RealClear Health

Medicaid is Breaking State Banks

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Medicaid is consistently among the top two categories in all state budgets. In 2022, states spent a whopping $804 billion of federal and state tax revenues on Medicaid programs. And this spending shows little sign of slowing down: by 2031, the Center for Medicare and Medicaid Services (CMS) projects that Medicaid and the closely-related Children's Health Insurance Program will cost over $1.2 trillion annually.

Medicaid has an open-ended matching design under which states pay for the medical services provided to Medicaid beneficiaries. The federal government then partially reimburses the state's Medicaid expenses. This structure encourages waste, abuse, and fraud.
As such, Medicaid's runaway expenses are a program feature, not a bug. The most effective reform would be to replace this open-ended matching structure with block grants. Through block grants, states would receive a fixed amount of federal Medicaid funds per fiscal year. This policy would give state policymakers the power and the incentive to rein in costs and should be a priority for future Congresses.

But even without a shift to block grants, state lawmakers still have many options that could contain Medicaid's runaway expenses. The challenge for state legislators is to sift through these options to find politically feasible policies that actually contain Medicaid expenses. This task is harder than it looks.

Some 'cost-containing' policies do not actually contain costs. Consider Medicaid managed care, or the utilization of (mostly) for-profit insurance companies to provide care for Medicaid beneficiaries. This policy option was very popular in the 1990s. And, of course, this approach was (and still is) supported by the insurance lobby.

Unfortunately, there exists little evidence to show that relying on insurance companies to manage patient care under Medicaid reduces program expenses. In fact, there exists some evidence to the contrary: in 2012, Connecticut broke its Medicaid contract with four insurance providers, and was able to realize substantial cost savings in their Medicaid program. On the other hand, in 2018, Idaho mandated all Medicaid beneficiaries eligible for Medicare to enroll in a plan provided by two for-profit insurance companies. From 2018 to 2020, per-beneficiary costs for these individuals increased from $16,563 to $29,092.

Other cost-containing policies are not politically feasible. Consider Medicaid work requirements. As of May 2022, 13 states have implemented work requirements, and nine more are waiting for federal approval. And work requirements have become a hot-button political issue: South Dakota's Senate recently passed a bill to enact work requirements on all able-bodied Medicaid beneficiaries. However, the federal government needs to approve work requirements. And, since 2021, the Biden administration has signaled that it will not approve Medicaid work requirements, making this policy option infeasible (for the time being).

The Cato Institute's recent policy analysis, *Containing Medicaid Costs at the State Level*, provides an exhaustive examination of the various ways in which state legislators can reduce Medicaid expenditures. This policy analysis is unique in two ways. Firstly, it analyses Medicaid policy from the states' point of view. Secondly, it focuses on what is feasible for states regardless of federal policy. As such, this policy analysis represents a valuable resource for state lawmakers looking to reduce Medicaid expenses.

Some policy recommendations contained in the policy analysis are tried-and-true classics, like implementing cost-sharing requirements and the reduction of Medicaid supplemental hospital payments. We also consider innovative policies like replacing traditional primary care physician visits with telehealth sessions and in-person visits with nurse practitioners.
Apart from these recommendations, this policy analysis also questions some assumptions about the Medicaid program. We provide evidence that increased Medicaid spending does not produce any tangible improvements in health outcomes. We also review the literature on Medicaid managed care.

State-level legislation has, for years, been more fiscally responsible than federal policy. Nevertheless, federal grants and subsidies have distorted states' budget incentives. Medicaid, as one of the nation's largest federal subsidy programs, is a poster child for these distortions. It is time for responsible lawmakers to fight back against this culture of fiscal irresponsibility and put an end to runaway Medicaid expenses. Our new policy analysis provides a framework for achieving this aim.

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