

Keeping Texas Competitive

A Legislator's Guide to the Issues 2013-2014



Medicaid ★ Keeping Texas Competitive Priority

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 and our biggest budgetary headache. In 2001, Medicaid consumed 14% of our state budget, but by 2011 the amount consumed had grown to over 20%. By comparison, over the same period public education spending fell from almost 45% of the budget to 41.3% of the budget.

Texas Medicaid did not exceed \$2 billion in annual expenditures until 1987; it now costs \$20 billion a year. Much of this growth was driven by caseload increases resulting from eligibility expansions enacted both in Washington, D.C. and Austin.

According to the Texas Health and Human Services Commission, Medicaid added around one million clients between 1999 and 2005, and then grew by roughly another million by 2010. The Commission projects that 2.7 million non-disabled children will be on Medicaid in FY 2013. Non-disabled children make up a majority of the caseload, but the aged, blind, and disabled (ABD) account for most of the spending.

Recent growth in Medicaid costs can be attributed to caseload growth driven by the economic downturn and lack of state flexibility in administering the program. The program is projected to experience significant growth in the future due to an aging population and pressures from the federal health care law. The cost growth from the health care law will result from a higher enrollment rate of individuals that are currently eligible but not enrolled. Even if the health care law is repealed, the ABD population will continue increasing as the Baby Boom generation enters retirement. Medicaid expenditures will increase due to higher costs associated with care for the elderly.

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 program.
- Health and human services spending, some 70% of which goes to Medicaid, represents roughly 32% of the state budget.
- For the 2012-13 biennium, the Legislature appropriated approximately \$41 billion and will likely spend more than \$47 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% of Medicaid costs and the federal government roughly 60%. 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.
- In 2009, Medicaid covered almost 3.7 million Texans, including 2.7 million children.
- Children have increased as a percentage of total Medicaid enrollment due to the economic downturn, but the ABD population is expected to increase consistently with the aging of the Baby Boom generation.

- In 2007, 56% of live births in Texas were paid for by Medicaid.
- 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

- Texas should reject federal funds for the purpose of expanding Medicaid
- The state should continue to pursue 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 program. This includes petitioning the state's Congressional delegation to represent these needs in the U.S. Congress.
- Texas should apply for a waiver to use a sliding scale that ties the out-of-pocket cost of medical care to the recipient's income.
- The state should also reject efforts to extend the period of Medicaid eligibility—including eligibility 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).

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).

Final Notice: Medicaid Crisis by Dr. Jagadeesh Gokhale, Texas Public Policy Foundation (Dec. 2010).

Medicaid Reform: Constructive Alternatives to a Failed Program by Arlene Wohlgemuth, Brittani Miller, and Spencer Harris (Feb. 2011).

Fiscal Size-Up: 2012-2013 Biennium Legislative Budget Board (Dec. 2009).

