Medicaid quietly dodges deficit reduction battle

By Sarah Kliff, Published: September 20

As Washington’s debate over deficit reduction ramped up a few months ago, Medicaid advocates panicked that the health insurance program for low-income Americans could quickly find itself on the cutting room floor. Everyone was searching for big spending cuts. Other entitlements, like Medicare, have a stronger lobbying presence on the Hill. Democratic lawmakers were vexingly quiet on the issue. As one worried Medicaid advocate said to Politico in June, “The message has been Medicare, Medicare, Medicare.” HO AFP/GETTY IMAGES

Lately though, the balance between the entitlement programs seems to have shifted. Medicare, the health insurance program serving 50 million seniors, could face big cuts from the White House and Congress. Under the deficit reduction proposal that President Obama outlined yesterday, seniors would pay more for the Medicare benefits they currently receive.

Obama also proposes cuts to Medicaid, which provides health insurance to 60 million low income Americans. But the spending reductions are much smaller than what Medicare saw and Medicaid advocates feared. Now, the program's fiercest supporters are cautiously optimistic that the program could emerge from a brutal deficit reduction debate a lot less battered than they initially thought.

“Any cost-shifts to Medicaid enrollees would be unacceptable,” says Ron Pollack, executive director of Families USA, reacting to Obama’s proposed Medicaid cuts. “That being said, this is not as bad as our base fears.”

Pollack and other Medicaid advocates have worried, for months now, that federal spending cuts could ravage an already cash-strapped entitlement program. The program is run as a federal-state partnership, with Washington paying 57 percent of the costs. States, which cover the rest, have already done a lot of Medicaid budget cutting by reducing how much they pay Medicaid doctors or reducing some benefits, according to a recent survey by the National Association of State Budget Officers. Medicaid already pays doctors less for seeing its patients than Medicare does.

Medicaid advocates fear that layering any federal cuts on top of that would be devastating. “There’s not a lot of fat there,” says Joan Alker, senior researcher at the Georgetown University Health Policy Institute. “That’s not to say you can’t achieve savings, but Medicaid is already pretty lean.”
So far, though, Medicaid hasn’t emerged as a key issue in any deficit reduction plans. The program barely came up in the deficit reduction committee’s first meeting, with the panel instead focusing on Medicare cuts. Medicaid is spared from any cuts at all if that committee doesn’t find $1.2 trillion in savings, while most other federal programs face significant reductions. And in introducing a $3 trillion deficit reduction package Monday, Obama’s proposed Medicaid cuts were much lower than what advocates had braced for.

“I feel just as strongly about Medicaid [as I do about Medicare], but that doesn’t get discussed very much because those people, who are poor, don’t vote,” says Sen. Jay Rockefeller (D-W.V.), a consistent advocate for the Medicaid program. He backed the president’s proposals on both programs, saying “I think he’s handing it very well.”

Others in the Medicaid advocacy community drew a slight sigh of relief Monday too, when the White House estimated relatively small cuts to Medicaid from proposed change in how the program is financed.

Right now, states get different rates of Medicaid funding for the different populations they cover. The White House proposed last April switching to a “blended rate” formula, paying out the same for all Medicaid beneficiaries in a given state. The proposal was an immediate red flag to Medicaid advocates, who estimated that it would allow for about $65 billion in cuts to the program as the administration rejiggered how it financed the program.

But the president’s proposal on Monday only expected to save $14.9 billion from that proposal. In explaining the drop, a senior administration official said the White House had “refined” its stance on the issue. “Over the spring and summer we’ve had many conversations with governors, people who work with Medicaid, and have refined [the blended rate],” said one administration official, explaining the change. “This is more of a refinement of that initial proposal than anything else.”

One group that advocates for Medicaid patients hastily revised its public statement after seeing the president’s new proposal. Language was softened as the cuts proved less threatening to Medicaid than initially expected. “Overall, it’s not as bad as we thought it would be,” said a health care lobbyist affiliated with the group, speaking candidly on the condition of anonymity. “We are still not pleased, the biggest difference is that what expected used to be a huge cut more moderated.”

Outside of the president’s proposal, too, Medicaid has by-and-large managed to avoid big attacks. The entitlement program is among a handful exempt from across-the-board cuts that would be triggered if the Joint Select Committee on Deficit Reduction doesn’t come up with $1.2 trillion in savings. The joint committee could cut Medicaid spending but, so far, hasn’t shown much appetite to do so. The first hearing focused largely on reducing health care costs by making changes to Medicare, rather than Medicaid.

To be sure, Medicaid isn’t necessarily in the clear. The deficit commission could turn its attention to the program as negotiations continue; budget threats at the state-level also loom large. “I’m more nervous all the time because the time comes much closer when there will be an actual decision,” says Sen. Rockefeller. “Am I nervous? Yes, but I can’t let that frame my attitude towards the issues.”

Rockefeller will keep advocating for the Medicaid program, but also recognizes the challenging budget realities around him. “You’ve got to do the best you can,” says Rockefeller. “We’ve gotten so deeply into the hole, nothing easy gets us out. You can’t get around that.”