

GOVERNMENT GREED, NOT HUMAN NEED, DRIVES THE GROWTH OF MEDICAID

By John R. Graham

Medicaid is the joint federal-state program that funds health care for low-income Americans. Since its creation four and a half decades ago, Medicaid spending has accelerated out of control, largely because of the formula: The federal government must pay *at least* 50 percent of a state's Medicaid costs, which creates an extraordinarily perverse incentive. For the governor or state legislator who gets federal funds, Medicaid offers “free” money. We have previously argued that the short-term solution is to convert the funding formula, known as FMAP (Federal Medical Assistance Percentages), to a per-head block grant to the states.¹ Unfortunately, things have been moving in the wrong direction.

The so-called “stimulus” bill, signed in February 2009, *increased* federal funding to each state by 5.5 to 11.5 percent until the end of this year. The Congressional Budget Office figured that the stimulus would drive up federal spending on Medicaid by \$90 billion.² In the same month, the president blew the doors off the State Children's Health Insurance Program (SCHIP) by increasing the income-eligibility cut-offs, thereby roping in 4.1 million more children by 2013. This is on top of the seven million already captured by SCHIP. As discussed in a previous briefing, SCHIP has significant negative consequences, especially “crowding out” kids from family-based coverage.³

As with all things “stimulus,” the first round of the Medicaid bailout was not enough. On August 10th, the president signed a bill to rescue state budgets which adds another \$16 billion in federal funding of Medicaid for the first half of 2011 alone.⁴ And this vote took place just four months after ObamaCare – the mother of all government bailouts – passed!

KEY POINTS:

- For four and a half decades, Medicaid has experienced significantly faster cost increases than Medicare or private health spending.
- Since February 2009, the federal government has leveraged states' Medicaid spending to unprecedented levels.
- The “stimulus” bill, ObamaCare, and the recently passed bailout for states have further reduced incentives for states to limit the burdens of their Medicaid programs.
- Although the Great Recession gives politicians an easy justification for increasing the so-called “safety net,” history shows Medicaid grows even when society prospers.
- Evidence of poor access to care for Medicaid beneficiaries, and shrinking participation by physicians, suggests that government greed is the only credible explanation for Medicaid's relentless growth.

ObamaCare dramatically increases eligibility for Medicaid, making anyone who earns less than 133 percent of the Federal Poverty Level (FPL) eligible, as of 2014. The federal government will fully subsidize newly eligible enrollees from 2014 to 2016, and then gradually reduce the subsidies to 90 percent of costs for 2020 and beyond. Similarly, ObamaCare dramatically increases funding for SCHIP. The Chief Actuary of the Centers for Medicare & Medicaid Services estimates that this will increase the number of people in Medicaid and SCHIP by 20.4 million in 2019.⁵ Remarkably, this expansion of Medicaid comes amidst fresh reports of inadequate care received by Medicaid beneficiaries.

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Earlier this year, the Inspector General of the U.S. Department of Health and Human Services examined access to care for children enrolled in Medicaid in nine states. He concluded that three-quarters of those children did *not* receive mandatory medical, vision, or hearing screenings. A full 41 percent did not receive the mandatory medical screenings, and more than half did not receive required vision or hearing screenings. Of those who did receive medical screenings, 59 percent did not receive all five components.⁶

