

The Efficiency of Medicaid

Many misconceptions exist with respect to the cost and efficiency of the Medicaid program. Those who favor a massive overhaul of the system often paint a picture that Medicaid costs are “spiraling out of control” and must be stopped. Upon closer inspection, while there are ways to improve the program, as a whole, Medicaid is currently more efficient than even the private market.¹

Medicaid Saw Increased Costs in Early 2000

The Medicaid program underwent a severe period of fiscal stress from 2001 to 2004. During this period, state revenues were decreasing and Medicaid spending and enrollment growth was increasing. *The increase in Medicaid enrollment in those years was due to weak economic times and a decrease in the availability of employer-sponsored insurance.* Medicaid enrollment for families (non-disabled adults and children) grew by 11.6 percent between 2000 and 2002 and by another 7.1 percent between 2002 and 2003.² These enrollment increases, which occurred during a recession and slow economic recovery, are evidence that Medicaid worked as intended. The economic downturn that began in early 2001, combined with a double-digit increase in inflation, made many more people eligible for Medicaid.³ Structured as an entitlement program, Medicaid is designed to work as a safety net that expands during weak economic times.⁴ When the economy is in recession and states are short on money, unemployment figures rise.⁵ As a result, a greater number of people become eligible for Medicaid benefits.⁶ Studies have shown that in 2002, if Medicaid had not responded to the weak economy by providing coverage to the unemployed, the number of uninsured would have been several millions higher.⁷

Medicaid Costs Today

As states' fiscal budgets have rebounded, the Medicaid program costs have also slowed. In fact, total Medicaid spending increased in state fiscal year 2006 by only 2.8% on average, which is slowest rate of growth in Medicaid since 1996.⁸ The fiscal year 2006 is also the first year since 1998 that state revenues grew at a faster rate than total Medicaid spending.⁹ Given the improved

¹ Medical Study News, *Study explains reason behind recent Medicaid spending growth.* at http://www.news-medical.net/print_article.asp?id=7537

² Kaiser Commission on Medicaid and the Uninsured. *Medicaid Enrollment and Spending Trends.* June 2005

³ *The Uninsured: A Primer. Key Facts About Americans Without Health Insurance.* The Kaiser Commission on Medicaid and the Uninsured, November 2004.

⁴ Leighton Ku, *CDC Data Show Medicaid and SCHIP Played Critical Counter-Cyclical Role In Strengthening Health Insurance Coverage During The Economic Downturn.* Center on Budget and Policy Priorities, October 8, 2002.

⁵ David Shactman and Michael Doonan, *Reimagining Medicaid: Policy Brief.* Council on Health Care Economics and Policy, November 2002.

⁶ Id.

⁷ Leighton Ku. *CDC Data Show Medicaid and SCHIP Played a Critical Counter-Cyclical Role in Strengthening Health Insurance Coverage During the Economic Downturn.* Center on Budget and Policy Priorities, October 8, 2003.

⁸ Vernon Smith et al., *Low Medicaid Spending Growth Amid Rebounding State Revenues.* The Kaiser Commission on Medicaid and the Uninsured, October 2006.

⁹ Ibid.

economic picture that states face today, it is not surprising that enrollment in Medicaid also slowed to 1.6%, as an improved economy resulted in fewer people becoming eligible for the program. Another major contributing factor to slowed spending growth is the passage of the Medicare Modernization Act which transitioned over 6 million low-income seniors and individuals with disabilities from Medicaid drug coverage to the newly created Medicare Part D plans in January 2006.

Medicaid is a Cost Efficient Program

Critics of Medicaid often focus on so-called “fraud, waste and abuse” in the program. However, one study showed that fraud and abuse in Medicaid only accounted for .007% of the Medicaid budget.¹⁰ It is also overlooked that Medicaid is more efficient than private insurance with much lower administrative costs. Overall, Medicaid costs have risen at *nearly half the rate* of private insurance costs.¹¹

The Medicaid Program is Good for States’ Economies

For every dollar invested in Medicaid, three dollars of business activity is generated in the form of local jobs and wages, in revenues for hospitals and other providers, as well as in support of community health facilities.¹² The fact that states are required to pay half of all Medicaid costs also creates a strong incentive to run the program efficiently and keep costs down. The following chart demonstrates how cuts would harm state economies.¹³

