Center for American Progress

Medicaid: House Budget Proposal Harms Millions
Summary

One of the most disturbing things about the House's effort to cut the Medicaid program is not even the size of the $12 billion spending cut. More problematic is the plain fact that these proposals will cut health care spending for low-income Americans to finance tax cuts for wealthy Americans. The House could have followed the Senate's lead and found significant savings by reducing Medicaid overpayments for prescription drugs and Medicare overpayments for private health plans, thereby avoiding significant harm to people with Medicaid coverage. Instead, the House budget plan derives most of its health care savings – 68 percent – from "taxing" Medicaid enrollees through increased cost sharing, increased premiums, and scaled-back benefits.

The real impact of these cuts is best understood by examining the impact on Medicaid enrollees. For example, as a result of these policies, in 2015:

- 30 million Medicaid enrollees could face higher cost sharing;
- 30 million Medicaid enrollees could face new or higher premiums;
- 2 million Medicaid enrollees could lose coverage because they cannot afford their premium bills;
- 26 million Medicaid enrollees could face reduced benefits;
- A family of three could experience a $1,086 annual increase in cost sharing; and
- People with disabilities could experience a $9,786 per person cut in annual health care spending.

These cost sharing and premium increases, together with benefit reductions, represent a cost-shift from low-income working Americans – who must now bear these costs themselves or go without care – to higher-income Americans who will benefit from the tax cuts these changes will partially finance.

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Shortly before taking Thanksgiving break, the House of Representatives narrowly passed the first half of the 2005 budget reconciliation package – spending cuts totaling nearly $50 billion over five years. Much of these savings come from programs that help low-income families, and roughly one-fourth of the total comes from Medicaid, which provides health care coverage to low-income families, people with disabilities, and individuals who need long-term care.

One of the most disturbing things about the House's effort to cut the Medicaid program is not even the size of the spending cut. More problematic is the plain fact that these proposals will cut health care spending for low-income Americans to finance tax cuts for wealthy Americans. The House could have followed the Senate's lead and found significant savings by reducing Medicaid overpayments for prescription drugs and Medicare overpayments for private health plans, thereby avoiding significant harm to people with Medicaid coverage. Instead, the House budget plan derives most of its health care savings – 68 percent – from "taxing" Medicaid enrollees through increased cost sharing, increased premiums, and scaled-back benefits.

Policy Choices

The House budget provides states with new flexibility to:

- increase the copayments and other cost-sharing fees certain Medicaid enrollees must pay when they use health care services;
- increase monthly premiums some individuals and families must pay to receive and retain their Medicaid coverage; and
- provide different and fewer services within the Medicaid benefit package for some groups of beneficiaries.

Cost Sharing: The House plan will allow states to impose new cost-sharing requirements – including copayments and deductibles – on people who are not currently required to make copayments to receive health care services. All Medicaid enrollees except poor children, and all Medicaid-covered services with some specified exceptions (e.g., pregnancy-related services, prevention for children), could be affected. At the same time, states will be able to increase the copayments they currently charge to other groups of Medicaid enrollees. There would be no per-service limits on cost-sharing charges for those above the poverty level ($16,090 for a family of three). This could mean, for example, a $200 hospital deductible or a $30 copayment for a prescription. States could charge higher cost sharing, on a per-service basis, than is allowed in the State Children's Health Insurance Program (SCHIP) or that low-income beneficiaries in the new Medicare prescription drug benefit will experience. Overall cost sharing will be limited to 5 percent of family income. Health care providers will also be allowed to deny services to those who cannot pay Medicaid cost sharing.

Premiums: The House plan allows states to charge monthly premiums or enrollment fees, subject to the same limits as cost sharing (e.g., 5 percent of income for enrollees with incomes above the poverty level). Certain groups will be exempted such as poor children, pregnant women, and terminally ill individuals receiving hospice care. This could mean, for example, a $100 monthly premium for a family of three at 150 percent of poverty. States would be able to deny Medicaid enrollment to individuals and families who do not or cannot pay these premiums.

Reduced Benefits Packages: The House plan also allows states to redefine the Medicaid benefit package for many Medicaid enrollees. Even though Medicaid serves a significantly different population than commercial insurance – Medicaid enrollees include low-income families with significant health needs, individuals with disabilities, and other special-needs populations – states could convert the Medicaid benefit to mirror private-sector "benchmark" packages, such as a commercial HMO benefit or the Blue Cross/Blue Shield benefit plan offered to federal employees. Coverage for certain services like prescription drugs and mental health could even be lower than the coverage these private-sector plans offer. States may require Medicaid enrollees – except for pregnant women, children with family incomes below poverty, low-income seniors who also receive Medicare, and other groups of medically fragile individuals – to receive Medicaid-financed health care through this type of commercial-style coverage. This means that important Medicaid-provided services, like treatments children need for health conditions discovered in a health screening, ongoing therapy services for individuals with disabilities, and transportation and translation services that help people access health care, would be eliminated for many people with Medicaid coverage.