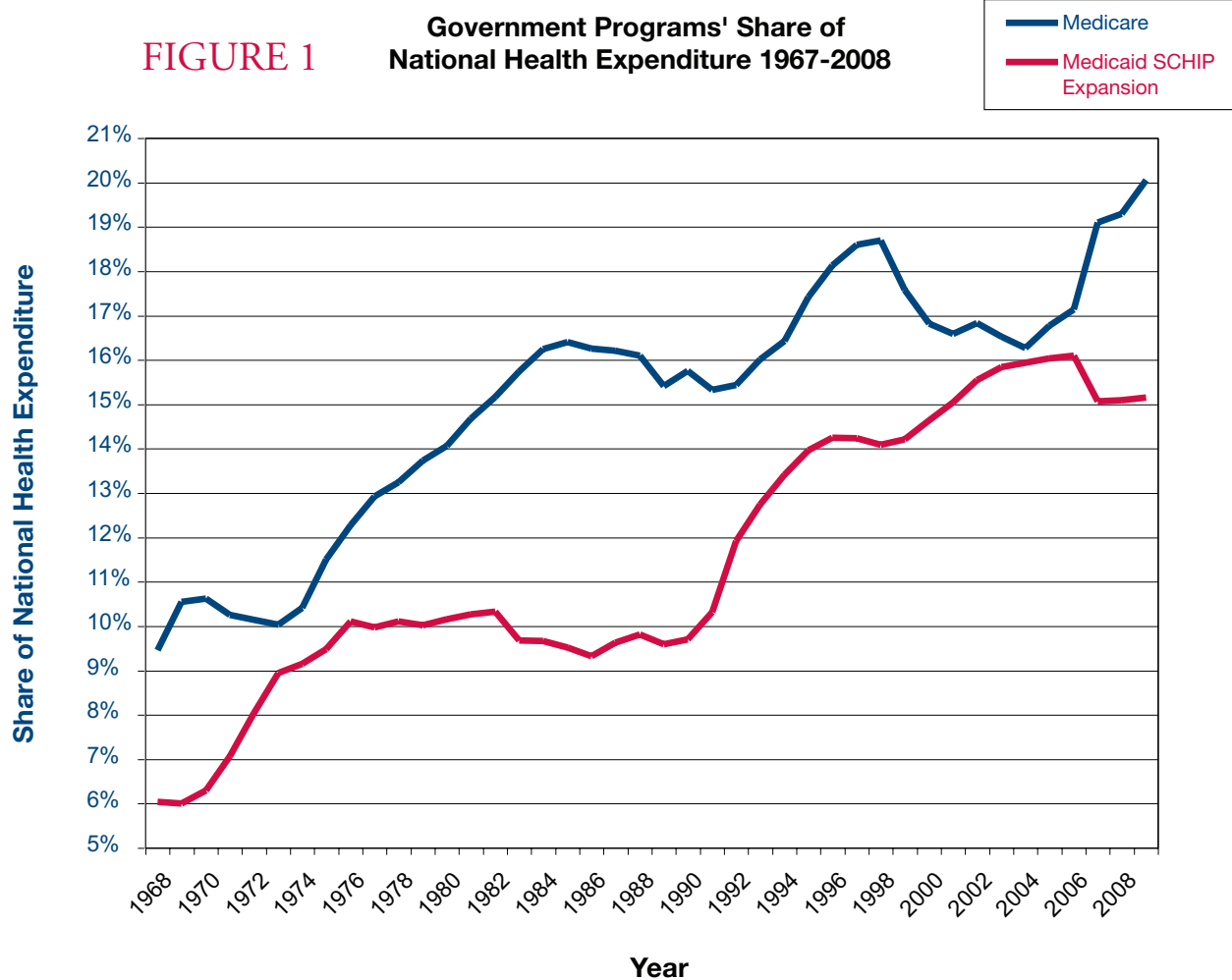
The quality of care achieved by Medicaid beneficiaries is generally not significantly different than that achieved by the uninsured: They are more likely to visit emergency rooms than the uninsured, and in many states the program is riddled with fraud.⁷ In 2007, 10 percent of Medicaid payments – almost \$33 billion – were straightforward fraud.⁸

Poor access to care is easy to explain: Between 2003 and 2008, Medicaid fees for physicians grew well below the rate of inflation.⁹ In a 2008 survey of more than 300,000 physicians, two-thirds reported that Medicaid reimbursements were below the cost of providing care, and one-third reported that they have closed their practices to Medicaid patients.¹⁰

With state Medicaid programs making such Scrooge-like payments, one would be excused for thinking that Medicaid was not growing apace with society's need for a safety-net. But that would be a mistake. Medicaid was created in the same bill President Johnson signed to establish Medicare, for seniors. Since its earliest days, total Medicaid spending has been out of control, and Figure 1 shows the relative growth in the two programs.

While Medicare's share of national health spending doubled between 1967 and 2008, much of this was a recent "growth spurt" concurrent with the Medicare Prescription Drug Benefit, which launched in 2006. Medicaid's share increased three times over the same period. Whereas Medicaid was only two-thirds the size of Medicare in 1967, it had grown to three-quarters the size of Medicare by 2008. SCHIP, which began in 1997, is included in the Medicaid figures because that joint state-federal welfare program suffers from the same perverse incentives. For this disproportionate growth to be reasonable, the number of poor people in the United States would have grown faster than the number of seniors, which defies reality.

