The Medicaid Problem in Texas

by
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At the beginning of the 2001 Legislative Session, there was much wailing and gnashing of teeth about how the State of Texas would have to "tighten its belt" and emerge with what would surely be the leanest budget in years. As it turns out, "tightening" the State's belt meant increasing the budget to $114 billion, an increase of $16 billion from the previous budget.

Nationwide, many states are reporting that budget surpluses are gone and that health care costs are driving their budgets. While each state has its own unique budget system and budget woes, there is one common thread – Medicaid. Texas is no exception.

As mentioned above, the State budget stands at $114 billion. Of this amount, $35 billion is dedicated to spending on health and human services. Of the $35 billion, approximately $27 billion will be spent on Medicaid (and it is very likely that this number will be much higher). So, when people in Austin are talking about spending on health and human services, they are really talking about spending on Medicaid.

If the State of Texas does not do something during the next legislative session to control Medicaid program costs, there will almost certainly be a tax increase.

Medicaid is, as Texas House Appropriations Chairman Rob Junell has said, the "900-pound gorilla" (as opposed to the 800-pound one) in every state's budget. Most people have heard of Medicaid and know that it provides health care to the poor and to the elderly. However, few people really have a working knowledge of the program. Having spent some time learning about Medicaid, I find it is easy to understand why. The health and human services arena has been described as one in which the boring meets the complex. Medicaid is the actualization of this idea.

What, exactly, is Medicaid? Why should anyone care about Medicaid? Whom does it cover? Why does it cost so much? What is driving the program's costs? Can Texas do anything to improve it? This article will answer those questions by providing an overview of Medicaid and how it has evolved in Texas.

The answer to why people should care about Medicaid is simple: If the State of Texas does not do something during the next legislative session to control Medicaid

program costs, there will almost certainly be a tax increase.

Medicaid is basically a government-run health insurance program for the poor, the elderly, and the disabled. It began in the late 1960s as part of the continuing "War on Poverty," and it operates as a state-federal partnership. Loosely defined, "partnership" means the federal government tells Texas what it must cover, and the State then pays its share of the program.

To give you an idea of the size and scope of the program in terms of people rather than dollars, consider that Medicaid covered more than 2.7 million people in 2001, paid for approximately one half of all births in the State of Texas, and covered part or all of 70 percent of the total number of nursing home stays in our State.

Medicaid is an entitlement program. That means that if someone is eligible for Medicaid services, the State must cover that person regardless of whether or not it has the money to do so. Eligibility for Medicaid is based upon age, income as a percentage of the Federal Poverty Level (FPL), assets, and disability. Eligibility levels in Texas are as follows:

- Pregnant Women and Infants (185 percent of the FPL)
- Children ages 1-5 (133 percent of the FPL)
- Children ages 6-15 (100 percent of the FPL
- Parent with TANF Children (17 percent of the FPL). TANF – Temporary Assistance for Needy Families – is the State's welfare system.
- SSI, Aged and Disabled (73 percent of the FPL)
- Long-Term Care (223 percent of the FPL)

In 2001, the FPL was $17,650 for a family of four.

While the majority of Medicaid enrollees are children, they are also the least expensive to cover. The aged and disabled, on the other hand, make up a smaller portion of the overall caseload but are much more costly to cover.

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As mentioned earlier, both the State and the federal government pay for Medicaid. The federal government's contribution or Federal Matching Assistance Percentage (FMAP), is determined by comparing each state's economy to the national average. States are obligated to pay the remaining percentage. In Texas, the federal-state ratio hovers right around 60/40. However, it is important to note that a small change in the State's FMAP can result in a substantial amount of money being lost or gained.

WHY IS MEDICAID SO EXPENSIVE?

There are a number of reasons that Medicaid costs so much. First, Medicaid covers two

groups of people who are in the most need of expensive health care treatment and services – the elderly and disabled. While the elderly and disabled constitute only about 25 percent of the overall Medicaid population, they account for nearly 70 percent of the program's costs.

Second, Medicaid covers a lot of people who live in Texas. As mentioned earlier, Medicaid covered more than 2.7 million people in 2001, well over 10 percent of the State's population.

Third, Medicaid provides a benefit package so rich that it is, quite literally, impossible to buy a comparable plan on the private market because it would cost so much.

