

# The Medicaid Mess

Peter Suderman | January 13, 2011

Stateline notes that state governments have had to cover \$400 billion in budget shortfalls over the last four years. "In most states around the country," the article says, "it's hard to imagine how the budget situation could get any worse." But in many cases, the worst is still to come. Stateline says the coming fiscal year is "is likely to be the hardest year yet in what already has been the most difficult budget period in modern history."

And one of the biggest problems for states is Medicaid, the joint federal-state health program for low-income individuals. Between 2008 and 2009, spending growth on the program nearly doubled, growing from 4.9 percent to 9 percent. At the same time, in 2009, new enrollment totals came in at their highest in 40 years.

State governments have been feeling the fiscal pain. In Massachusetts, Governor Deval Patrick called for \$9.6 billion in Medicaid spending last summer. That was a record sum, but it still wasn't enough. Since then, Patrick has gone back to the legislature twice more to look for almost \$600 million in extra funds.

The Bay State isn't the only state with a budget threatened by Medicaid expenses. Here's the situation in Connecticut:

In Connecticut, Gov. Dannel P. Malloy said he's weighing all his options for dealing with an exploding Medicaid tab.

In October, the Department of Social Services released a preliminary budget request that projected a nearly \$1 billion increase in Medicaid costs starting this July. (The federal government provides a 50 percent reimbursement to Connecticut for its Medicaid expenses.)

"Medicaid in Connecticut represents the largest single increase in projected expenses going into the next fiscal year, in excess of \$500 million in a state that's going to experience about a \$3.5 billion deficit," Malloy said during a visit to Washington last month, before he was officially sworn in. "So that kind of tells you what the scope of the problem is."

In Kansas, incoming Governor Sam Brownback recently said that reforming the program will be a top priority, although he's provided few details on what that might mean:

Gov. Sam Brownback in his first State of the State address pledged that his administration will shrink state government and "remake" the state's Medicaid program. Medicaid, the second biggest draw on the state treasury after education spending, accounts for about 18 percent of the state general fund. The program covers about one in 10 Kansans with most of the money spent on providing medical or nursing care for the

frail elderly or disabled. Medicaid also provides health insurance for children in low-income families.

"The program is growing faster than the economy," Brownback said. "Additional commitments required of us by Washington have set us on a path of unsustainable spending and lower-quality care. Rather than receiving dictation from Washington, I pledge to fight for Kansas solutions for Kansas health care needs."

New York is yet another state facing a massive overall budget shortfall; it's expected to grow to \$17 billion. And a big reason for that shortfall is the state's massive Medicaid program, the most expensive in the country. As the Cato Institute's Michael Cannon has argued, the best way to fix the Medicaid problem is to transform the program from one that matches state spending with federal dollars to one that hands out capped block grants.

But despite the focus on health policy reform over the last few years, that idea hasn't gained much real political traction. Indeed, as Cannon points out, last year's health law made it more difficult for states to manage the explosion of Medicaid costs:

The health-care bill's Medicaid mandate forces states to expand eligibility, to enroll more people who were already eligible, and gives states less flexibility to eliminate abuse. Should Gov. Cuomo fail to comply, New York will lose more than \$26 billion in federal funds.

Even still, in Arizona, the Medicaid program is so strapped that some state legislators have proposed dropping 300,000 people from the program—despite the fact that doing so would mean disqualifying the state from \$7 billion in federal health funds. Officials in charge of the state's program say the move won't happen, but it's not clear how the state will close its budget gap while maintaining current enrollment levels.

Last week, 33 states asked for waivers from this requirement. Those states may be somewhat better off if they get the exemptions, at least in the near term. But despite the Obama administration's recent fondness for health care policy waivers, they're obviously not much of a solution.

Meanwhile, the fiscal problems mount in statehouses across the country. Thanks to Medicaid, understanding how state budgets could be worse doesn't take much imagination at all.