FIGURE 1 Government Programs' Share of National Health Expenditure 1967-2008



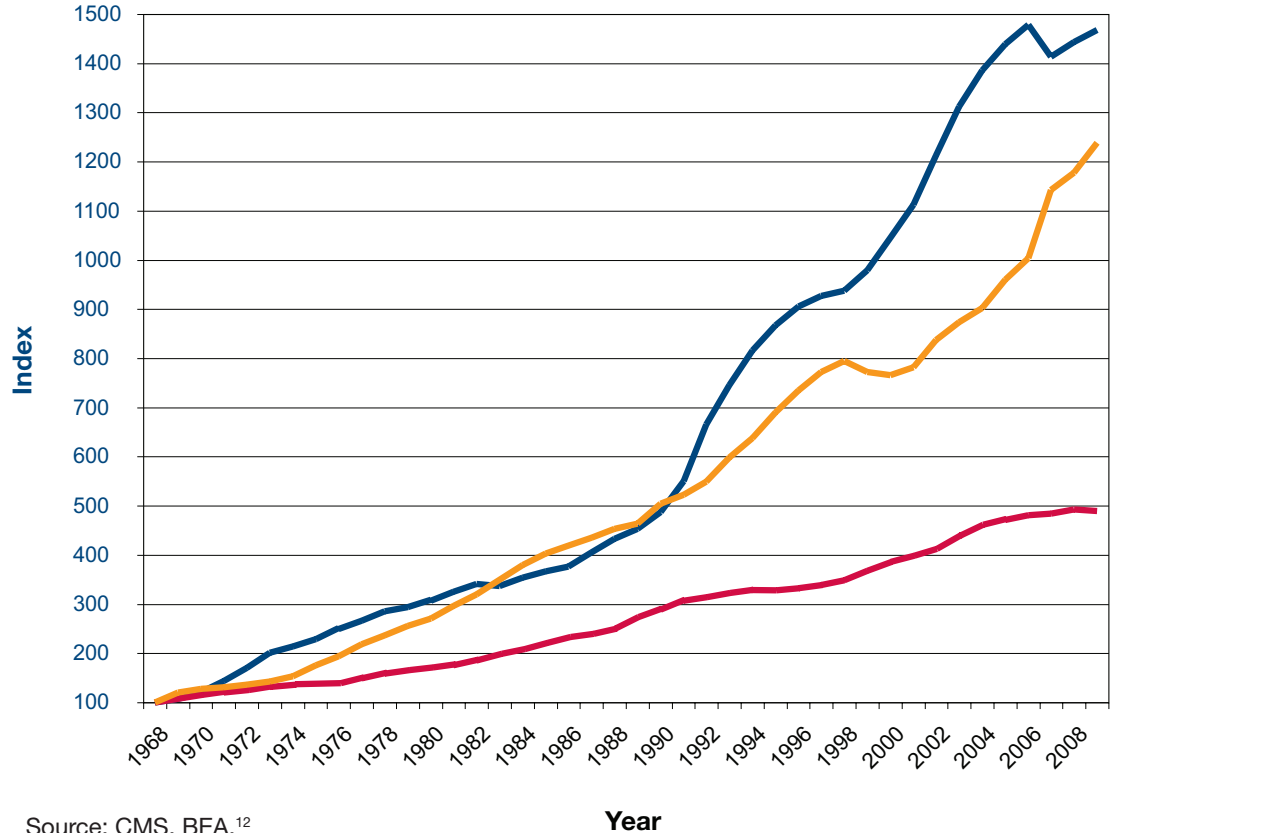
Source: CMS¹¹

Indeed, so out of control is Medicaid that its growth has not only dramatically outpaced both Medicare and private health spending but still appears to be ramping up. In 2008, Medicaid, SCHIP, and expansion programs cost \$1,162 for every American resident (not every Medicaid beneficiary, for which the number is obviously much greater). While this looks tame compared to \$4,039 for private health spending, the gap has closed dramatically since 1967, when Medicaid spending was only \$15 for every American and private health spending \$160. In order to strip out the effect of inflation, as well as demonstrate the program's disproportionate growth relative to other health spending since 1967, Figure 2 shows real (i.e. inflation adjusted) spending on Medicaid (including SCHIP and expansion), Medicare, and private health care, per capita, indexed to 1967, using the Gross Domestic Product (GDP) Deflator.

Figure 2 has immediate and dramatic impact. While the average American spent almost five times as much (inflation-adjusted) dollars on private health care in 2008 as in 1967, he contributed almost 15 times as much towards Medicaid as he did before. The amount spent on Medicare went up by a little more than 12 times, which recalls the question of whether the number of poor people has grown dramatically faster than the number of seniors. Obviously, this is not the case.

