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Bailing Out Medicaid: A Bad Solution

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American taxpayers are—again—about to be abused. Congressional leaders in the House of Representatives are recommending spending $87 billion over the next two years to relieve the states from the pressures of the Medicaid programs that they administer.

Leaving aside for a moment the issue of whether Congress should embark on a spending splurge as a way out of our nation's economic problems, bailing out state Medicaid programs simply delays the fiscal reality, rewards inefficiency and overspending, and props up a broken program. With no conditions, accountability or objectives, this spending splurge only reinforces the short-sighted thinking at the state and federal level about Medicaid.

Delaying the Fiscal Reality. The Medicaid piece merely represents a temporary shift in the accounting ledger from the states to the federal government. But once the two year federal bailout expires, states will be forced to pick up their share of the tab again. Moreover, the state share will have to be adjusted to reflect additional costs associated with increased Medicaid growth over this period. For example, if Medicaid grows at a rate of 8 percent, a state with a current Medicaid liability of $5.2 billion (without assistance) will face an even larger liability when the federal assistance expires in 2010.[1]

Whether states will be prepared to meet this obligation in two years is uncertain. It is more likely that those states that continue to mismanage Medicaid will turn to the federal government, again, to bail them out. And if past action is any warning, states will continue to use the federal taxpayers as an open checkbook.

Rewarding Inefficiency and Overspending. Medicaid, the health care program for the poor, is funded by a formula with matching funds from the federal government and the states. The more states spend, the more money they get from the federal government. The result is that most states try to maximize the federal match. The proposed across-the-board bailout for state Medicaid programs ignores the action (or *inaction*) by the states to take difficult but important steps to address their Medicaid problems. Ultimately, the policy would penalize states that have been fiscally conservative and reward states that have spent without caution.

According to the National Association of State Budget Directors, states project they will end FY 2009 with balances as a percent of expenditures of 7.0 percent, compared to the 30-year average of 5.7 percent.[2] There is great variation on a national and even regional basis. For example, Illinois expects a 1.6 percent balance, but neighboring Indiana projects a 10.2 percent balance. The responsible officials of Indiana have made some tough decisions to maintain adequate reserves, while the governor

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in Illinois has expanded public programs despite the state's inability to pay its bills on time. So under the proposed economic plan, federal taxpayers in Indiana are bailing out Illinois and rewarding their mismanagement of the program, sparing them the unpleasant business of raising even higher taxes on Illinois voters.

Propping Up the Failing Status Quo. Although these bailout funds are designated for Medicaid, it is important to recognize that the flow of dollars to the states does not ensure access for enrollees; it only guarantees payment to providers and institutions for the services they provide to Medicaid beneficiaries. Under this process, enrollees are dependent on providers and institutions to accept Medicaid, which is not a guarantee.

Because of out-dated reimbursement systems dominated by institution-based providers such as hospitals and nursing homes, Medicaid recipients often have limited options for physicians and community-based providers. Not surprisingly, Medicaid patients disproportionately end up in hospital emergency rooms because they cannot get appropriate care from their community providers.[3]

What Congress Should Do

- *Reconsider a Federal Medical Assistance Percentage–related bailout.* During this difficult economic time, spending should not be the basis of a recovery plan. Instead, the federal economic package should consider economic stimulus, such as tax cuts, to help re-energize the economy to get it back on track.[4]
- *Set federal criteria for assistance.* If Congress demands to include a bailout to state Medicaid programs, it should at the very least establish firm criteria for the states. For example, the federal government should consider whether states have established reasonable cost-sharing requirements, restructured their benefit packages, and held spending and eligibility under control over the past years.
- *Require states to submit reports and provide a plan for long-term reform.* Building on the assumption of an imminent bailout, federal policymakers should also require states receiving these funds to report to the public, Congress, and the Administration on how they have used the funds to measurably improve care to those on the program. In addition, states should engage the Obama Administration regarding its commitment to entitlement reform. States should submit on a state-by-state basis a plan for long-term reform of their Medicaid programs. No lasting Medicaid reform can happen without the states.

Restore Accountability. Congress should not throw good money after bad. But if Congress insists on writing bigger checks for state officials—again—then it should take very specific steps to require accountability on the part of state officials for any additional funds they get from the federal taxpayer.

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1. As an example, assume a state spends $5.2 billion on Medicaid, which consists of $2.7 billion in federal funds and $2.496 billion in state funds. The state receives an addition $319.6 million as a result of the temporary increase, changing the respective shares to $3.124 billion in federal funds and $2.176 billion in state funds. The following year, inflation increases total spending by 8 percent to $5.6 billion. Because the temporary federal increase has expired, the federal share will fall back to $2.92 billion and the state share will be $2.695 billion. This is an increase in state funds of $519 million or 23.9 percent from the previous year. Of the $519 million increase, $199.68 million is due to the 8 percent inflation increase and $319.6 million is attributed replacing the decline in federal funding.
2. National Governors Association and National Association of State Budget Officers, *The Fiscal Survey of States*, December 2008, Table 9, p. 24, at *http://www.nasbo.org/publications/pdfs/fall2008fiscalsurvey.pdf* (January 17, 2009).
3. John O'Shea, "More Medicaid Means Less Quality Health Care," Heritage Foundation *Web Memo* No. 1402, March 21, 2007, at *http://www.heritage.org/Research/HealthCare/wm1402.cfm.*
4. J. D. Foster and William W Beach, "Economic Recovery: How Best to End the Recession," Heritage Foundation *WebMemo* No. 2191, January 7, 2009, at *http://www.heritage.org/Research/Economy/wm2191.cfm.*

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