

Governors' Letter Shows Why Medicaid Block Grants Are Necessary



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Shortly after House Budget Committee Chairman Paul Ryan, R-Wis., unveiled his [plan](#) to convert federal Medicaid funding to a block grant, 17 governors issued a [letter](#) to congressional leaders to say they "strongly oppose" it.

Ryan, like most of his Republican comrades, hasn't always been on the side of fiscal responsibility. He voted for [the Troubled Asset Relief Program](#), [various bailouts](#), and that unfunded Republican entitlement program, [Medicare Part D](#). On Medicaid reform, however, Ryan has the better side of the argument.

The governors write that block grants "would shift costs and risk to states." In reality, the matching-grant system these governors seek to preserve is a massive cost-shifting scheme. Block grants would reduce this phenomenon.

For every additional dollar a high-income state spends on its Medicaid program, the federal government sends the state one matching dollar. Low-income states get as much as \$4 from Washington for each additional dollar they spend.

Therefore, every time a governor expands his or her state's Medicaid program, the federal government's system of matching grants effectively shifts 50 to 80 percent of the expansion's price tag to taxpayers in other states.

The same is true in reverse. If governors tolerate waste, fraud and abuse, the matching-grant system shifts 50 to 80 percent of the cost to taxpayers in other states.

Today's system even shifts costs across generations. Matching grants are such a cash cow that states hatch all manner of schemes to "pull down" as much federal money as possible. (One common practice is for states to secure federal dollars by pretending increase their Medicaid outlays, but then recapturing those outlays by [taxing providers](#).) But each time they do so, states add to the federal deficit, which shifts the cost of current consumption to future taxpayers.

What's really upsetting these governors is that block grants would *reduce* their ability to shift the cost of their Medicaid programs to other states.

Under a block-grant system, Washington would give each state a fixed amount of money that would neither rise nor fall with the amount the state spends. Governors would be free to expand their programs, but they would have to come up with 100 percent of cost of those expansions.

These governors warn that having to choose "between increasing taxes, cutting other state programs, or cutting eligibility, benefits, or provider payments" would put them in an "untenable" position. What they mean is that they want to preserve the open-ended, perennial bailout that Medicaid has always offered.

But since there is no more money in Washington for bailouts or anything else, perhaps a second-best option would be to ask the nation's governors to start taking responsibility for their Medicaid policy choices.

Finally, the governors call for "federal policy that creates cost savings, not cost shifting." As luck would have it, block grants would do just that, by encouraging states to reduce Medicaid fraud and abuse.

Various experts estimate that fraudulent and other improper payments account for an [estimated](#) 10 to 40 percent of this [\\$466 billion](#) program.

Economists estimate that Medicaid and similar programs [crowd out](#) private coverage at rates as high as [60 percent](#). That suggests there are millions of people on the Medicaid rolls who could obtain coverage on their own, and that states could reduce the cost of the program by targeting subsidies to the truly needy.

Fraud and abuse have become so prevalent in Medicaid largely due to the perverse incentives created by the matching-grant system.

Combating Medicaid fraud and abuse is currently a low-return proposition for state officials. Providers inevitably chafe under the additional paperwork and investigations necessary to police fraud. Currently, if a state inflicts enough of this political pain to eliminate \$1 of fraud, it only keeps 20 to 50 cents; the rest goes back to Washington. As a result, governors quite rationally make policing fraud and abuse too low a priority.

Under block grants, states would keep 100 percent of the savings from rooting out fraud and abuse, which would encourage states to spend their Medicaid dollars wisely, reduce the cost of the program, and enable states to do more with fewer resources. The governors' position is looking more tenable already.

It wasn't their intention, but those 17 governors inadvertently demonstrated why block grants are necessary.

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