



## Can the States Afford Medicaid?

by Amy K. Frantz

Funding the Medicaid program is a tough issue not only for Iowa officials, but also in every state in the nation. Medicaid is one of, if not the, fastest growing portion of most state budgets. If elected officials look only at how to find more and more funding for the current Medicaid program, they will eventually face a full-blown budget crisis.

Medicaid was created by Congress in 1965 to help provide health care for lower-income individuals. At that time, the program covered about 4 million people. Today, 53 million people are covered by Medicaid, “nearly one in every six Americans.”<sup>1</sup> In 2004, total spending on Medicaid, which is jointly funded by the federal and state governments, was just over \$300 billion, with the federal government providing just over half of that amount.<sup>2</sup>

In many states, Medicaid funding is fast becoming a crisis. In Mississippi, one-quarter of the state’s population is covered by the Medicaid program. State and federal funding for the program has doubled in the last five years. The program is projected to run out of money about four months before the end of the current fiscal year, unless the Mississippi Legislature approves an emergency appropriations bill.<sup>3</sup>

In Tennessee, Governor Bredesen announced earlier this year that the state plans to drop more than 300,000 Medicaid recipients this spring. Tennessee “is already number one in the nation in the proportion of its budget it spends on Medicaid, and we don’t remotely have the money to continue on the current path,” said the Governor.<sup>4</sup> In Oregon, enrollment in part of the Medicaid program was closed. Many other states are facing similar situations.

Fortunately, in Iowa the picture is not quite so dire. Governor Vilsack proposed a supplemental appropriations bill to provide Medicaid with an additional \$60 million for this fiscal year. However, the Medicaid shortfalls will likely continue to rise in the coming fiscal years. State Senator Jack Hatch predicts “the Medicaid budget shortfall could be as high as \$182 million for fiscal year 2006 and \$340 million for fiscal year 2007.”<sup>5</sup> Governor Vilsack has proposed raising the cigarette tax to help with future Medicaid shortfalls, an idea supported by some State Legislators.

As Medicaid spending continues to rise, what is the long-term plan for funding? Will the Governor and Legislators continue to raise the cigarette tax each year? Or will they turn to raising taxes on fast food hamburgers or donuts and candy bars? One of the justifications for increasing the cigarette tax to cover Medicaid funding is that smoking increases health-care costs. The same argument will probably be made when future officials unveil their proposal for a 60-cent tax per hamburger for additional Medicaid funding.

If a patient arrives at the hospital bleeding profusely, do the doctors just keep transfusing more and more blood into the patient, or do the doctors look for ways to control the bleeding? Medicaid is that patient, and states need to look beyond how to increase funding to how to control costs without compromising health care for those truly in need.

---

A Publication of:

**Public Interest Institute at Iowa Wesleyan College**

600 North Jackson Street

Mt. Pleasant, Iowa 52641-1328

Phone: 319-385-3462 Fax: 319-385-3799

E-Mail: [public.interest.institute@limitedgovernment.org](mailto:public.interest.institute@limitedgovernment.org) Website: [www.limitedgovernment.org](http://www.limitedgovernment.org)

In 2001, Florida implemented its “A Healthy State” program, targeting Medicaid recipients with chronic illnesses. Community hospitals, civic organizations, and patients’ advocate groups worked together to educate patients about their diseases and to distribute items such as blood pressure cuffs and peak flow meters to measure breathing difficulty. The program “increased [patients’] ability to monitor their own conditions, changed health-related behaviors, slowed the progression of chronic diseases, and, as a result, reduced utilization of high-cost health services.” Patients increased their visits to a regular physician, while reducing their more-costly visits to emergency rooms for non-emergency care. Florida’s A Healthy State program “cut the growth in Florida’s medical costs by \$41.9 million during a 27-month period.”<sup>6</sup>

Florida’s Governor Bush has recently proposed a more far-reaching reform of the state’s Medicaid system. His plan would provide money to Medicaid recipients to allow them to purchase their own health care coverage from managed care organizations and other private medical networks. Additionally, the proposal offers an incentive for patients who comply with their doctor’s orders, have their children vaccinated, or stop smoking — those who take steps to live healthier lives. Those patients will earn money that will be deposited in a flexible spending account. That money can be used for items not covered under their health care plan, and if a recipient is able to leave the Medicaid system, the flexible spending account is theirs to keep and use for health expenses.<sup>7</sup>

The Florida plan must be approved by the Florida Legislature and receive waivers from the U.S. Department of Health and Human Services to be fully implemented. Whether or not this plan is passed, Florida cannot afford to do nothing. If no changes are made, Medicaid spending is projected to make up almost 60 percent of Florida’s budget in ten years.<sup>8</sup> Most states will face similar budget crises as Medicaid spending continues to rise. We need to consider long-term reforms now, before the crisis arrives.

#### ENDNOTES:

<sup>1</sup>Sarah Lueck, “Surging Costs for Medicaid Ravage State, Federal Budgets,” *Wall Street Journal*, February 7, 2005, p. A1, col. 5.

<sup>2</sup>National Association of State Budget Officers, “2003 State Expenditure Report,” p. 47, <<http://www.nasbo.org/Publications/PDFs/2003ExpendReport.pdf>> (February 4, 2005).

<sup>3</sup>Sarah Lueck.

<sup>4</sup>*Ibid.*

<sup>5</sup>State Senator Jack Hatch, “They lose if Medicaid is cut back,” *Des Moines Register* Online edition, January 13, 2005, <<http://desmoinesregister.com/apps/pbcs.dll/article?AID=/20050113/OPINION01/501130381>> (February 7, 2005).

<sup>6</sup>Susan Konig, “Florida, Pfizer Team up to Improve Medicaid Patients’ Use of Health Services,” *Health Care News*, Heartland Institute, January 2005, p. 1, col. 3.

<sup>7</sup>To read more about Governor Bush’s proposal for Florida, see: “Madison Policy Digest,” James Madison Institute, January 25, 2005, <[www.jamesmadison.org/article.php/303.html](http://www.jamesmadison.org/article.php/303.html)>; and “Medicaid Rx,” *Wall Street Journal*, February 2, 2005, p. A14, col. 1.

<sup>8</sup>“Medicaid Rx,” *Wall Street Journal*, February 2, 2005, p. A14, col. 1.

*Amy K. Frantz is Senior Research Analyst with Public Interest Institute.*

*Permission to reprint or copy in whole or part is granted, provided a version of this credit line is used:  
"Reprinted by permission from INSTITUTE BRIEF, a publication of Public Interest Institute."  
The views expressed in this publication are those of the author and not necessarily those of  
Public Interest Institute. They are brought to you in the interest of a better-informed citizenry.*