

# Maryland Policy Report

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## THE PERILS OF AN UNFUNDED FEDERAL MEDICAID MANDATE

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THE ONGOING DEBATE OVER HEALTH CARE REFORM in Washington, D.C. and across the nation generally focuses on the following issues: creating a government-run health insurer, how much regulation should be placed on private health insurers, and the cost of the proposals. While these issues are all important, another important issue is often overlooked: the expansion of Medicaid. Health care reform legislation from both the House and the Senate expands this government health program, and if this expansion is enacted into law, it will have far-reaching consequences.

Since Medicaid is such a large proportion of states' budgets, many governors have expressed concern about the proposed expansion. If federal health care legislation is enacted, there will almost certainly be some form of Medicaid expansion as part of it. Such an expansion, unless fully funded by the federal government (a highly unlikely proposition), will mean even more pressure on state budgets that already suffer from expenditures that outstrip tax revenue.

Maryland state legislators and the governor faced a bleak fiscal picture this year, facing a \$2 billion deficit in Fiscal Year (FY) 2010. (This figure would have been even larger without the one-time infusion of federal stimulus funding.) The budget maneuvers to close the deficit were not enough, however, as another \$700 million deficit occurred in the middle of this year. Next year the deficit may be between \$2 and \$3 billion. A federal mandate to expand Medicaid would increase state spending at a time when Maryland can least afford it.

Maryland's federal policymakers should carefully consider the fiscal impact on the state before supporting any new expansion of the Medicaid program. There are other

federal policies to help the uninsured without the added expense of mandating that Maryland's taxpayers fund coverage for a new class of Medicaid beneficiaries.

### WHAT IS MEDICAID?

Medicaid is a joint federal/state health care program that provides coverage to the poor, people with disabilities, and some elderly Americans. Participation in Medicaid is optional for states, but every state has a Medicaid program. The federal government sets basic parameters that delineate who must be served and what services must be offered, and pays a certain percentage of states' Medicaid spending. States can expand eligibility and those services offered beyond federal guidelines if they wish.

### MARYLAND'S MEDICAID PROGRAM

In Maryland, Medicaid provides services to people who fall into certain groups. Some children, pregnant women, people with disabilities, and parents in families that make up to 116 percent of the federal poverty level (FPL) are eligible for Medicaid. Children also receive health care coverage, but do so under the Maryland Children's Health Program (MCHP). Children in families up to 300 percent of the FPL are eligible for this program. Some pregnant women are also covered by MCHP. There are plans to expand certain Medicaid services to childless adults who make under 116 percent of the FPL, but those plans are currently on hold due to the state's budget problems.

Although the federal government pays roughly 50 percent of the Medicaid spending in the state, this program still consumes a significant amount of the money Marylanders pay in taxes. In FY 2000, Maryland spent \$1.4 bil-

lion of its general revenue fund on Medical Care Programs, mainly Medicaid and MCHP.<sup>1</sup> For FY 2009, the state spent \$2.3 billion on these programs, a 64 percent increase in only nine years.<sup>2</sup> As a share of the budget, in 2000 Medicaid was 15 percent of all general revenue fund spending.<sup>3</sup> In 2009, its share had grown to 17 percent.<sup>4</sup> Few other single items in the state budget consume as much tax money as Medicaid.

Enrollment in Medicaid and MCHP has also grown. There were 437,000 people on Medicaid in 2001.<sup>5</sup> In 2009, the Department of Legislative Services estimates that 705,000 people were enrolled in the program,<sup>6</sup> a 61 percent increase in eight years.

### FEDERAL PROPOSALS TO EXPAND MEDICAID

Currently, there is no federal mandate that states cover childless adults under Medicaid. Maryland, as men-

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tioned above, only covers childless adults if they are elderly or have a disability. Under proposals in all the health care reform bills moving through Congress, however, Maryland would be forced to expand Medicaid to cover childless adults. This would cause hundreds of thousands of new people to become eligible for taxpayer-funded health care.

In the Senate, the Finance Committee passed legislation that would force states to cover childless adults up to 133 percent of the FPL. States would not be able to reduce Medicaid or MCHP coverage for children until 2019. The federal government would pay up an average of 90 percent of the cost of new enrollees.<sup>7</sup>

The House of Representatives Commerce Committee legislation also expands mandated Medicaid coverage to childless adults who make up to 133 percent of the FPL. Since certain income would be disregarded in the calculation of how much Medicaid enrollees make, some have suggested that individuals who make up to 150 percent of the FPL would be eligible.<sup>8</sup> The federal government would cover all costs of these new enrollees. In addition to expanding coverage, this committee's bill would ban states from changing their Medicaid eligibility rules.

These two bills also mandate expansions in Medicaid coverage for children. Since Maryland already uses MCHP

to provide coverage for children in families with incomes up to 300 percent of FPL, these provisions would not entail any new spending for the state.

The expanded eligibility for childless adults will certainly cost the state's taxpayers more money. How much this federal mandate would affect the budget is unclear, however. Both bills pledge the federal government to pay most or all of the new enrollees' costs. Yet as the bills move through the legislative process, this federal pledge may be reduced to pare down the final proposal's price tag. It is highly unlikely that any final legislation Congress passes will mandate the federal government cover the cost of all new Medicaid enrollees.

