASE RANKS OF UNINSURED

A new Center report finds that the Medicaid proposals in the President's fiscal year 2006 budget would likely lead to increases in the number of uninsured and underinsured Americans by weakening states' ability

The full report can be viewed at  
<http://www.cbpp.org/2-18-05health.htm>

to fund health and long-term care coverage for low-income populations. The budget would reduce federal funding for Medicaid by \$45 billion over ten years. The budget also suggests that the Administration supports placing a cap on at least part of federal Medicaid funding, a profound change that would shift costs and risk to states and likely erode health coverage over time.

- **Federal Medicaid funding would decrease by \$45 billion.** The Administration proposes roughly \$60 billion in funding reductions and \$15 billion in new Medicaid-related spending between fiscal years 2006 and 2015, for a net reduction in federal funding of \$45 billion over the next ten years.
- **Measures to improve Medicaid's efficiency without harming its effectiveness should be considered.** Proposals that can lower Medicaid's costs without adversely affecting the program's low-income beneficiaries should be considered. (It should be noted that Medicaid's per-beneficiary costs already are lower, and have been rising more slowly in recent years, than those of private health insurance plans.) Some Administration proposals hold promise in this regard, such as proposals to give states new tools to reduce the amount that Medicaid pays for prescription drugs and to prevent non-needy individuals from having Medicaid cover their nursing home costs. But other Administration proposals that would lower federal Medicaid funding *without* reducing state costs in operating Medicaid are highly problematic.
- **Various proposals would shift costs to states.** States are struggling to fund their share of Medicaid costs; many states are cutting back Medicaid coverage. Nevertheless, some of the Administration's proposals would shift costs to states and thereby aggravate these problems. Taken as a whole, the Administration's Medicaid proposals would impose \$34 billion over ten years in new costs on states. Most states would not be able to absorb these added burdens and would be forced to choose between reducing Medicaid coverage or benefits — thereby further increasing the numbers of low-income Americans who are uninsured or underinsured — and raising taxes or cutting funding for other priorities such as education.
- **Federal savings should be reinvested in Medicaid.** If measures are adopted that reduce federal costs, the federal savings should be reinvested in measures to strengthen states' ability to maintain Medicaid coverage. This would help states avert actions that could cause the number of uninsured Americans — now 45 million — to climb still higher.

- **Budget also implies cap on federal Medicaid funding.** In addition to the proposed \$45 billion in Medicaid funding reductions, the Administration’s budget also proposes to “modernize” Medicaid and the State Children’s Health Insurance Program to give states more “flexibility” to restructure coverage. The budget offers no specifics on this proposal but says this change must be carried out in a manner that results in no additional federal cost. This language strongly implies the Administration is seeking a cap on part or all of Medicaid funding; it is likely that policies according states sharply increased flexibility would come with a cap on federal Medicaid funding to ensure the new flexibility is not used in a way that raises federal costs.

To cap all or a significant part of federal Medicaid funding would change the program profoundly. The federal government’s share of Medicaid costs could fall substantially over time as federal funding failed to keep pace with rising health care costs. That would force states to choose between shouldering a larger share of Medicaid costs or steadily scaling back their programs. Moreover, many eligible low-income children, parents, seniors, and people with disabilities would no longer have an entitlement to Medicaid coverage and could be turned away or put on a waiting list, despite being in need and lacking health insurance. If the Administration is proposing to cap part or all of federal Medicaid funding, that proposal should be spelled out clearly for Congress, the states, and the public to consider.

- **Other harmful changes could emerge as part of Congressional budget process.** The Administration’s proposals are the beginning of what is likely to be a major debate this year over Medicaid’s funding and structure. Congress will soon begin work on a budget plan, known as a “budget resolution,” that is likely to call for reductions in Medicaid funding. (Those reductions could be larger or smaller than the amount the Administration has proposed.) The specific mechanisms to achieve these reductions would be fashioned by the House Energy and Commerce Committee and the Senate Finance Committee. These Committees are unlikely to adopt all of the Administration’s specific cost-saving changes and may have to look for alternative ways to cut federal Medicaid funding to achieve the level of savings the budget resolution requires. There is risk that to achieve such savings, the Committees will consider capping federal Medicaid funding.
- **Federal Medicaid reductions would finance federal tax cuts rather than being used for deficit reduction.** Despite the reductions the Administration’s budget proposes in Medicaid and other domestic programs, the budget would — according to its own figures — result in a small net *increase* in deficits over the next five years. This is so because the budget’s tax cuts and defense spending increases cost more than the reductions in domestic programs would save. In essence, the reductions in federal Medicaid funding would be used to help finance federal tax cuts rather than to reduce the deficit.

Along with the State Children’s Health Insurance Program (SCHIP), Medicaid demonstrated its effectiveness during the recent economic downturn, by helping to offset the loss of employer-based coverage. While the number of uninsured Americans has gone up over the past few years, millions more would have become uninsured if Medicaid and SCHIP had not

responded quickly and effectively to the downturn by enabling substantial numbers of low-income children and parents who lost employer-based coverage to enroll. Reducing or capping the federal government's financial commitment to Medicaid would almost certainly make the program less effective over time and increase the number of Americans with inadequate or no health care coverage.