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Further Medicaid Bailout: Unfair and Irresponsible

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Many states are lobbying the Senate to extend the Medicaid bailout enacted in the February 2009 stimulus bill. While several attempts by Senate leaders to extend the bailout—passed by the House—have failed, it is likely to be brought to the floor again.

The Center on Budget and Policy Priorities estimated that an extension of the Medicaid bailout would add $15 billion to the national debt.[1] This substantial cost—with the deficit at nearly $2 trillion already—is almost reason enough to reject the extension. But a continued bailout would also disproportionately benefit states that have the most bloated Medicaid programs and would further delay those states from taking necessary steps to live within their budgets.

Medicaid Bailout Background. States design their Medicaid programs within federal guidelines, and federal taxpayers pick up a portion of the tab. Typically, federal taxpayers pay half the Medicaid bill for the wealthiest states and up to 80 percent of the bill for the poorest states. This generous federal subsidization has largely contributed to Medicaid becoming the fastest-growing component of state budgets—with national Medicaid spending nearly quintupling between 1990 and 2008.

Over the past few decades, states have extended Medicaid eligibility and enhanced benefit packages. Combined with increased enrollment as a result of the recession, this has resulted in huge liabilities for many states. Congress has already bailed out state Medicaid programs three times in the last decade; in effect forcing federal taxpayers to remedy state mismanagement. The most recent bailout—through the stimulus bill—increased the federal subsidy and has cost taxpayers an estimated $87 billion. Although every state fully understood that the additional federal funding would expire on December 31, 2010, many states are clamoring for a bailout extension.

Rewarding Excessive Spending. States are required to cover certain categories of individuals and specific benefits under Medicaid to receive federal funds, but states can—and have—increased coverage over and above those minimums. Perhaps the best measure to evaluate state Medicaid program generosity is to compare state Medicaid spending per person in poverty. This is not a perfect measure because of differences in cost of living across states, but it does give some valuable perspective.

As the accompanying table shows, state spending on Medicaid per person in poverty varies greatly across the states. New York, Massachusetts, Vermont, Rhode Island, and Connecticut have extremely generous Medicaid programs and have decided that federal taxpayers should support many individuals who earn above the federal poverty

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Winners and Losers of the Medicaid Bailout and Bailout Extension

As part of the 2009 "stimulus" bill, states with generous Medicaid programs received a disproportionate amount of bailout funds, while those states that controlled Medicaid spending received less. A similar trend is projected if the Medicaid bailout is extended.

In the table below, each state has an equity measure for both the initial bailout and the projected bailout extension. These figures are calculated as the percentage difference between the state's share of total bailout funds received and the state's share of Americans living in poverty.

Winners (Disproportionate by 2% or more)
Losers (Disproportionate by –2% or less)

			INITIAL BAILOUT		BAILOUT EXTENSION	
	Spending per Person in Poverty	Percentage of All Americans in Poverty	% of All Bailout Funds Received	Equity Measure	Projected % of All Bailout Funds Received	Equity Measure
New York	$18,344	6.64%	14.69%	121.25%	14.87%	124.06%
Massachusetts	$17,118	1.62%	3.59%	121.92%	3.38%	108.96%
Vermont	$15,572	0.16%	0.33%	103.38%	0.31%	96.30%
District of Columbia	$15,181	0.24%	0.35%	43.02%	0.36%	48.03%
Rhode Island	$15,013	0.31%	0.55%	74.66%	0.48%	53.85%
Connecticut	$14,729	0.79%	1.53%	94.27%	1.33%	68.41%
Alaska	$14,388	0.16%	0.26%	61.44%	0.43%	170.04%
Minnesota	$14,248	1.25%	2.36%	88.20%	2.31%	84.44%
Maine	$13,980	0.41%	0.55%	32.40%	0.57%	39.30%
New Jersey	$12,735	1.89%	2.58%	36.19%	2.66%	40.74%
Maryland	$12,702	1.15%	1.89%	64.90%	1.82%	58.80%
New Hampshire	$12,573	0.26%	0.29%	13.57%	0.36%	41.05%
Delaware	$12,528	0.22%	0.37%	65.14%	0.32%	42.43%
Pennsylvania	$11,209	3.72%	4.72%	27.06%	4.45%	19.73%
Hawaii	$10,348	0.30%	0.42%	40.15%	0.57%	92.51%
Wyoming	$9,961	0.13%	0.13%	0.96%	0.15%	16.11%
New Mexico	$9,232	0.84%	0.73%	–13.29%	0.84%	–0.28%
Missouri	$9,149	1.98%	1.86%	–6.26%	1.95%	–1.63%
Ohio	$8,765	3.81%	3.49%	–8.24%	3.28%	–13.76%
Wisconsin	$8,698	1.47%	1.44%	–1.85%	1.53%	4.23%
Washington	$8,654	1.86%	2.39%	28.62%	2.26%	21.34%
Iowa	$8,591	0.85%	0.64%	–24.57%	0.85%	0.93%
Nebraska	$8,517	0.48%	0.36%	–24.53%	0.46%	–3.41%
California	$8,104	12.23%	13.04%	6.64%	12.48%	2.05%
Louisiana	$8,035	1.93%	1.93%	–0.20%	2.50%	29.64%
Arizona	$8,026	2.39%	2.30%	–3.88%	2.34%	–2.03%
North Carolina	$7,806	3.33%	2.73%	–18.05%	2.29%	–31.22%
Indiana	$7,693	2.04%	1.67%	–18.23%	1.52%	–25.89%
Tennessee	$7,642	2.40%	1.88%	–21.68%	1.60%	–33.28%
Illinois	$7,587	3.91%	3.37%	–13.90%	3.64%	–6.96%
North Dakota	$7,564	0.18%	0.13%	–29.32%	0.19%	7.15%

