



## Block Grant Redux

### *McCain Could Leave States and Coverage at Risk*

Peter Harbage October 22, 2008

Sen. John McCain (R-AZ) recently changed his health care plan to include reductions to Medicare and Medicaid in order to achieve \$1.3 trillion in spending cuts over 10 years.<sup>1</sup> He wants to do this to help offset the costs of his effort to replace today's employer-provided health insurance system in favor of the individual insurance market. Under his plan, many workers and their families will receive less comprehensive coverage for a higher price while insurance companies collect a \$2,500 per-person or \$5,000 per-family tax credit from the U.S. government to pay for coverage.

As discussed in detail in the methodology section below, we estimate that the Medicaid share of this federal funding reduction could be \$419 billion over 10 years. The McCain campaign has refused to present specifics of how the funding reduction would be implemented, only offering non-specific comments that “cost-containment” would be used to achieve savings and vague assertions that benefits will be protected.<sup>2</sup>

Yet, the math is clear. The only way for Sen. McCain to achieve his goal is to slow Medicaid growth to 5.5 percent per year—well below what it would take to maintain enrollment growth and match the rising costs of medical care.<sup>3</sup> Given the McCain campaign's assertions of a budget neutral health policy, this means that the only way to achieve the needed reductions is to cut benefits, eligibility, or both. Sen. McCain could ease this financial pressure on Medicaid, but that would require deeper cuts to Medicare, given McCain campaign statements.

Our goal is to offer an estimate of what Sen. McCain's plan could mean to Medicaid. This is critical knowledge in our failing economy as Medicaid is expected to need more resources—not less.<sup>4</sup> If the McCain campaign would simply release a budget plan, we could analyze their proposal. Until then, we assume the Sen. McCain would split the cost of his plan between Medicaid and Medicare and use conservative assumptions to analyze the implications of his Medicaid plan.

#### ***Medicaid block grant redux***

Given the variation in the scope and nature of state Medicaid programs, it would be extremely difficult for Sen. McCain to achieve a specific spending reduction target—let alone one as large as he appears to require—unless he locked in federal spending limits through so called block grants, which deliver federal funds according to pre-set budget limits rather than on a needs basis, as is now the case.

In fact, as a means-tested program functioning in an economic downturn, there is every reason to believe that Medicaid spending will increase above current estimates. The only way that Sen. McCain could be certain of achieving the spending cuts needed to fund his health reform plan is through federal spending limits enforced through a block grant program. Absent a capped federal spending level, Sen. McCain could not be certain if he would be able to fund the other parts of his health care program.

Sen. McCain's embrace of a Medicaid block grant would come as no surprise. He supported this policy approach in 1995 when proposed by then-Speaker of the House Newt Gingrich.<sup>5</sup> In addition, Sen. McCain's health policy is also akin to a block grant proposal made by President George W. Bush in 2003.<sup>6</sup> Funding Medicaid through block grants would change the fundamental nature of Medicaid by shifting risk and liability for health coverage more squarely on the states as they struggle to cope on their own with rising health care costs. The burden would also fall on individuals as states move to cut their Medicaid programs benefit and coverage levels in the wake of reduced federal support.

### ***Impact on medicaid spending***

While Medicare is fully funded by the federal government, Medicaid is matched by state funds. Consequently, there is little reason to believe any state would continue to fund Medicaid at current levels if the federal government significantly limited its contribution. This translates into an estimated total program cut of \$738 billion over 10 years as both the federal and state funds are withdrawn. As shown in Table 1 below, the McCain plan could have a profound spending impact on states:

- Twenty-nine states could lose more than \$5 billion in federal Medicaid spending, over 10 years
- The 10 states that would face the most significant federal funding reductions over ten years are: New York (\$54 billion), California (\$42 billion), Texas (\$27 billion), Pennsylvania (\$21 billion); Florida (\$18 billion); Ohio (\$18 billion); North Carolina (\$14 billion); Illinois (\$12 billion); Massachusetts (\$12 billion); and Michigan (\$11 billion)
- Every state could see a reduction of more than \$1 billion in total Medicaid spending (federal and state), over 10 years

### ***Impact on medicaid enrollment***

Achieving these spending reductions could require profound cutbacks in program eligibility and benefits or both. This is because Sen. McCain's plan would only allow for a 5.5 percent average annual growth in Medicaid—compared to the estimated 5.9 percent growth rate needed to keep up with medical inflation and Medicaid enrollment growth.<sup>7</sup> The most aggressive cost containment policies possible could not make up the difference in rates. Thus, we conclude that Medicaid would require eligibility cuts, benefit cuts, or both. This would be devastating to those Americans who rely on Medicaid, some of our nation's most vulnerable elderly and low-income citizens.

