

Iowa Fiscal Partnership policy points

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BEYOND MEDICAID SPIN

The budget resolution adopted by Congress calls for \$10 billion in reductions over five years to the Medicaid program, which provides access to health care for low-income, disabled and elderly Americans, including 261,000 people in Iowa. While some have portrayed these cuts as reductions in the growth of Medicaid spending, it is important to understand that reducing Medicaid spending will result in reducing the number of people who can be served, the level of services provided, or both.

WHY ARE THESE ‘CUTS’ AND NOT JUST REDUCTIONS IN GROWTH?

- Budgets for entitlement programs such as Medicaid are calculated by determining the real cost of providing promised benefits to those who are eligible for the program under current program rules.
- Reducing spending below what is needed to cover benefits for eligible beneficiaries results in reducing the number of people who would be eligible for benefits or reducing the level of benefits provided or services covered. Because spending is reduced, there is not enough money to cover the cost of providing the same services as previously. This is an actual cut in services and/or access to services.
- Medicaid payments for services provided to beneficiaries already are far below and growing less rapidly than payments for the same services in the private sector, so it is difficult to see how spending can be reduced without harming beneficiaries.

HOW LARGE IS A \$10 BILLION CUT IN MEDICAID OVER FIVE YEARS?

- \$10 billion is less than 10 percent of the projected tax cuts in the congressional budget package.
- \$10 billion is about one-third more than the net \$7.6 billion proposed by the administration, according to the Congressional Budget Office.

WHAT ARE THE PROJECTED IMPACTS ON IOWANS?

- If cuts were distributed across the states in proportion to their current Medicaid levels, Iowa could lose \$86.5 million from 2007-2010, according to an analysis by Families USA (www.familiesusa.org).
- If the cuts were distributed equally over those four years, at \$2.5 billion per year, the projected Iowa loss of \$21.6 million equates to coverage of 9,900 children, or 1,700 seniors, according to Families USA.

WHY SO-CALLED ‘SAVINGS’ IN MEDICAID ARE ILLUSORY

- Arbitrarily cutting federal funding simply shifts the overall problem of health-care costs to the states.
- Recent Medicaid spending growth reflects the problem of rising health-care costs.
- Only system-wide approaches to containing health-care costs will address their growth. Without that, arbitrarily cutting Medicaid risks doing real harm to health coverage for low-income people.

STATES ALREADY FACE NEW CHALLENGES

- More than half of all states will see their federal matching rates for Medicaid decline in FY2006 and FY2007. Iowa will see almost a one percentage point decrease in FY2007 after a tiny increase of 0.06 percentage point in FY2006.
- The true hit to Medicaid could be even larger than \$10 billion, because a reduction in federal Medicaid funding could result in a decrease in state funding, which is used to match federal dollars.