



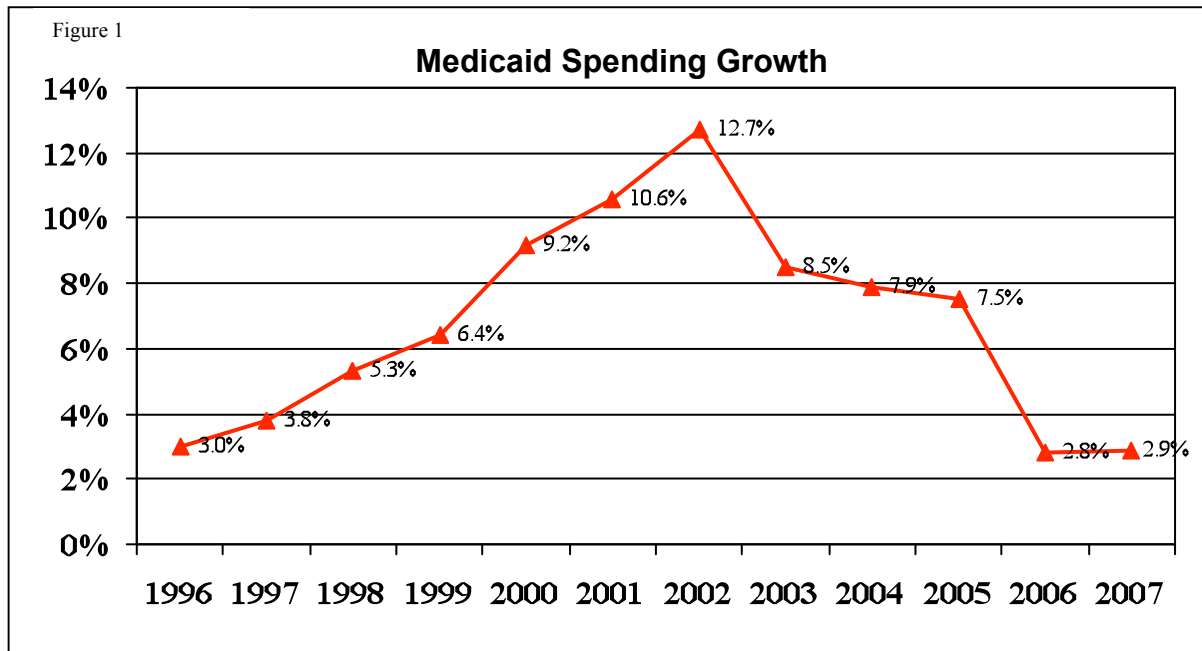
The Impact of Rising Health Care Costs on the Economy

EFFECTS ON THE STATE BUDGETS

Rising health care costs are producing severe, long-term budget problems for individual states. A major source of health care spending at the state level is provided through the Medicaid program. Medicaid is the primary source of health and long-term care assistance for 1 in 6 Americans, mostly lower-income beneficiaries. The program is jointly sponsored by the federal government and state governments -- with individual states contributing about \$146 billion in 2007.

Growth in Medicaid spending averaged 9 percent a year between 2000 and 2005 while state tax revenues have declined or remained flat during this period¹. For example in 2002, Medicaid spending increased 12.7 percent while tax revenues declined by 7.8 percent¹. (See Figure 1.) Although this ratio has improved, the revenue picture is mixed at best. And most states have implemented several cost containment mechanisms to control Medicaid spending which has resulted in only a 2.8 percent increase in spending in 2006. After an all-time low for Medicaid spending growth in FY 2006, Medicaid spending continued to grow slowly by 2.9 percent in 2007 due largely to the decline in enrollment and the continued transition of prescription drug costs for dual eligibles from Medicaid to Medicare².

One of the strategies that states have implemented over the last year has been to reduce eligibility which has resulted in vulnerable Americans losing their health coverage³.



SOURCE: KCMU analysis of CMS Form 64 Data and KCMU/HMA State Budget Survey

Although individual states have tried to control costs through reduced benefits and eligibility, they still face significant challenges:

- **Medicaid costs have grown substantially in recent years because the state programs have picked up health insurance coverage for significant numbers of lower-income families^{4,5}.**

Many workers have lost health coverage because of the erosion of employer-based coverage, or because they lost their jobs in the economic downturn. Many lower-income workers have not found new jobs that offer employment-based health insurance. Overall, the number of uninsured people rose by nearly 9 million between 2000 and 2006 with nearly the entire increase in 2004 resulting from a decline in employer-sponsored health coverage⁶.

- **Medicaid spending now accounts for, on average, nearly 22 percent of state budgets¹.**

With many states facing meager surpluses and others facing revenue shortfalls, further cuts are expected in Medicaid -- and other key budgets areas, such as education and transportation, face cutbacks as well. Medicaid spending increases over the last five years have forced states to eliminate health insurance for millions of individuals. If states continue to cut back significantly on coverage, the uninsured ranks will swell.

- **The provision of health care to lower-income people who are elderly or have serious disabilities accounts for 70 percent of Medicaid costs⁷.**

A significant share of these Medicaid costs result from gaps in Medicare coverage. Medicare's lack of nursing home coverage forces Medicaid to pick up long-term care costs for individuals who are poor and for many elderly and disabled people.

Meaningful relief from rising Medicaid costs rests upon broader efforts to address health care cost increases throughout the American health care system. In the absence of such broader efforts, it will be difficult for state Medicaid programs to serve as a health insurance safety net for the most vulnerable populations.

Several states have seen declining percentages in their funding from the federal government. And recent reductions in Medicaid spending by Congress will also shift health care costs from the federal government to states. State governments would then be faced with choosing between two undesirable alternatives. States could either try to maintain current health insurance coverage with fewer federal funds (which would compound problems in the rest of their budgets and likely lead to cutbacks in other areas such as education unless they raised taxes) or they could reduce health coverage for lower-income families, which will cause significant increases in the number of uninsured people.

Employers, providers, states and the federal government must work together to solve the health care cost crisis. Until we implement strong remedies to control costs at the national level and provide health insurance coverage to all Americans through Congressional action, individual states will struggle to maintain their Medicaid programs. No one state is capable of addressing the dual problems of rapid health care inflation and the rising number of people who lose or are forced to go without health coverage due to the high costs of employment-based insurance. We need a national health policy that insures all Americans and controls health care spending.

Notes

1. Smith, V., Medicaid Budgets, Spending and Policy Initiatives in State Fiscal Years 2005 and 2006. *The Kaiser Commission on Medicaid and the Uninsured*. 19 October 2005.
2. Smith, V, et al. As Tough Times Wane, States Act to Improve Medicaid Coverage and Quality: Results from a 50-State Medicaid Budget Survey for State Fiscal Years 2007 and 2008. *Kaiser Commission on Medicaid and the Uninsured*. October 2007
3. Smith, V, et al. Low Medicaid Spending Growth Amid Rebounding State Revenues. Kaiser Commission on Medicaid and the Uninsured, October 2006. <http://www.kff.org/medicaid/upload/7569.pdf>
4. Ku., L, "The Slowdown in Medicaid Expenditure Growth", *Center on Budget and Policy Priorities*, 17 March 2006.

5. Dorn, S, B. Smith, and B. Garrett, Medicaid Responsiveness, Health Coverage and Economic Resilience,” *Joint Center for Political and Economic Studies*, September 2005.
6. *U.S. Census Bureau. Income, Poverty, and Health Insurance Coverage in the United States: 2006.* August 2007.
7. Medicaid: A Primer. *The Kaiser Commission on Medicaid and the Uninsured.* July 2005.

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