**TABLE 1. IMPACT OF MCCAIN MEDICAID CUTS**  
*In Billions, by state, over 10 years*

STATE	FEDERAL SPENDING REDUCTION	STATE SPENDING REDUCTION <sup>7</sup>	TOTAL SPENDING REDUCTION
Alabama	\$6.6	\$3.1	\$9.7
Alaska	\$1.2	\$1.1	\$2.2
Arizona	\$10.1	\$5.1	\$15.2
Arkansas	\$5.2	\$1.9	\$7.1
California	\$41.6	\$41.6	\$83.1
Colorado	\$3.5	\$3.5	\$7.0
Connecticut	\$5.1	\$5.1	\$10.2
Delaware	\$1.2	\$1.2	\$2.3
District of Columbia	\$2.2	\$0.9	\$3.2
Florida	\$18.2	\$13.9	\$32.1
Georgia	\$10.1	\$5.9	\$15.9
Hawaii	\$1.6	\$1.2	\$2.8
Idaho	\$1.8	\$0.8	\$2.5
Illinois	\$12.3	\$12.3	\$24.6
Indiana	\$8.7	\$5.2	\$13.8
Iowa	\$4.0	\$2.5	\$6.5
Kansas	\$3.0	\$2.1	\$5.1
Kentucky	\$7.4	\$3.2	\$10.5
Louisiana	\$8.2	\$3.1	\$11.4
Maine	\$3.0	\$1.7	\$4.7
Maryland	\$6.1	\$6.1	\$12.1
Massachusetts	\$11.8	\$11.8	\$23.5
Michigan	\$11.4	\$8.2	\$19.6
Minnesota	\$6.9	\$6.9	\$13.8
Mississippi	\$6.0	\$1.9	\$7.9
Missouri	\$9.7	\$5.9	\$15.6
Montana	\$1.2	\$0.6	\$1.8
Nebraska	\$2.2	\$1.6	\$3.8
Nevada	\$1.6	\$1.4	\$3.0
New Hampshire	\$1.3	\$1.3	\$2.7
New Jersey	\$11.0	\$11.0	\$22.0
New Mexico	\$4.3	\$1.8	\$6.1
New York	\$54.3	\$54.3	\$108.5
North Carolina	\$14.1	\$7.9	\$22.0
North Dakota	\$0.8	\$0.5	\$1.3
Ohio	\$17.8	\$11.5	\$29.3
Oklahoma	\$4.9	\$2.4	\$7.3
Oregon	\$4.4	\$2.8	\$7.2
Pennsylvania	\$20.7	\$17.6	\$38.3
Rhode Island	\$2.2	\$2.0	\$4.3
South Carolina	\$6.8	\$3.0	\$9.8
South Dakota	\$1.0	\$0.6	\$1.6
Tennessee	\$9.4	\$5.4	\$14.8
Texas	\$26.7	\$17.4	\$44.1
Utah	\$2.5	\$1.0	\$3.5
Vermont	\$1.3	\$0.9	\$2.3
Virginia	\$5.6	\$5.6	\$11.3
Washington	\$6.8	\$6.4	\$13.1
West Virginia	\$3.7	\$1.3	\$5.0
Wisconsin	\$6.5	\$4.8	\$11.3
Wyoming	\$0.6	\$0.6	\$1.1
<b>United States</b>	<b>\$418.5</b>	<b>\$319.6</b>	<b>\$738.1</b>

Source: Calculations by the Center for American Progress Action Fund.

Based on our analysis, the McCain funding reduction could cause an estimated 6.3 million Medicaid beneficiaries to lose their coverage in 2013—the equivalent of 10 percent of the total number of uninsured today. The spending reduction McCain would need is very significant. In 2013 alone, we estimate that the McCain plan would require a spending reduction of \$33 billion<sup>8</sup>—triple the estimated \$10.2 billion in spending for the Disproportionate Share Hospital program, Medicaid’s program to support safety net hospitals, for the same year.<sup>9</sup> Also, \$33 billion is just short of the \$36 billion that the Congressional Budget Office estimates Medicaid will spend in 2013 on health care services for adult enrollees.<sup>10</sup>

As explained in the methodology section, we took steps to ensure a conservative estimate of the number of persons who could lose coverage. For instance, we set aside 25 percent of the spending reduction assuming that states would seek to take steps to minimize coverage reduction by taking other steps, such as reducing provider payments. Assuming a loss of \$24.75 billion in federal spending on coverage, we estimate that in 2013:

- Twenty states could likely have no choice other than to remove more than 100,000 persons from the rolls
- 2013, the ten states with the largest projected enrollment reductions are California (1.3 million), New York (549,000), Texas (446,000), Florida (293,000), Illinois (254,000), Pennsylvania (228,000), Arizona (220,000), Michigan (198,000), Ohio (182,000), and Georgia (164,000)

State specific reductions are shown in Table 2 on the right.