State	Economic Impact
Arkansas ¹⁴	\$100 million in state Medicaid funding generated \$533 million in economic activity, created over 10,000 jobs for Arkansas and produced nearly \$306 million in income. For every \$1 dollar spent by the state government on Medicaid, \$4 dollars gets added to the gross state product.
Maryland ¹⁵	For every \$1 million in Medicaid cuts, the state would lose \$2.27 in lost business activity and \$800,000 in lost wages. Every \$1 million cut would also result in 22 lost jobs.
North Carolina ¹⁶	Due to Medicaid budget cuts, the state has lost 9,700 jobs and \$706,257,420 in revenue.

¹⁰ John Reichard, “Baucus Mounts Spirited Defense of Current Medicaid Spending Levels,” *CQ Health Affairs*, January 19, 2005 (citing recent CMS report).

¹¹ John Holahan and Arunabh, “Understanding the Recent Growth in Medicaid Spending, 2000-2003,” *Health Affairs Web Exclusive* W5, January 26, 2005, 52; The Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits 2003 Annual Survey*, September 2003.

¹² Alliance for Health Reform, *Sourcebook for Journalists*, 2004, pg 63.

¹³ The individual state information was compiled by the National Mental Health Association, in a report entitled *Measuring the Economic Impact of State Medicaid Programs*. Links for each individual state will be provided in the corresponding footnote information.

¹⁴ [Economic and Fiscal Impact of Additional \\$100 Million in State Funding for Medicaid Programs](http://www.arcommunities.org/econ_dev/Economic/economicimpact/medicaid.asp), University of Arkansas, Arkansas Business & Communities, Dr. Miller, Wayne; Dr. Pickett, John, March 24, 2003;

¹⁵ [Medicaid: Good Medicine for MD’s Economy](http://www.acy.org/web_data/good_medicine.pdf), Advocates for Children and Youth Fiscal Facts;

¹⁶ [The Economic impact of Proposed Reduction in Medicaid Spending in North Carolina](http://www.healthlaw.org/pubs/2002/NC.econimpact.doc); Institute for Public Health, School of Public Health, University of North Carolina, Kilpatrick, Kerry; Olnick, Joshua; Lugar, Michael; Koo, Jun; Office of economic Development; Kenan Institute of Private enterprise; April 11, 2002;

West Virginia ¹⁷	A 10% cut in federal Medicaid match funds will result in a \$188.1 million in business volume, 3,268 jobs and \$66.7 in employee compensation
Wisconsin ¹⁸	A 10% cut in Medicaid and Badger care funding will have an accompanying loss of \$240 million in wages, salaries and other types of income. After initial impact, additional losses would total 9,100 jobs and \$394 million in income.

Proposals Seeking to Limit Federal Funding to States Will Hurt Beneficiaries

Many reform proposals involve capping federal funds to the Medicaid program. If federal contributions to the Medicaid program are capped, the state will be left to shoulder the burden of increasing costs. Given the trend in health care costs, when these costs increase, the state will have to make up any differences without federal assistance, which will be near impossible under current state budget conditions. This will force the state to scale back their program, which often mean eligibility and/or benefit reductions.

Expanding Not Cutting, Medicaid Resources Are the Answer

Reducing spending on Medicaid is fiscally unsound and would increase the numbers of uninsured, which costs taxpayers more in the long-run. Instead of searching for ways to cut the program, reform measures should focus on ways to reach even more people and relieve the program's burden of long term health services and rising health care costs.

¹⁷ Economic Impact of Medicaid Federal Match – Match on the West Virginia Economy; Dr. Christiadi; Dr. Witt, Tom, Bureau of Business and Economic Research College of Business and Economics; West Virginia University; January, 20031 c.2002, West Virginia Research Corporation.

¹⁸ Economic Impact of Reducing Medicaid and Badger Care Expenditures; Wisconsin Council on Children & Families, Voices for Wisconsin's children, Prof. Deller Steven PhD, Madison, UW, February 11, 2003; <http://www.wccf.org/pdf/economicimpact.pdf>