(continued on next page)

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1. Center on Budget and Policy Priorities, "What States and the Economy Lost When the Senate Jobs Bill Failed: Data on How Much Medicaid Aid Each State Lost," June 24, 2010, at *http://www.cbpp.org/files/6-24-10sfp.pdf* (July 12, 2010).

Winners and Losers of the Medicaid Bailout and Bailout Extension (cont.)

Winners (Disproportionate by 2% or more)
Losers (Disproportionate by –2% or less)

	Spending per Person in Poverty	Percentage of All Americans in Poverty	INITIAL BAILOUT % of All Bailout Funds Received	INITIAL BAILOUT Equity Measure	BAILOUT EXTENSION Projected % of All Bailout Funds Received	BAILOUT EXTENSION Equity Measure
West Virginia	$7,394	0.79%	0.52%	–33.68%	0.54%	–31.36%
Kansas	$7,389	0.79%	0.52%	–33.63%	0.67%	–15.19%
Virginia	$7,021	1.96%	1.71%	–12.97%	1.93%	–1.62%
Michigan	$7,020	3.59%	2.64%	–26.53%	2.54%	–29.28%
Arkansas	$6,861	1.23%	0.85%	–30.83%	0.83%	–31.90%
Kentucky	$6,707	1.83%	1.20%	–34.78%	1.03%	–43.56%
South Dakota	$6,672	0.25%	0.14%	–44.55%	0.18%	–28.26%
South Carolina	$6,523	1.74%	1.00%	–42.59%	0.92%	–47.03%
Idaho	$6,490	0.48%	0.35%	–26.78%	0.34%	–28.43%
Mississippi	$6,455	1.51%	0.92%	–39.26%	1.01%	–33.24%
Oregon	$6,422	1.28%	0.96%	–24.86%	1.04%	–18.79%
Oklahoma	$6,385	1.42%	1.11%	–21.36%	1.25%	–11.45%
Florida	$6,185	6.07%	5.10%	–16.09%	5.23%	–13.83%
Colorado	$5,860	1.38%	1.02%	–26.13%	1.06%	–23.25%
Montana	$5,837	0.34%	0.21%	–38.54%	0.25%	–25.40%
Utah	$5,800	0.67%	0.37%	–44.45%	0.38%	–43.11%
Texas	$5,714	9.60%	6.33%	–34.12%	5.73%	–40.37%
Alabama	$5,650	1.85%	0.99%	–46.54%	0.89%	–51.90%
Georgia	$5,283	3.55%	2.01%	–43.45%	1.52%	–57.15%
Nevada	$4,568	0.74%	0.52%	–29.14%	0.53%	–28.47%

Sources: Kaiser Family Foundation, "Total Medicaid Spending, FY2008," at *http://www.statehealthfacts.org/comparemaptable.jsp?ind=177&cat=4* (July 12, 2010); U.S. Census Bureau, "Small Area Income and Poverty Estimates," at *http://www.census.gov/cgi-bin/saipe/national.cgi?year=2008&ascii=* (July 12, 2010); Center on Budget and Policy Priorities, "Recovery Act Provides Much-Needed, Targeted Medicaid Assistance to States," at *http://www.cbpp.org/files/2-13-09sfp.pdf* (July 12, 2010); Center on Budget and Policy Priorities, "What States and the Economy Lost When the Senate Jobs Bill Failed," at *http://www.cbpp.org/files/6-24-10sfp.pdf* (July 12, 2010).

