

To: Interested Parties

From: Joan Alker and Joe Tuschner, Georgetown Center for Children and Families

Date: June 3, 2011

Re: **Proposed Federal Spending Caps Threaten Successful Efforts on Children's Health**

Some lawmakers in the House and Senate have proposed budget plans to address the federal deficit by capping spending, making deep cuts in Medicaid, and/or restructuring the way the nation finances health care for children, seniors, and people with disabilities. Supporters of these plans claim they will relieve today's children from the economic effects of high debt levels many years from now. The plan on which the House-passed budget is based states that one of its key objectives is to "Ensure that the next generation inherits a stronger, more prosperous America."¹ These budget plans, however, will have the effect in the short and long term of devastating the successful steps the nation has taken to provide quality, affordable health coverage to children.

Medicaid and the Children's Health Insurance Program (CHIP) have shown remarkable success in reducing children's rate of uninsurance and efficiently providing children with needed health care, especially for those in low-income families. The two programs cover about one-third of the nation's children – in all more than 26 million children. Six in ten low-income children and four in ten children with special health care needs get their health coverage through Medicaid and CHIP.² In fact, the country achieved the lowest rates of uninsured children ever recorded in 2008 and 2009, thanks in large part to Medicaid and CHIP. Medicaid successfully served as intended in recent years, providing children with coverage as need expanded during the economic downturn.

Medicaid provides children and others with health care at substantially lower per person costs than private insurance. Cutting or capping Medicaid will likely result in significant cost shifts to other health care payers. Adjusting for health status, it costs Medicaid 27% less to cover children and 20% less to cover adults than private health insurance on a per person basis.³ Over the decade from 2000-2009, per person costs in Medicaid grew by an average of 4.6% per year, lower than both the average increase in national health spending (5.8% per year) and the average increase in private insurance premiums (8.5% per year).⁴ While per person costs have grown moderately, total Medicaid spending has grown more steeply due to the growing need for coverage that resulted from the recession and rising rates of disability. Thus Medicaid has achieved greater efficiency in providing health coverage than private insurance. The only way to achieve major cuts to Medicaid's current funding level is by dropping or severely curtailing coverage for those who depend on it.

Federal budget proposals advanced in both the House and the Senate would threaten the nation's success in covering children by making such major cuts. A budget proposal from Senators Bob Corker (R-TN) and Claire McCaskill (D-MO) would limit total federal government spending to a set

percentage of the country's gross domestic product and impose automatic, across the board cuts to federal spending when this limit is reached.

Such a cap would most dramatically impact the federal programs that provide health coverage, including Medicaid and CHIP. First, a disproportionate amount of health spending—in Medicaid as well as Medicare—is on behalf of older Americans and they are projected to make up an increasing share of the nation's population in the years ahead. Second, overall health costs have grown much faster than incomes or the country's economy and will likely continue to do so. The Corker-McCaskill cap reflects the proportion of federal spending to the nation's economy over the last several decades. But decades ago, the federal government helped support the needs of a smaller share of elderly Americans and purchased health services that cost much less than will be the case in future decades. A cap based on historic spending levels does not account for the nation's future needs.⁵ Since the costs of health needs are expected to grow, including them in a spending cap forces either dramatic cuts or major cost shifts. The Center on Budget and Policy Priorities estimates that the Corker-McCaskill cap would result in cuts to Medicaid of \$547 billion, or about 19% over 10 years.⁶

Cuts to Medicaid of an even greater magnitude are proposed in the 2012 budget plan passed by the House of Representatives. The House plan would change federal contributions to Medicaid coverage from a percentage of states' spending to a limited federal grant, while at the same time removing protections that ensure Medicaid offers adequate coverage. Further, it would eliminate planned expansions of health care coverage in the Affordable Care Act through Medicaid and subsidized private insurance. The House passed proposal would cut Medicaid spending by \$771 billion over 10 years, or about 22%, excluding cuts to the ACA's Medicaid expansion, and by \$1.4 trillion with the ACA taken into account.⁷

Cutting federal Medicaid funds by this much would leave states and families responsible for covering rising health costs—particularly for children. States would be forced to respond to large federal cuts with reduced payments for providers, fewer benefits, and sharply limited eligibility. Children represent *half* of Medicaid enrollees, so substantial cuts would be especially damaging for them and lead to dramatic reductions in access to needed care. At the same time, children's benefits are much less costly than those for other Medicaid populations, so cuts among children must go much further to achieve the spending reductions called for in these proposals.

A Kaiser Commission analysis found that the House plan would result in Medicaid covering 31 to 44 million fewer people in 2021 than it would under current law.⁸ If states acted to protect the disabled and elderly and concentrated cuts among children and non-elderly, non-disabled adults, *they would need to eliminate coverage for fully 71% of kids and families to reach the spending level proposed in the House budget plan.*⁹ Such dramatic limits on eligibility would leave low-income

children out of the health care system and reverse the remarkable progress the nation has made over the last decade in extending needed coverage and reducing the number of uninsured children.

While most Americans recognize that the federal deficit is a pressing problem that must be addressed, many agree that deficit reduction must not simply shift health costs to states and families. The April 2011 Kaiser Health Tracking Poll found that 50% of Americans oppose *any* cuts to Medicaid.¹⁰ Another poll conducted for First Focus in April 2011 found that 70% of respondents opposed the Medicaid cuts in the House budget plan and that “voters are more likely to hold harmless programs affecting kids than any other program on the chopping block.”¹¹ Deficit reduction, then, should proceed in a way that does not harm the very children whose futures it purports to protect.

¹ House Committee on the Budget, [The Path to Prosperity](#), pg. 5.

² Kaiser State Health Facts, [Health Insurance Coverage of Low Income Children 0-18, 2009](#); Ha T. Tu and Peter J. Cunningham, [Public Coverage Provides Vital Safety Net For Children With Special Health Care Needs](#), Center for Studying Health System Change, September 2005.

³ Edwin Park, [Ryan’s Rx for Medicaid Means Millions More Uninsured or Underinsured Seniors, People with Disabilities, and Children](#), Center on Budget and Policy Priorities, April 2011.

⁴ J. Holahan, et al, "Medicaid Spending Growth over the Last Decade and the Great Recession, 2000-2009," Kaiser Commission on Medicaid and the Uninsured (February 2011); 2000-2009 National Health Expenditure Data; and Georgetown University Center for Children and Families calculations of Kaiser Family Foundation & Health Research & Educational Trust, "Employer Health Benefits Annual Survey" (2000-2009).

⁵ Edwin Park, Kathy Ruffing, and Paul N. Van de Water, [Proposed Cap on Federal Spending Would Force Deep Cuts in Medicare, Medicaid, and Social Security](#), Center on Budget and Policy Priorities, April 2011.

⁶ Park, et al., Proposed Cap.

⁷ Edwin Park and Matt Broaddus, [What if Ryan's Medicaid Block Grant Had Taken Effect in 2000?](#), Center on Budget and Policy Priorities, April 2011.

⁸ John Holahan, Matthew Buettgens, Vicki Chen, Caitlin Carroll, and Emily Lawton, [House Republican Budget Plan: State-by-State Impact of Changes in Medicaid Financing](#), Kaiser Commission on Medicaid and the Uninsured, May 2011.

⁹ Holahan, et al.

¹⁰ Kaiser Family Foundation, [Kaiser Health Tracking Poll](#), April 2011.

¹¹ Greenberg Quinlan Rosier Research, [A Quiet Voice: National Survey Findings](#), April 2011.