

Government Health-Care Spending: Medicaid

- ▶ Also written by Morningstar, the Medicaid health insurance program is reviewed in this article.
- ▶ The impact of the recently passed Patient Protection and Affordable Care Act (also known as "Obamacare") on the Medicaid program is discussed as well.

It is a well-known fact that the United States spends much more than other developed countries on health care, both in absolute dollars and as a percentage of GDP. Two enormous, complicated programs, Medicare and Medicaid, account for the majority of government health-care spending in the U.S. Both programs have been growing rapidly, which is expected to continue in the coming years. As illustrated in the image, Medicare and Medicaid are expected to account for 39% of U.S. health-care spending in 2019, up from 37% in 2010.

Medicaid is a joint federal-state program that provides health insurance to low-income people. Each state runs its own program and has discretion over benefits and eligibility within federal guidelines. A related program, the State Children's Health Insurance Program (SCHIP or CHIP), covers children from families who make too much to qualify for Medicaid but not enough to afford private insurance.

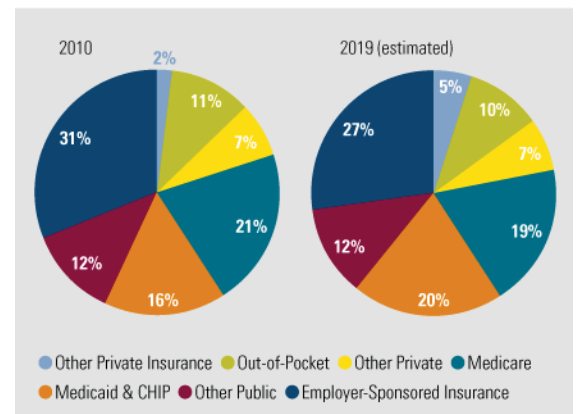
In 2007, on average 49.1 million people received health benefits from Medicaid. However, 61.9 million people received benefits at some point during the year, as varying economic circumstances led people to transition into or out of Medicaid. Medicaid cost \$390 billion in 2009, with about two-thirds of that money coming from the federal government and the remainder from the states. The federal share of costs—called the Federal Medical Assistance Percentage (FMAP)—depends on income levels in the states but is at least 50%. As part of the 2009 stimulus package (the American Recovery and Reinvestment Act), the FMAP was temporarily increased on condition that states accepting the increase could not reduce their Medicaid eligibility levels.

Medicaid beneficiaries are very diverse with widely varying health-care needs. Although children, their parents, and pregnant women accounted for around 75% of Medicaid enrollees in 2007, they only accounted for 32% of Medicaid spending. Aged, blind, and disabled members are

generally much more expensive. Approximately eight million Medicaid enrollees also receive Medicare benefits, and are known as "dual eligibles." Medicaid does not require beneficiaries to pay premiums, and cost sharing is generally very limited, making Medicaid the nation's most important payer of long-term care services.

Medicaid will experience some of the most radical changes under the Patient Protection and Affordable Care Act. Starting in 2014, the program will be expanded to cover nearly anyone under age 65 with income up to 133% of the federal poverty level, including adults without dependent children. This is expected to result in 16 million new Medicaid beneficiaries, representing half of the health-reform-related increase in the number of people with insurance. The federal government will pay for 100% of the costs of newly-eligible Medicaid beneficiaries from 2014-2016, phasing down to 90% by 2020.

U.S. Health-care Spending by Source in 2010 and 2019



Source: CMS National Health Expenditure Data