FIGURE 2

Index of Constant \$ Expenditure/Capita
1967-2008 (1967=100)



Source: CMS, BEA.¹²

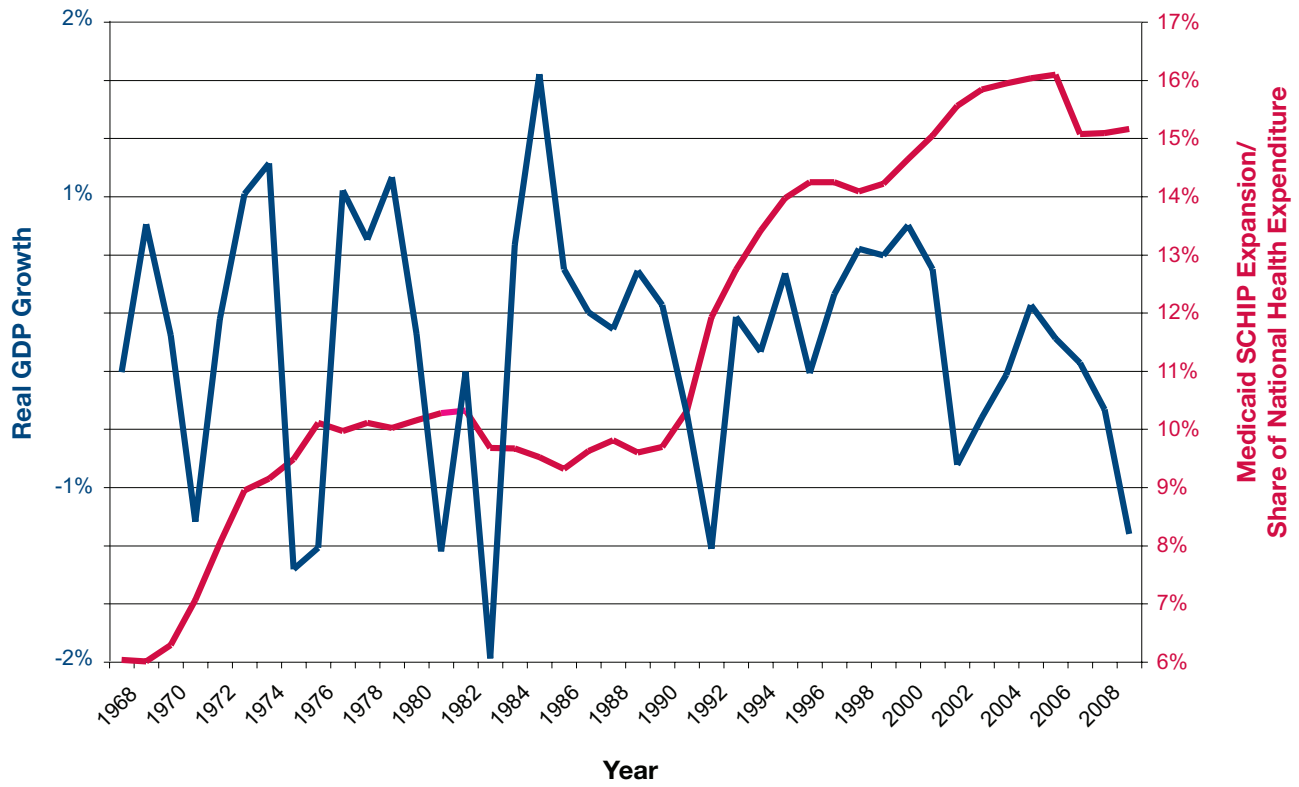
Medicaid has been accelerating in the wrong direction, a trend the American people have good reason to resist.

Many people want to believe that Medicaid spending is driven by people's needs. Government expands this welfare program, goes the standard argument, because the recession has driven many people into unemployment and poverty. There is no evidence, however, that Medicaid spending grows during recessions and shrinks when prosperity returns. As shown in Figure 3, Medicaid grows of its own momentum, rain or shine. Figure 3 compares the annual rate of growth of real (inflation-adjusted) GDP with Medicaid's share of national health expenditures. Even when GDP growth was strong, between 1994 and 2000, Medicaid kept growing, despite the havoc it wreaks on beneficiaries' access to medical services.

Since President Obama took office, Medicaid has been accelerating in the wrong direction, a trend the American people have good reason to resist. The political class is exploiting the economic downturn to increase its control of our health dollars by making more people dependent on Medicaid, which sentences millions to inadequate care.