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Fourth, lawsuits are driving Medicaid costs up. For instance, U.S. District Judge William Wayne Justice decided that since he was done running the Texas prison system he would take a shot at running part of the State's Medicaid system. Despite the fact that Texas ranks among the top five states in spending on Medicaid's Early and Periodic Screening and Diagnostic Treatment (EPSDT) program for children, Judge Justice decided that was not enough and told the State that it must spend even more.

Fifth, fraud is a huge cost driver in Medicaid. Some experts in the State estimate that fraud eats up 30 cents of every Medicaid dollar spent and costs Texas taxpayers an estimated $4 billion per year.

Finally, Medicaid is not immune from the unlegislated laws of economics. Medicaid recipients pay nothing for services. There are no co-payments, premiums, or cost-sharing requirements whatsoever. At zero cost, demand for service tends to run high. Healthcare costs nationwide are rising, and Medicaid, despite the government's efforts to the contrary, is not immune. Whether rationing takes place in the form of higher costs or fewer services, something is likely to happen.

Currently, the major cost drivers in Medicaid are increased caseloads, the caseload mix (more pregnant women and more disabled), increased useage and cost of pharmaceuticals, and a lower FMAP (federal portion of costs).

WHY SHOULD I CARE ABOUT MEDICAID?

On a day-to-day basis, very few people should care about Medicaid. In a larger sense, we need to care about Medicaid because it does affect all of us.

Healthcare costs have skyrocketed in the United States since the advent of Medicaid and Medicare. Everyone is affected by the rising costs of healthcare. Business owners may drop coverage; many people may choose to go without insurance coverage due to prohibitive costs; emergency rooms are forced to tend to the uninsured; and increased healthcare costs take away from a family's ability to provide other needs.

Medicaid has become an increasing portion of the State's budget, and the specter of an income tax or major tax increase to pay for these costs is very real. Medicaid, in a very real way, affects our healthcare system adversely while imposing huge costs upon real people. It is amusing that the same advocates of big government who have helped destroy the private healthcare market turn to me and say

that we need Medicaid because the private market is not working properly.

WHAT CAN BE DONE

Medicaid can be reformed. People said that the welfare system could not be reformed. Liberals predicted that poor people would be dying in droves due to welfare reform. They were wrong, and conservatives were right.

The same thing can be done with Medicaid. The same liberals will caterwaul about people dying in the streets. They will still be wrong, and conservatives will still be right. Medicaid is a brand name, like Social Security, so when the idea comes up that Medicaid will be taken away there is fear. Medicaid is here, but it does not mean that it has to be an albatross around Texas' neck.

Some ideas for reform:

1. **Medicaid needs a realistic sliding scale to determine eligibility.** We provide the richest benefit package known to man to those who qualify for Medicaid, but if recipients cross the income threshold by $1, they lose their benefits altogether. Is it that ridiculous to suggest that people should pay more for their own healthcare as their income grows?

2. **The benefit package in Medicaid needs to match the real world.** Medicaid pays for anything and everything, while most private insurance caps benefits or refuses to cover certain services. The Bush Administration recently unveiled a new waiver option that allows states to scale back Medicaid benefit packages in certain cases. Whether or not Texas can take advantage of this program remains to be seen.

3. **"Block grant" Medicaid to the states.** As recently as 1993, this idea was actually being discussed. The argument that states lack the technical expertise to run these programs may have been true 20 years ago. Today, however, states are the ones responsible for running Medicaid and have proven through welfare reform that we can do it better than the federal government. Texas is a border state with a vastly different population than a state like Minnesota, yet Texas lives under the same rules.

4. **Take a closer look at what Medicaid does.** Arguing that government should pay for health care for the poor and disabled should not give the federal government license to micro-manage an entire healthcare system. It is an argument (if we accept the premise that we should do it at all) to give people money or a tax credit to purchase coverage. Poor Bill Bradley suggested such an idea during his 2000 presidential campaign and nearly got lynched by his own party. That means the idea must have some merit.

These reforms certainly do not constitute a comprehensive list of the improvements we could make to Medicaid, but they are a starting point. It is going to take time, patience, and, most importantly, the energy of conservatives and the willingness of people to demand that their state representatives, state senators, governor, U.S. senators, and congressional representatives pay attention to this matter.

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