

# New Federal Medicaid Mandates Force Unpleasant Choice for States

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Publication date: 04/28/2010  
Publisher: The Heartland Institute

The new health care law recently signed by President Barack Obama leaves the state of Texas, like many others, facing many tough and costly decisions. One decision stands out as perhaps the most difficult: The choice of whether to remain in the Medicaid program. Either course will cost Texans tens of billions of dollars.

## Billions in New Mandates

Medicaid is the primary payer of health care services for 50 million low-income Americans, 3.5 million in Texas alone. In recent years, Texas received about 58 percent of its Medicaid dollars from the federal government, roughly the national average. The remaining 42 percent is borne by Texas taxpayers.

The new law requires Texas to cover 2.2 million more people on Medicaid, an increase of 60 percent. Although the new law includes 100 percent federal funding of these newly eligible individuals, that funding begins to phase out after 2018. The mandate to cover all those people does not.

Gov. Rick Perry (R) estimates the new federal law and its mandates will cost Texas taxpayers \$27 billion between 2014 and 2023.

## Withdrawal Being Considered

There is only one clear way Texas can avoid these massive new costs: Withdraw from the Medicaid program entirely. Perry is one of just a few governors who have publicly mused about this option.

No federal law requires states to participate in Medicaid. All 50 states do participate, however, because federal dollars fund more than half the program's costs. But if a state decided the costs associated with staying in Medicaid were more painful than pulling out, withdrawal could be the more reasonable option.

## Big Financial Loss

So what would happen if Texas pulled out? The total combined spending on Medicaid in Texas was \$21.6 billion in 2009. Approximately \$12.5 billion of that came from the federal government. As a result of the new law and its mandated growth in the program, Washington will contribute around \$15 billion this year. Thus if Texas withdrew from Medicaid, it would leave \$15 billion on the table every year.

Medicaid is rife with inefficiencies, fraud, poorer health outcomes than private health plans, and the lowest payments to doctors of any payer in our health care system. But the immediate loss of \$15 billion per year obviously could be a severe blow to the state's health care system.

Virtually every hospital and nursing home in the state and a majority of physicians receive money from Medicaid. More significantly though, 3.5 million low-income Texans would instantly be without health care coverage.

But consider these two choices: on the one hand, the choice to accept massive new financial burdens, likely to exist in perpetuity, that are guaranteed to grow much faster than the state budget as a whole, or on the other hand, leaving \$15 billion a year on the table, at least some of which was paid by the state's own taxpayers in the first place.

## Ominous Federal Budget Deficits

It is questionable, of course, whether Washington can even fund the millions of new people on Medicaid across the country when it's already running the largest federal budget deficits since World War II. Since 1945, the largest deficit as a percentage of GDP was 6 percent, in 1982, but by 2009 it had grown to 10 percent, and it is projected to stay at least that high for the next decade.

Those deficits require the government to depend on the cash and patience of foreign bankers, and the likelihood of tax increases is almost certain in the absence of significant entitlement cuts.

## Finding Middle Ground

There is currently no middle ground between the two unpleasant choices. However, a worthy third option would be if Texas could accept a smaller, fixed amount of federal Medicaid dollars in exchange for more flexibility in managing Medicaid.

This would continue the tradition of the so-called "block grant" approach, which worked extremely well as part of the most successful transformation of social policy in the last 40 years—the 1996 welfare reform law. The block grant approach would empower the states and allow for a middle ground between two extremes.

## Dems Oppose Block Grants

Unfortunately, Obama and the Democrat-controlled Congress are vehemently opposed to giving states this third choice, primarily as a result of their lack of faith in the ability of states to manage their own affairs.

That is very disappointing because block grants would simultaneously achieve two worthy goals: Saving money for the cash-strapped federal government and igniting a torrent of health policy innovation in the states that selected the middle road and the reduction of federal micromanagement.

But until that third option is added to the menu, only two choices are on the table: Stay in Medicaid and burden Texas taxpayers with unprecedented new costs, or withdraw and lose out on \$15 billion a year.

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