



TEXAS PUBLIC POLICY FOUNDATION
LEGISLATORS' GUIDE TO THE ISSUES

Medicaid

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THE ISSUE

When Medicaid, created by Congress in 1965, arrived in Texas two years later, it focused on providing health care benefits to recipients of certain cash assistance programs. More than four decades of incremental policy expansion have made it the largest government health program—providing benefits to more people and at a higher cost than Medicare.

In Texas, appropriations for Medicaid constitute almost 76 percent of the growth in health and human services spending. According to the Legislative Budget Board, spending on Article II (health and human services) grew by 7.9 percent, or roughly \$4.4 billion between what was budgeted for 2008-09 and what was appropriated for 2010-11.

Texas Medicaid did not exceed \$2 billion in annual expenditures until 1987, 20 years after it was created, though it now costs more than \$20 billion a year. Much of this growth was driven by caseload increases resulting from policy decisions in Washington, D.C. and in Austin that have expanded eligibility for the program over the years. According to the Health and Human Services Commission, the Medicaid caseload grew by around a million people between 1999 and 2005. It grew by roughly another million from 2005-10. As a result of the newly enacted health law, Texas Medicaid population will increase by 65 percent beginning in 2014 and will cost Texas taxpayers an additional \$27 billion over the first 10 years of implementation.

Children comprise a majority of the caseload, with enrollment of non-disabled children growing 80 percent between 2000 and 2005 to just under 2 million, but the aged, blind, and disabled (ABD) account for most of the spending. The share of children enrolled in Medic-

aid is declining as aging Baby Boomers fuel an increase in enrollment in the ABD population.

THE FACTS

- ★ Medicaid is an entitlement program—Texas must provide medically necessary care to all eligible individuals who seek services as long as the state participates in the Medicaid program.
- ★ Health and human services spending, some three quarters of which goes to Medicaid, represents roughly 31 percent of the state budget.
- ★ For the 2010-11 biennium, the Legislature appropriated approximately \$45 billion in All Funds for the Medicaid program alone, making it the second largest single item in the state budget.
- ★ Medicaid is jointly financed with federal tax revenue and state tax revenues according to the Federal Medical Assistance Percentages (FMAP), which varies between states and usually changes from year to year. Historically, Texas pays roughly 40 percent of Medicaid costs and the federal government roughly 60 percent. But even small fractions of change in the FMAP result in significant losses or gains in the amount of federal funding that comes to the state as a result.
- ★ Health and human services agencies account for slightly more than 60 percent of all of the state's federal funds. Federal Medicaid funding accounts for more than 75 percent of federal spending on Texas health and human services.
- ★ In 2009, Medicaid covered almost 3 million Texans, including 2 million children.

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- ★ Children are declining as a share of total Medicaid enrollment due to shifting demographics, notably the aging of the Baby Boom generation.
- ★ Never, in the history of the Texas Medicaid program, has state spending (general revenue) on Medicaid declined from one year to the next. Only in 1982 did total Medicaid spending decline from the previous year as the result of reductions at the federal level.

RECOMMENDATIONS

- ★ Seek a federal waiver for Medicaid funding block grants, in order to give the state greater certainty in the Medicaid budget from year-to-year, as well as greater flexibility to run the Medicaid program.
- ★ Strengthen cost sharing in the Medicaid and SCHIP program to the fullest extent allowed under federal law. Use a sliding scale that ties the out-of-pocket cost of medical care to the recipient's income.
- ★ Reject efforts to extend the period of Medicaid eligibility—including for children's Medicaid benefits.

RESOURCES

Letter to Commissioner Albert Hawkins commenting on Medicaid reform proposal from Mary Katherine Stout, Texas Public Policy Foundation (Nov. 2007) <http://www.texaspolicy.com/pdf/2007-11-06-Medicaid%20letter.pdf>.

Medicaid: Yesterday, Today, and Tomorrow; A Short History of Medicaid Policy and Its Impact on Texas by Mary Katherine Stout, Texas Public Policy Foundation (Mar. 2006) <http://www.texaspolicy.com/pdf/2006-03-RR-medicaid-mks.pdf>.

Ending the Forty Year Entitlement by Mary Katherine Stout, Texas Public Policy Foundation (July 2005) http://www.texaspolicy.com/commentaries_single.php?report_id=888.

Medicaid's Unseen Costs by Michael Cannon, The Cato Institute (Aug. 2005) http://www.texaspolicy.com/commentaries_single.php?report_id=888.

Fiscal Size-Up: 2010-2011 Biennium, Legislative Budget Board (Dec. 2009) http://www.lbb.state.tx.us/Fiscal_Size-up/Fiscal%20Size-up%202010-11.pdf. ★