**TABLE 2. NUMBER OF BENEFICIARIES PROJECTED TO BE DROPPED  
By State, in 2013**

STATE	BENEFICIARIES AFFECTED
Alabama	145,249
Alaska	14,946
Arizona	293,992
Arkansas	99,858
California	1,698,279
Colorado	73,857
Connecticut	66,284
Delaware	24,024
District of Columbia	22,277
Florida	390,364
Georgia	218,415
Hawaii	34,691
Idaho	25,352
Illinois	338,281
Indiana	141,481
Iowa	58,400
Kansas	44,347
Kentucky	109,560
Louisiana	148,793
Maine	34,683
Maryland	106,623
Massachusetts	180,659
Michigan	264,375
Minnesota	102,471
Mississippi	95,006
Missouri	177,640
Montana	16,567
Nebraska	34,005
Nevada	35,704
New Hampshire	0,898
New Jersey	149,122
New Mexico	73,679
New York	731,766
North Carolina	202,652
North Dakota	8,030
Ohio	242,267
Oklahoma	98,583
Oregon	82,221
Pennsylvania	303,772
Rhode Island	29,558
South Carolina	158,506
South Dakota	15,440
Tennessee	159,035
Texas	595,092
Utah	51,389
Vermont	23,604
Virginia	118,368
Washington	192,203
West Virginia	46,946
Wisconsin	128,151
Wyoming	10,950
<b>Total</b>	<b>8,438,416</b>

Source: Calculations by the Center for American Progress Action Fund.

## Methodology

The methodology for calculating the spending and coverage reductions can be summarized as follows:

- **Estimating the \$1.3 trillion spending reduction.** In early October, McCain presidential campaign advisor Douglas Holtz-Eakin told the Wall Street Journal that McCain would reduce Medicare and Medicaid to help fund his health care plan.<sup>11</sup> The Tax Policy Center had previously estimated a \$1.3 trillion hole to fill in the financing.<sup>12</sup> No other offset has been identified to meet this \$1.3 trillion hole.
- **Budget Neutrality.** The McCain campaign has also stated that the health care plan is budget neutral.<sup>13</sup> Throughout our analysis of this issue, we have accepted their assertion, meaning that any excess health plan costs would not be applied to deficit spending and therefore must result in reduced eligibility, benefits, and cost-sharing.
- **Allocating a \$419 billion spending reduction to Medicaid.** Sen. McCain has been silent about how much of the spending reduction would be taken from Medicare versus Medicaid. In the absence of additional information, we allocated the \$1.3 trillion between the two programs based on the Congressional Budget Office's projected fiscal year 2009-to-2018 federal spending estimate—arriving at a funding reduction of \$882 billion for Medicare (68 percent) and \$419 billion for Medicaid (32 percent). Sen. McCain, of course, could choose to cut either program less in favor of bigger cuts in the other. Our estimate of the 32 percent cut to Medicaid, however, is conservative because the program,—as a joint federal-state partnership—faces significant structural and political barriers to spending reductions.
- **Estimating the \$33 billion federal spending reduction by 2013.** In analyzing Sen. McCain's policy, the Center for American Progress Action Fund developed a 10-year budget estimate that is available to the public.<sup>14</sup> The \$33 billion estimate is the share of spending that Sen. McCain would likely need to cut from Medicaid in 2013 in order to achieve the total projected spending cut. We selected 2013 as the half way point in the standard Congressional Budget Office ten-year budget window for a program that would start with the new presidential term.
- **Reduction in state funding.** Each state was allocated a portion of the estimated \$33 billion federal spending cut in 2013 as a prorate share of its 2006 spending, as provided by Statehealthfacts.org.<sup>15</sup> Each state's federal spending reduction was divided by the 2008 Federal Matching Rate to estimate the total (federal and state) spending reduction.
- **Conservative estimated impact on coverage.** Because states could choose to eliminate benefits or reduce provider payments in response to the McCain funding reduction, only 75 percent of the \$33 billion funding reduction is applied to a coverage reduction (for a total reduction of \$24.75 billion in 2013). To the extent states focus on benefit reductions, they would be able to limit the number of person dropped from the program, although those left on the program would have reduced access to needed care, reduced benefits, or both.