The Human Impact

Number of Enrollees Affected: When estimating the savings from the House budget plan, the Congressional Budget Office (CBO) assumed that only a proportion of states would exercise the new flexibility in cost sharing, premiums and benefit packages included in the bill. It is impossible to know right now how many states will do so – but it is possible to determine how many Medicaid beneficiaries could be affected by these changes.

For example, if all states take advantage of the new options, in 2015:

- 30 million Medicaid enrollees could face higher cost sharing;
- 30 million Medicaid enrollees could face new or higher premiums;
- 2 million Medicaid enrollees could lose coverage because they cannot afford their premium bills; and
- 26 million Medicaid enrollees could face reduced benefits.

Size of New Cost-Sharing Burden: Medicaid cost sharing for a family of three with an income at 135 percent of poverty ($21,722) could reach up to $1,086 per year. In comparison, this family's federal tax liability totals $1,852. In effect, this new cost-sharing obligation represents a 58 percent federal "tax" increase on lower-income working families to pay for tax cuts for wealthier Americans.

Major Cuts in Benefits: CBO assumed that per capita spending reductions for people who will be required to receive coverage through commercial-style benefit packages would range between 15 to 35 percent. In dollar terms, in 2015 these benefit cuts equal:

- A $542 to $1,264 per person cut in spending on children's health care;
- A $651 to $1,518 per person cut in spending on adults' health care; and
- A $4,194 to $9,786 per person cut in spending on health care for people with disabilities.

These benefit cuts represent services that will not be covered for Medicaid enrollees, and in most cases, these are medically necessary services individuals and families will go without. They could, of course, pay out-of-pocket for these therapy visits, home health attendants, prescription drugs and other vital services – but these lower-income families are also likely to face the increased cost sharing and new premium charges at the same time. These benefit cuts represent a cost-shift to people with Medicaid – a cost that is most likely to be borne through health care needs that go unaddressed.

Note on Methodology

Analyses of the number of people affected derived from information in the Congressional Budget Office (CBO), "H.R. 4241, Medicaid provisions of Title III of H.R. 4241, The Deficit Reduction Act of 2005," November 10, 2005.

People affected by cost sharing and premiums: CBO assumes that, when fully implemented in 2015, states with half of the Medicaid population will implement new cost-sharing rules, so that 27 percent or 17 million of all Medicaid beneficiaries would be affected by new or increased cost sharing for health care. Of the 17 million, 11 million (65 percent) would be subject to new cost sharing. Using this information, CAP derived an estimate of the total percent and number of Medicaid beneficiaries who could be affected if all states implemented these new options. The estimate assumed that 50 percent of beneficiaries are in states that add new cost sharing, and "many" of those who already pay cost sharing would see increases. For this analysis, we assumed that "many" means states with 75 percent of those now paying cost sharing. Based on this, an estimated 47 percent of Medicaid beneficiaries could possibly pay new or higher cost sharing under the House bill – 30 million Medicaid beneficiaries in 2015 (using CBO's projection of 63.9 million Medicaid beneficiaries in 2015). Note that increased premiums could be applied to the same population. As such, we assume that 47 percent or 30 million of all Medicaid beneficiaries could also be charged premiums under the law.

People affected by benefit reductions: CBO assumes that states with 20 percent of all Medicaid beneficiaries would reduce benefits, and that ultimately 8 percent or 5 million of all beneficiaries would be affected. If all states took this option, then 40 percent or 26 million of all beneficiaries could be affected.

Potential impact of cost sharing: The House bill allows for unlimited service-specific cost sharing up to 5 percent of annual family income for Medicaid beneficiaries above the poverty line. A family of three at 135 percent of poverty – $21,722 – would have a potential cost-sharing liability of $1,086. This person would be in the 10 percent tax bracket and, with one child exemption, pay $1,852 in federal income taxes in 2005.

Potential loss of coverage due to premiums: CBO assumes that, of the 2 million beneficiaries it assumes will experience higher premiums, 110,000 will lose coverage, or 5.5 percent of the total. If, instead, 30 million beneficiaries are charged higher premiums, then 2 million beneficiaries could lose coverage as a result of newly permitted premiums.

Potential impact of benefit reductions: CBO assumes that per capita spending reductions for people affected by benefit reductions could range from 15 to 35 percent. To convert to dollars, these percent reductions were multiplied by projected per capita spending for groups affected by this change in 2015. The projected per capita spending per group was calculated from CBO's fact sheet on baseline spending (see http://www.cbo.gov/factsheets/2005/Medicaid.pdf). We assumed that federal spending is 57 percent of total spending.