



## Paul Ryan VP Pick Allows Focus on Ohio's Budget "Pac-Man": Medicaid

Posted on [August 15, 2012](#) by [Josh Vaughan](#)

The 2012 Presidential campaign took another step forward this past weekend as Republican presidential candidate Mitt Romney tapped Representative Paul Ryan as his nominee for Vice President. Representative Ryan is known for his bold proposals for entitlement reform. Campaign ads and pundits will mostly focus on Representative Ryan's proposed changes to Medicare, however state policymakers will rightly be focused on proposed changes to Medicaid.

Medicaid is an incredibly expensive program that produces poor results. [We have discussed](#) in detail the problems Medicaid poses not only to state governments, but the citizens who rely on the program for medical care. Medicaid is a joint federal-state program that ultimately gives the federal government a massive role. [For every dollar](#) a state spends on Medicaid, the federal government kicks in a certain rate of matching funds known as FMAP.

The FMAP system of funding disincentivizes states from creating savings or efficiency in their programs. Attempts at necessary reform are further stymied by federal red tape. States that propose reform [must turn](#) to the federal government, hat in hand to ask for a waiver. This double whammy of perverse spending incentives and federal interference has made necessary reform almost impossible. You can see Representative Ryan talk about this problem [here](#).

Representative Ryan has proposed, along with Governor Romney and Republican members of Congress, [block grants](#) for Medicaid funds. Under a block grant system, states would no longer receive matching funds from the federal government based on their own spending, but would receive instead an annual lump sum. Any money spent over the lump sum amount would be covered by the state.

The issue then becomes how much should the federal government offer to the states. An [older version](#) of Representative Ryan's plan would index future block grant spending for inflation. Josh Barro of The Manhattan Institute argued the index used in the older Ryan plan would erode Medicaid spending too quickly, causing states to choose between budget busting spending increases or cuts to benefits. Barro [proposed](#) block grants indexed at a rate equal to GDP plus 1 percent.

The American Enterprise Institute describes the potential savings of the Ryan plan,

*“According to the Ryan plan, total Medicaid spending (including both the federal and state contributions) would decline by \$810 billion over the next decade. The CBO analysis shows federal spending for Medicaid and the Children’s Health Insurance Program (CHIP) falling sharply, from 2 percent of GDP in 2011 to 1 percent by 2040. In contrast, Medicare spending is estimated as rising over the same period, from 3 1/4 percent of GDP to 4 3/4 percent.”*

A more conservative [proposal](#) put forth by the Republican Study Commission, chaired by Ohio Republican Rep. Jim Jordan, would keep future Medicaid spending flat at current rates. If the more conservative proposal is accepted, the [Cato Institute](#), using numbers from the Congressional Budget Office based on projections before the 2010 healthcare reforms, estimates savings of \$760 billion dollars from 2012-2020, with \$190 billion in annual savings by 2020. If block grants were used only for acute care, hospital care, doctor visits, and drug costs, the Cato Institute estimates a savings of \$625 billion from 2010-2019.

Supporters of block grants tout not only the potential savings, but also the incentives for state level Medicaid innovation. With a block grant, like the ones proposed by Romney and Ryan, states would be encouraged to innovate in order to eliminate, or at least reduce, their share of Medicaid costs over the block grant. If the proposal allows states to pocket unspent money from the block grant, even further savings would be encouraged. The incentive to save would be coupled with a removal of the federal red tape, which would allow states to craft programs that better fit their population.

The current system for financing Medicaid is clearly broken. The pick of Representative Paul Ryan suggests places reforms that could clear the way for state based solutions to the problem at the forefront not only in November, but beyond.