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level. For instance, New York spends $18,344 on Medicaid for each person in poverty, with half that amount coming from federal taxpayers. At the other extreme, Nevada spends only $4,568 on Medicaid for each person in poverty.

The stimulus bill disproportionately benefited the states that grew their Medicaid programs beyond sustainability. These same states would also unduly benefit from a bailout extension.

For example, as the accompanying table indicates, 6.6 percent of individuals in poverty in the U.S. reside in New York. Yet New York received nearly 15 percent of Medicaid funds in the first stimulus ($12.65 billion) and would receive nearly 15 percent of the bailout extension ($2.23 billion). In contrast, Georgia, which has about 3.6 percent of all Americans in poverty and yet received only 2 percent of the first stimulus, would receive only 1.5 percent of the further bailout.

Additional federal funds will have the effect of punishing states that essentially lived within their budgets while rewarding states that were more reckless or were counting on further federal dollars. Congress should stop subsidizing states that spend irresponsibly, because it rewards poorly managed state programs and further incentivizes mismanagement and fiscal disarray.

Congress is partly responsible for the difficulties faced by states because of the Maintenance of Effort (MOE) requirements placed in the stimulus bill. The MOE made states ineligible for stimulus funds if they restricted eligibility for Medicaid. Furthermore, the MOE prevented states from reducing the number of individuals receiving Medicaid who fail to meet eligibility requirements.

Long-Run Pain Exceeds Short-Run Gain. State policymakers view federal Medicaid dollars as "free" money. They are relieved—at least temporarily—of the difficult decisions of which items in the budget to cut or which taxes to increase. However, the money is not "free": A continued bailout would add to the national debt, necessitating future tax increases on federal taxpayers to pay for today's "free" spending.

The national debt has increased by nearly $3 trillion since President Obama and the current Congress took power in Washington. And yet all of this deficit financing has failed in its purpose to stimulate, according to the Obama Administration's own projections.[2] Federal policymakers should not load any additional debt on America's children and grandchildren.

Fundamental Reform. The current fiscal quandary of state Medicaid programs is an indicator that Medicaid reform should be a national policy priority. Without reform to the federal subsidization of Medicaid, Obamacare—which adds 20 million individuals to Medicaid—will exacerbate Medicaid's budgetary pressures.[3]

The federal reimbursement creates incentives for states to spend carelessly. A state secures all the benefits from its spending but transfers at least half the cost to federal taxpayers. Therefore, every state creates a Medicaid program that is larger than if its own taxpayers had to pay the entire cost. An analogy would be individuals dining out together: Each is prone to order more expensive items if they agree to split the bill than if each absorbed the full cost of his or her individual choices.

Whenever costs are passed to a third party, the result is generally waste and inefficiency. When a state spends $1 on Medicaid, it gets more than $1 in what seems like "free money"—but that money comes from federal taxpayers (basically the same people as state taxpayers), and to them the money is not free at all. Thus, from the federal taxpayers' perspective, there is no reason to spend more money on Medicaid than would be spent without the federal subsidy.

Time to Get Serious About Medicaid Reform. By refusing to extend the Medicaid bailout, Congress would stop rewarding irresponsible state policymaking and signal that it is serious about reining in excessive spending. State budgets would no longer be brought to balance by piling additional debt on future generations. This would enable a new Congress to undertake fundamental Medicaid reform and ease the additional strain states will face from Obamacare.

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2. See J. D. Foster, "Weak Economy, Failed Policies Keep Obama Jobs Deficit High at 7.4 Million," Heritage Foundation *WebMemo* No. 2947, July 2, 2010, at *http://www.heritage.org/Research/Reports/2010/07/Weak-Economy-Failed-Policies-Keep-Obama-Jobs-Deficit-High-at-7-4-Million*.

3. Center for Medicare and Medicaid Services, "Estimated Financial Effects of the "Patient Protection and Affordable Care Act, as Amended," April 22, 2010, p. 24, at *https://www.cms.gov/ActuarialStudies/Downloads/PPACA_2010-04-22.pdf* (July 12, 2010).