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MEMORANDUM

To: Reporters and Editors
Re: Medicaid Actuarial Report
Da: Monday, Oct. 20, 2008

Sen. Chuck Grassley, ranking member of the Committee on Finance, today made the following comment on the new Medicaid actuarial report from the Centers for Medicare & Medicaid Services.

“It’s good to see CMS issue a Medicaid actuarial report. I tried to include a similar idea in the SCHIP reauthorization bill that was vetoed last year. It’s very important for Congress to have such an assessment to improve policy making. Of the three major entitlement programs (Social Security, Medicare, and Medicaid), Congress already gets a formal annual report on Social Security and Medicare. Today, by putting out a formal report on Medicaid’s fiscal health, CMS has set a valuable precedent, and I expect future administrations to follow.

“The substance of this report should make it clear to Congress that caution is needed in its approach to Medicaid. The report projects spending to go up by almost 100 percent over the next ten years even though enrollment increases by just over 10 percent in the same time frame. That much increased spending will have a major impact on federal and state budgets, and these projections need to be part of any health care reform effort that involves expanding or reconfiguring Medicaid services.”

The text of CMS’ news release follows here for reference.

FOR IMMEDIATE RELEASE
Friday, Oct. 17, 2008

Contact: CMS Office of Public Affairs
(202) 690-6145

Medicaid Spending Projected to Rise Much Faster Than the Economy

Cumulative Spending on Medicaid Benefits Projected to Reach \$4.9 Trillion Over 10 Years

Under current law, spending on Medicaid is expected to substantially outpace the rate of growth in the U.S. economy over the next decade, according to a new annual report released today by the Centers for Medicare & Medicaid Services (CMS).

The report projects that Medicaid benefits spending will increase 7.3 percent from 2007 to 2008,

reaching \$339 billion and will grow at an annual average rate of 7.9 percent over the next 10 years, reaching \$674 billion by 2017. That compares to a projected rate of growth of 4.8 percent in the general economy.

HHS Secretary Mike Leavitt presented the report today at the fall meeting of the National Association of State Budget Officers (NASBO).

“This report should serve as an urgent reminder that the current path of Medicaid spending is unsustainable for both federal and state governments. We must act quickly to keep state Medicaid programs fiscally sound,” Secretary Leavitt said. “If nothing is done to rein in these costs, access to health care for the nation’s most vulnerable citizens could be threatened.”

Although the CMS Office of the Actuary regularly produces 75-year projections of Medicare expenditures for the annual report of the Medicare Board of Trustees, the report released today is the first annual fiscal report on Medicaid.

The Medicare Trustees Report provides detailed information on the past and estimated future financial operations of the Hospital Insurance and Supplementary Medical Insurance Trust Funds. This new annual report on Medicaid contains analysis of past program trends and projections of Medicaid expenditures and enrollment for the next 10 years only. Future reports will expand on content to include longer-range projections and more extensive analysis.

Medicaid is a federal/state partnership program that provides health care to certain low-income people and is one of the largest payers for health care in the United States. For both federal and state governments, Medicaid is the largest source of general revenue spending on health services. Notably, Medicaid is the largest source of general revenue spending for health care for both the Federal government and the states.

This growth rate compares to spending projections for Medicare of 7.4 percent per year through 2017. Medicaid benefits spending over the next 10 years is projected to be \$4.9 trillion. These amounts are in addition to that spent by federal and state governments on the State Children’s Health Insurance Program (SCHIP).

At this rate, Medicaid growth is projected to slightly exceed growth in overall health care expenditures, which is projected by CMS actuaries and economists to increase by 6.7 percent per year over the next 10 years, or over twice the rate of general inflation. Additionally, Medicaid’s share of the Gross Domestic Product (GDP) is projected to reach about three percent in 2017. The combined share of GDP spending for Medicare and Medicaid is projected to be 6.9 percent by 2017.

As a partnership program, both states and the federal government pay for services to Medicaid beneficiaries. The federal government matches state expenditures based on a formula that yields subsidies ranging from 50 percent to as high as 83 percent. The average federal medical assistance percentage is 57 percent.

However, even with federal support, states report they are struggling to meet their share of

expanding Medicaid costs. State spending on Medicaid has remained relatively stable as a share of states' budgets, averaging about 20 percent from 1995-2007. However, some states such as Maine are already spending as much as 31 percent of their budgets on Medicaid, according to NASBO.

NASBO is projecting that state spending on Medicaid will increase by 4.4 percent from 2008 to 2009. NASBO says such an increase would be more than four times the rate of growth in the average state general fund.

“High and increasing Medicaid spending clearly leaves states less able to fund other state priorities,” said Acting CMS Administrator Kerry Weems. “This new financial report confirms that America’s health care system faces significant fiscal challenges.

”As a nation we must tackle the difficult job of bringing health care costs under control and assuring that our health care dollars are buying the highest quality, most efficient health care services.”

Other findings from the report include:

Average Medicaid enrollment is projected to increase 1.8 percent to 50 million people in 2008.

During the next 10 years, average enrollment is projected to increase at an average annual rate of 1.2 percent and to reach 55.1 million by 2017.

The estimated average cost of a person covered by Medicaid in 2007 is \$6,120; however, per-enrollee spending for non-disabled children (\$2,435) and adults (\$3,586) was much lower than that for aged (\$14,058) and disabled beneficiaries (\$14,858), reflecting the differing health status of these groups.

Medicaid represented 14.8 percent of all health care spending in the United States in 2006.

Medicaid is projected to grow as a share of the federal budget from 7.0 percent in 2007 to 8.4 percent by 2013.

The full report can be viewed at: http://cms.hhs.gov/ActuarialStudies/03_MedicaidReport.asp.

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Note: All HHS press releases, fact sheets and other press materials are available at <http://www.hhs.gov/news>.