The Heritage Foundation has estimated that under a federal mandate to expand Medicaid to adults making up to 133 percent of the FPL, Maryland would see its Medicaid rolls swell by as much as 41.3 percent.<sup>9</sup> That would translate into 291,000 new Marylanders in the program. While other state budget offices have attempted to see how much these new enrollees would cost state taxpayers, Maryland's budget officials do not appear to have done so.

Given the history of the Medicaid program, the number of people enrolling (and thus the program's cost) will likely be higher than expected. As in other states, the growth of enrollment in Maryland's Medicaid program is usually a surprise to policymakers, leading to budget pressures. As the Department of Legislative Services noted in early 2009 about a previous eligibility expansion, "Not only are more people enrolling in the Medicaid expansion to parents than expected, but the cost to cover this population is more expensive because the parents are older than originally estimated."<sup>10</sup> The inability of policymakers to accurately gauge how much Medicaid will cost the state is an ongoing issue.<sup>11</sup>

While some state governors are expressing concern over this potentially expensive federal mandate, Governor Martin O'Malley has instead claimed the state can bear the burden, as a *Baltimore Sun* article noted:

*Gov. Martin O'Malley has played down [the potential Medicaid costs in federal legislation], saying state spending on health care overall has risen at an unsustainable rate and could grow by another \$3.6 billion over the next five years. The nation can't afford to do nothing, said O'Malley, who is emerging as a vocal cheerleader for federal efforts.<sup>12</sup>*

If these federal efforts mandate that the state expand Medicaid, the federal government will only expand the state spending on health care that Governor O'Malley currently finds unsustainable.

The House and Senate bills are silent on how long the federal government would cover the cost of new enrollees. The federal government is currently running record

yearly deficits, and there will be a time when these deficits become unsustainable. Spending on entitlement programs such as Medicare, Social Security, and Medicaid are increasing at an unsustainable rate. At some point in the future, the federal government will be forced to trim Medicaid spending. States will be forced to pick up the slack.

Not only will these proposals impose a fiscal burden on Maryland by mandating the state cover more Medicaid patients, they also contain provisions that ban the state from reducing Medicaid eligibility. This means if the state continues to face fiscal difficulties; it cannot seek to trim spending for Medicaid, one of the largest single items in the state budget. Federally mandating that 17 percent of the state's budget cannot be touched by state legislators will lead to steep cuts in other services or higher taxes for Marylanders if the state's budget remains out of balance.

### ALTERNATIVES TO EXPANDING MEDICAID

Federal policymakers have the power to help Maryland's uninsured through policies that will result in far less cost for both state and federal taxpayers than expanding Medicaid. Here are a few alternatives that Congress should consider:

#### Open up health insurance to interstate competition.

President Obama bemoans the lack of competition in the health insurance marketplace. He is correct that many states have a few companies that tightly control this market. The reason for this, however, is the federal government does not consider health insurance to be interstate commerce and has granted states authority to regulate it. That has led to the situation where each state has enacted various rules and regulations and imposed numerous mandates on health insurance sold within its border. These state restrictions, along with the federal ban on interstate

health insurance market produced a dramatic reduction in the cost of insurance, there would still be some Americans who could not afford to buy it. Some of those in this group would be better served by providing them with subsidies to buy this insurance rather than enrolling them in Medicaid. A voucher to purchase insurance based on a family's poverty level and health care needs would likely be cheaper for the government as well as provide better care to the recipients.

**Restructure Medicaid as a block grant.** Currently Medicaid is an open-ended entitlement program that grows at unpredictable rates, putting pressure on both state and federal budgets. Congress should restructure the program as a federal block grant, giving a set amount of funding to the states and giving them the freedom to design health care coverage programs without many federal restrictions. This would give states an incentive to innovate in providing coverage to the truly needy, give stability to state budgets, and help tame the runaway growth in Medicaid spending on the federal level.

### CONCLUSION

The growth in Medicaid spending is already contributing to Maryland's budget problems. A federally-mandated expansion of Medicaid would only worsen this situation. Maryland's policymakers need to be aware of the problems such an expansion will cause, not only for those who write the budget but also for state taxpayers, who will ultimately pay the cost of this expensive program. Federal Medicaid policy should be focused on helping rein in the runaway costs of this program and reforming it so it better serves both recipients and the taxpayers who fund it.

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competition among health insurers, have led to higher rates than would exist under a more competitive system. If Congress and the President were to open up the health insurance market to interstate competition, rates would fall and more of those who lack insurance could afford it. This situation would not only help the uninsured, but would also cost taxpayers nothing.

**Provide subsidies to the truly low-income to buy private insurance.** Even if federal action to spur competition in the

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- 10 *Ibid*.
- 11 See Marc Kilmer, "A Growing Fiscal Concern: Medicaid Spending in Maryland," Maryland Policy Report, The Maryland Public Policy Institute, January 9, 2008, at <http://www.mdppolicy.org/research/detail/a-growing-fiscal-concern-medicaid-spending-in-maryland>.
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