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THE ISSUE

When Medicaid was established by Congress in 1965—and in Texas in 1967—the program was originally focused on providing health care benefits to recipients of certain cash assistance programs. However, more than four decades of incremental policy expansion have created the largest government health program, providing benefits to more people and at a higher cost than even the Medicare program.

In Texas, Medicaid has become the significant budget driver in health and human services spending, as well as the budget in general. According to the Legislative Budget Board, spending on Article II (health and human services) grew by nearly 8 percent, or roughly \$3.8 billion between the expended/budgeted for 2006-07 and what was appropriated for 2008-09. Of that, appropriations for Medicaid constituted almost 95 percent of the growth in federal funds to the state. Texas Medicaid did not exceed \$2 billion in annual expenditures until 1987, 20 years after it was created, though it has grown rapidly since and will exceed \$20 billion in annual expenditures when the 81st Legislature convenes in 2009.

Much of this growth is driven by the growth of the caseload as a result of policy decisions in Washington and in Austin that have added expanded eligibility for the program. According to the Health and Human Services Commission, the Medicaid caseload grew by more than 1 million people between 1990 and 1995, and added roughly another million people from 2000-05. Children make up the majority of the caseload, with enrollment of non-disabled children growing 80 percent between 2000 and 2005 to just under 2 million, with the aged, blind, and disabled populations accounting for the majority of the spending. However, the share of children enrolled in the Medicaid program is declining as aging “Baby Boomers” fuel an increase in enrollment.

THE FACTS

- ★ Medicaid is an entitlement program—Texas must provide medically necessary care to all eligible individuals who seek services.
- ★ Health and human services spending represents roughly 31 percent of the state budget, with Medicaid accounting for approximately three quarters of health and human services spending.
- ★ For the 2008-09 biennium, the Texas Legislature appropriated approximately \$40 billion in All Funds for the Medicaid program alone, making it the second largest single item in the state budget.

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- ★ Medicaid is jointly financed with federal and state tax revenues according to the Federal Medical Assistance Percentages (FMAP), which varies between states and usually changes yearly. Historically, Texas pays roughly 40 percent of Medicaid costs and the federal government pays 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 just more than 60 percent of all of the state's federal funds, and federal Medicaid funding accounts for more than 75 percent of federal spending for Texas health and human services.
- ★ In 2009, it is estimated that the Texas Medicaid program will cover almost 3 million Texans, including 2 million children.
- ★ Children are declining as a share of total Medicaid enrollment as a result of shifting demographics including, most significantly, the aging "Baby Boom" generation.
- ★ In 2008 and 2009, Medicaid costs will be equal to more than \$800/year for every man, woman, and child in the state of Texas.
- ★ 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 that would fund Medicaid through 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, CATO Institute (Aug. 2005) http://www.texaspolicy.com/commentaries_single.php?report_id=888.
- *Fiscal Size Up 2008-09 Biennium*, Legislative Budget Board (Mar. 2008) http://www.lbb.state.tx.us/Fiscal_Size-up/Fiscal%20Size-up%202008-09.pdf.