- Focus on “optional” populations. Most beneficiaries of Medicaid are part of so called “mandatory populations” and cannot be dropped from the program at state discretion, according to a report by the Kaiser Family Foundation. 80 percent of all children in Medicaid, for example, are covered as mandatory populations. In contrast, most the majority of the elderly population enrolled in Medicaid are covered based on state discretion. Using data from Statehealthfacts.org, we estimate an average per-beneficiary cost for the “optional” population that states would have the flexibility to cut. While the effect of this adjustment varies based on state characteristics, this adjustment increased the per-beneficiary cost in more than 40 states, thereby ultimately reducing the number of beneficiaries that would otherwise be estimated to lose coverage. The average cost was calculated using the latest available data (for 2005) from Statehealthfacts.org.
- Conservative growth rate assumption. After the optional per-beneficiary average cost was calculated for each state, that spending level was calculated out to 2013 at 4.4 percent—the most recent rate of medical inflation available from the federal Bureau of Labor Statistics. Even after adding our adjustment for enrollment, our Medicaid growth rate is lower than the Congressional Budget Office estimate that total Medicaid spending will grow at 8 percent annually through 2018.<sup>16</sup>
- Affected beneficiary calculation. The amount of funding to be cut from Medicaid spending was then divided by the average per optional beneficiary spending. If states were to focus their cuts on the disabled and elderly, then it would be possible for them to reduce the overall enrollment reduction due to the higher per-beneficiary cost of these populations as compared to parents and children.

## Endnotes

- 1 Laura Meckler, "McCain Plans Federal Health Cuts" Wall Street Journal, October 6, 2008, available at <http://online.wsj.com/article/SB122315505846605217.html>; Ben Smith, "Holtz-Eakin Defends McCain Plan" Politico, October 4, 2008, available at [http://www.politico.com/blogs/bensmith/1008/HoltzEakin\\_defends\\_McCain\\_plan.html?showall](http://www.politico.com/blogs/bensmith/1008/HoltzEakin_defends_McCain_plan.html?showall).
- 2 CQ Transcriptswire, "Transcripts: Obama and McCain Advisers Hold Teleconferences on Healthcare Plans" Congressional Quarterly, Oct. 17, 2008.
- 3 Peter Harbage, et al, "McCain's Latest Health Strategy," (Washington: Center for American Progress, October 2008), available at [http://www.americanprogressaction.org/issues/2008/pdf/mccain\\_health\\_strategy.pdf](http://www.americanprogressaction.org/issues/2008/pdf/mccain_health_strategy.pdf).
- 4 Testimony of Irs Lav, Center on Budget and Policy Priorities, Before the House Committee on the Budget, October 20, 2008, available at <http://www.cbpp.org/10-20-08sfp-testimony.htm>.
- 5 "Voters Deserve to Know: Would Giuliani, McCain, Romney and Thompson Stand with Bush and Veto Children's Health Care?" September 25, 2007, available at [http://www.democrats.org/a/2007/09/voters\\_deserve.php](http://www.democrats.org/a/2007/09/voters_deserve.php) (last accessed October 7, 2008).
- 6 Melanie Nathanson and Iris Lav, "Bush Administration's Medicaid Proposal Would Shift Risks and Costs to States," (Washington: Center on Budget and Policy Priorities, February 12, 2003), available at <http://www.cbpp.org/2-12-03health.htm>.
- 7 Harbage, et al, "McCain's Latest Health Strategy."
- 8 Peter Harbage, "Truth in Numbers," thinkprogress.org, October 18, 2008, available at <http://wonkroom.thinkprogress.org/2008/10/18/medicare-numbers/>.
- 9 Congressional Budget Office, Medicaid Baseline, March 11, 2008.
- 10 Congressional Budget Office, Medicaid Baseline, March 11, 2008.
- 11 Laura Meckler, "McCain Plans."
- 12 Tax Policy Center, "An Updated Analysis of the 2008 Presidential Candidates' Tax Plans" (August 15, 2008), available at [http://www.taxpolicycenter.org/UploadedPDF/411749\\_updated\\_candidates.pdf](http://www.taxpolicycenter.org/UploadedPDF/411749_updated_candidates.pdf)
- 13 CQ Transcriptswire, "Advisers Hold Teleconferences."
- 14 Peter Harbage, "Truth in Numbers."
- 15 Statehealthfacts.org (last accessed on October 17, 2008).
- 16 Congressional Budget Office, Medicaid Baseline, March 11, 2008.