FIGURE 3

Medicaid/SCHIP Expansion Share of National Health Expenditure and Real GDP Growth, 1967-2008



Source: CMS, BEA.¹³

ENDNOTES

- 1 John R. Graham, "Taming the Medicaid Monster: The President Pushes Progress But States Shirk Solutions," *Health Policy Prescriptions*, vol. 4, no. 8 (August 2006); John R. Graham, "How Many Governors Does It Take To Reform Medicaid?" *Health Policy Prescriptions*, vol. 3, no. 1 (August 2005).
- 2 Congressional Budget Office, *H.R. 1, American Recovery and Investment Act of 2009*, letter to the Honorable Nancy Pelosi, Speaker, U.S. House of Representatives (Washington, DC: Congressional Budget Office, February 13, 2009), p. 4.
- 3 Adam Frey and John R. Graham, "Obama's Unhealthy Start: SCHIP Explosion, Medicaid Bailout, COBRA's Bite," *Health Policy Prescriptions*, vol. 7, no. 2 (February 2009).
- 4 Congressional Budget Office, *Budgetary Effects of Senate Amendment 4575, containing proposals related to education, state fiscal relief, the Supplemental Nutrition Assistance Program, rescissions, and revenue offsets* (Washington, DC: Congressional Budget Office, August 3, 2010).
- 5 Richard Foster, *Estimated Effects of the "Patient Protection and Affordable Care Act," as Amended* (Baltimore, MD: Centers for Medicare & Medicaid Services, April 22, 2010).
- 6 Daniel R. Levinson, *Most Medicaid Children in Nine States Are Not Receiving All Required Preventive Screening Services*, OEI-05-08-00520 (Washington, DC: U.S. Department of Health & Human Services, Office of Inspector General, May 2010), pp. 12-16.
- 7 For examples, please see John C. Goodman, *Emergency Room Visits Likely to Increase Under ObamaCare*, Brief Analysis No. 709 (Dallas: National Center for Policy Analysis, June 18, 2010); Sally C. Pipes, *Top Ten Myths of American Health Care: A Citizen's Guide* (San Francisco: Pacific Research Institute, October 2008), pp. 93-106; and John C. Goodman, *et al.*, *Opportunities for State Medicaid Reform*, Policy Report No. 288 (Dallas: National Center for Policy Analysis, September 2006).
- 8 U.S. Government Accountability Office, *High-Risk Series: An Update*, GAO-09-271 (Washington, DC: U.S. Government Accountability Office, January 2009), p. 91.
- 9 Stephen Zuckerman, Aimee F. Williams, and Karen E. Stockley, "Trends in Medicaid Physician Fees," *Health Affairs*, vol. 28, no. 3 (May/June 2009), pp. w510-w519.
- 10 Merritt, Hawkins & Associates, *The Physicians' Perspective: Medical Practice in 2008*, Key Findings (Boston: The Physicians Foundation, 2008).
- 11 Author's calculations using data from Centers for Medicare & Medicaid Services, *National Health Expenditures by type of service and source of funds, CY 1960-2008* (Baltimore: Centers for Medicare & Medicaid Services, 2010). Available at http://www.cms.hhs.gov/NationalHealthExpendData/02_NationalHealthAccountsHistorical.asp#TopOfPage.
- 12 Author's calculations using data from Centers for Medicare & Medicaid Services, *National Health Expenditures by type of service and source of funds, CY 1960-2008* (Baltimore: Centers for Medicare & Medicaid Services, 2010). Available at http://www.cms.hhs.gov/NationalHealthExpendData/02_NationalHealthAccountsHistorical.asp#TopOfPage; and Bureau of Economic Analysis, *Current-Dollar and "Real" GDP* (Washington, DC: Bureau of Economic Analysis, August 4, 2010). Available at <http://www.bea.gov/national/index.htm#gdp>.
- 13 Author's calculations using data from Centers for Medicare & Medicaid Services, *National Health Expenditures by type of service and source of funds, CY 1960-2008* (Baltimore: Centers for Medicare & Medicaid Services, 2010). Available at http://www.cms.hhs.gov/NationalHealthExpendData/02_NationalHealthAccountsHistorical.asp#TopOfPage; and Bureau of Economic Analysis, *Current-Dollar and "Real" GDP* (Washington, DC: Bureau of Economic Analysis, August 4, 2010). Available at <http://www.bea.gov/national/index.htm#gdp>.