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The President's Proposals for Medicaid and SCHIP: One Step Forward, One Step Back

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President George W. Bush's fiscal year (FY) 2009 budget proposal for Medicaid is consistent with the Administration's overall efforts to address the growing entitlement crisis. These efforts are weakened, however, by the proposal for a dramatic increase in funding for the State Children's Health Insurance Program (SCHIP). Congress should embrace the President's proposals for Medicaid but reject the increase in SCHIP spending.

Medicaid. The President's budget proposal takes modest but meaningful steps to rein in spending on Medicaid, an entitlement program for the poor that is administered jointly by the federal and state governments. The President's budget slows the annual rate of growth in Medicaid's budget from 7.4 percent to 7.1 percent over the next five years.[1] Critics claim this is a cut in Medicaid, but that is incorrect. Funding for Medicaid would continue to increase but at a slower rate. For example, the President's budget allocates $218 billion for Medicaid in FY 2009,[2] a $12 billion increase over the expected spending in FY 2008.[3]

The President's budget recommends a variety of small but sensible policy changes to achieve these needed savings. The following are the most notable proposals and the savings expected from each:[4]

- *Realign reimbursement matching rates.* The proposal would simplify the reimbursement structures for administrative services, family planning, case management, and the qualified-individuals program by unifying the matching rate within each function. *Total Expected Savings: $9.8 billion over five years.*
- *Grant greater flexibility in adopting managed care.* The proposal would expand states' ability to enroll Medicaid beneficiaries in managed care arrangements. *Total Expected Savings: $2.1 billion over five years.*
- *Reduce duplicative administrative costs.* The proposal would recover administrative costs claimed by the Temporary Assistance for Needy Families (TANF) block grant. *Total Expected Savings: $1.7 billion over five years.*
- *Establish a reliable asset verification process.* The proposal would permanently extend and improve the Web-based asset verification demonstration program. *Total Expected Savings: $1.2 billion over five years.*
- *Adjust prescription drug reimbursement.* The proposal would repeal the counterproductive "best price" requirement in Medicaid prescription drug purchases and replace it with a budget-neutral flat rebate. *Total Expected Savings: $1.1 billion over five years.*

These proposals are reasonable and should gain bipartisan support if Congress is serious about facing the looming entitlement crisis. At a time when Medicaid alone is expected to reach $445 billion by

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2018,[5] it would be fiscally irresponsible not to make some modest changes in the program. These proposals represent a down payment. Over time, Congress will have to make more significant changes in the structure of Medicaid to bring about long-term sustainability. Along these lines, policymakers should consider converting Medicaid dollars into a direct, transparent subsidy for low-income beneficiaries. Congress should also rethink the best way to assist the disabled and elderly who depend on Medicaid for services.

SCHIP. In contrast to its approach to Medicaid, the Administration makes major concessions to liberals on SCHIP. Last year, the President took a prudent and fiscally conservative approach to reauthorizing SCHIP by proposing an increase of $5 billion over five years. He now proposes spending four times that amount, recommending $20 billion over five years.[6] By 2013, spending on SCHIP would top $46.3 billion, almost doubling its current cost.[7] Moreover, the proposal would dedicate $50 million in FY 2009 and $100 million in each of the next four years for outreach.[8] The goal, as described by the Department of Health and Human Services, is to increase enrollment 3 percent by FY 2009 and 12 percent by FY 2012.[9]

While the President's budget dramatically increases spending on SCHIP, the following strategies stay true to his previous policy positions:[10]

- *Reaffirm anti-crowd-out provisions.* The Administration's proposal would preserve requirements that states implement policies to avoid substituting SCHIP for private health insurance.
- *Clarify eligibility based on income.* The proposal would better define income for the purpose of establishing eligibility.
- *Maintain SCHIP as a program for children, not adults.* The proposal would preserve SCHIP's original purpose as a program for children, but it would do so by moving adult beneficiaries into Medicaid (see below).

The Spending Problem. The Administration's proposal for increased spending on SCHIP is a major departure from its previous position and a serious concern. Unlike Medicaid, which is an open-ended entitlement program, SCHIP was created as a block grant. The block grant is intended to keep program expansions in check and maintain fiscal responsibility.

Flooding the program with new money and focusing on expanding enrollment would defeat the fiscal rationale of a block grant. More important, it would undermine efforts to expand access to private health insurance by implying that a government-run health program is the preferred way to cover uninsured children in low-income families.

Another problem is the plan's approach to adults enrolled in SCHIP. Critics argue correctly against having adults in the program. However, the Administration's proposal adopts a "compromise" solution that would simply transfer adult beneficiaries to Medicaid, another taxpayer-funded program with an open-ended federal funding stream.

Back to the Drawing Board. Instead of expanding the role of SCHIP, the Administration and Con-

1. Senator Judd Gregg, United States Senate Budget Committee, "Analysis of President's Budget: Health and Major Entitlement Programs," p. 4, at *http://budget.senate.gov/republican/pressarchive/EntitlementAnalysisFY2009.pdf.*
2. U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, *2009 Budget in Brief*, February 4, 2008, p. 61, at *www.hhs.gov/budget/09budget/2009BudgetInBrief.pdf.*
3. *Ibid.*
4. *Ibid.*, p. 65.
5. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2008 to 2018*, January 2008, p. 59, at *www.cbo.gov/ftpdocs/89xx/doc8917/01-23-2008_BudgetOutlook.pdf.*
6. U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, *2008 Budget in Brief*, February 5, 2008, p. 65, at *www.hhs.gov/budget/08budget/2008BudgetInBrief.pdf*, and *2009 Budget in Brief*, p. 64.
7. Senator Judd Gregg, "Analysis of President's Budget: Health and Major Entitlement Programs," p. 5.
8. U.S. Department of Health and Human Services, *2009 Budget in Brief*, p. 67.
9. *Ibid.*
10. *Ibid.*

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gress should focus on ways to empower low-income families to purchase private health insurance. SCHIP should be a last resort, safety-net option. A federal health care tax credit would be an effective way to give families direct financial assistance to help them purchase private coverage. Expanding personal choice through private coverage is a better strategy for both low-income families and taxpayers.

Conclusion. The Administration should be commended for its efforts to bring about small but important changes that begin to address the long-term challenges facing the Medicaid program. However, the savings achieved by slowing Medicaid would be diluted by a massive increase in SCHIP spending. The Administration's proposal for SCHIP is a dramatic shift from its position last year and erodes the fundamental goal of expanding access to private health care coverage.

Congress would be wise to adopt the modest Medicaid provisions and reject the proposed increase in SCHIP funding. Instead, Congress should focus on enacting policies, such as health care tax credits, to make private health care coverage more affordable for low-income families, thus reducing the dependence on SCHIP and Medicaid.

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