



False Panic About Medicaid Spending Built on Obsolete Projections

OVERVIEW

This brief addresses the persistent but long inaccurate assertions by Reform's defenders that unsustainable growth in the rate of Medicaid spending is the single biggest threat to budget sustainability in Florida. As Florida considers the future of Medicaid Reform and other actions that will erode Florida's Medicaid program, it is essential that decision-makers review the basis for the State's sense of urgency to launch Reform in 2005, as well as the extent to which those underlying factors have since changed.

Unfortunately, a dire threat is hovering over our state, but it is the impact of a faltering economy on Florida's sales tax-dependent revenue base - NOT Medicaid spending growth - that is to blame. Medicaid therefore must not be made the scapegoat for Florida's budget crisis, and decision-makers cannot be permitted to justify placing vulnerable Floridians at risk on the basis of obsolete information.

THAT WAS THEN: "ALARMING PRE-REFORM SPENDING GROWTH"

In February 2005, the Legislature's Office of Economic and Demographic Research (EDR) issued, as it does prior to each legislative session, projections for Florida Medicaid caseloads and expenditures for each year. This process, known as the Social Services Estimating Conference, provides the basis for all Medicaid budget-related forecasting and planning.

At that time, State economists estimated that the total Medicaid budget for 2005-06 would be \$15.4 billion, with that figure projected to grow to \$18.9 billion within 2 years) – an astounding increase of 25%¹. This forecast was based, at least in part, on the even more rapid growth experienced in previous years, including a 14% increase in 2003-04 alone².

That projected growth rate translated into a forecasted average increase in Florida's total Medicaid budget of \$1.5 billion per year. Consequently, if this growth had continued, the Medicaid budget would have ballooned to \$25.1 billion by 2011-12. By this time, fears of unsustainable growth in the Medicaid budget had reached the fever pitch that greased the wheels for the Medicaid Reform experiment.

Figure A below shows projected Medicaid budgets totals for each fiscal year through 2011-12 based on the results of the February 2005 Estimating Conference. The projections through 2007-08 are taken directly from the forecast, while those for 2008-08 and after are based on a trendline extended into the future.

However, before the Medicaid Reform Pilot had even been launched, it was already becoming clear that growth would not continue at nearly so torrid a pace. In a November 2005 update to the Estimating Conference projections, the budget forecast for 2007-08 was reduced from \$18.9 to \$17.3 billion³.

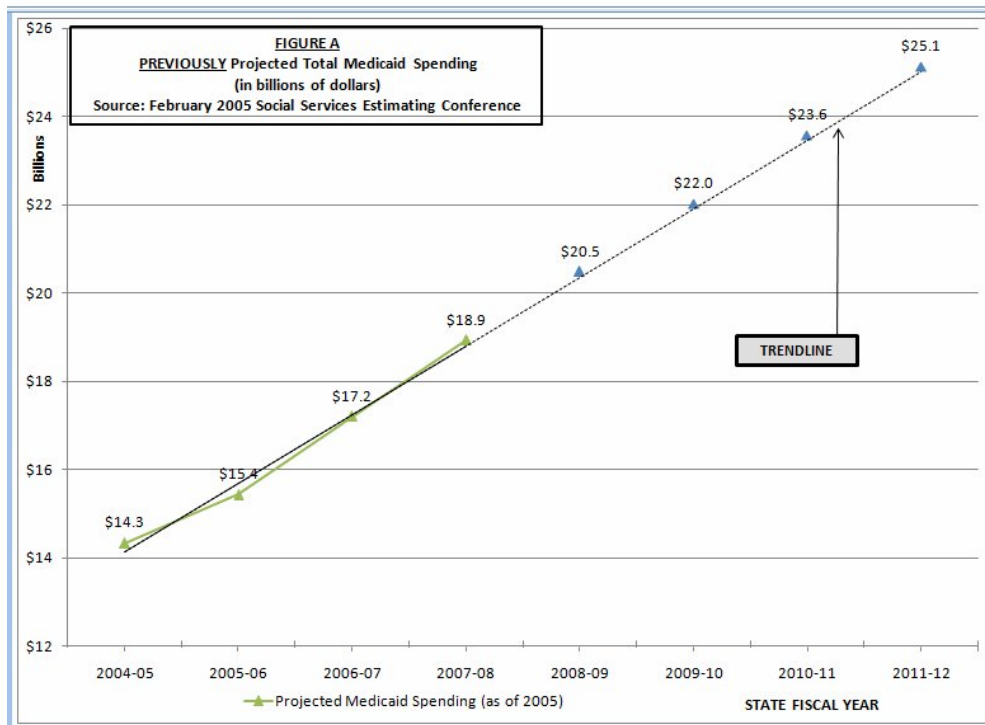
Actual 2005-06 Medicaid spending turned out to be only \$13.9 billion, a billion and a half dollars less than had been projected⁴. Most importantly, that much slower growth in Medicaid spending persisted in the years that followed.

1 [Office of Economic and Demographic Research, Social Services Estimating Conference, Medicaid Caseload and Expenditures - 2/28/05, p.19.](#)

2 Ibid.

3 [Social Services Estimating Conference, Medicaid Caseload and Expenditures – 11/7/05, p.10.](#)

4 [Social Services Estimating Conference, Medicaid Long Term Forecast – 7/24/08, p.1.](#)



THIS IS NOW: “AN ENTIRELY DIFFERENT STORY”

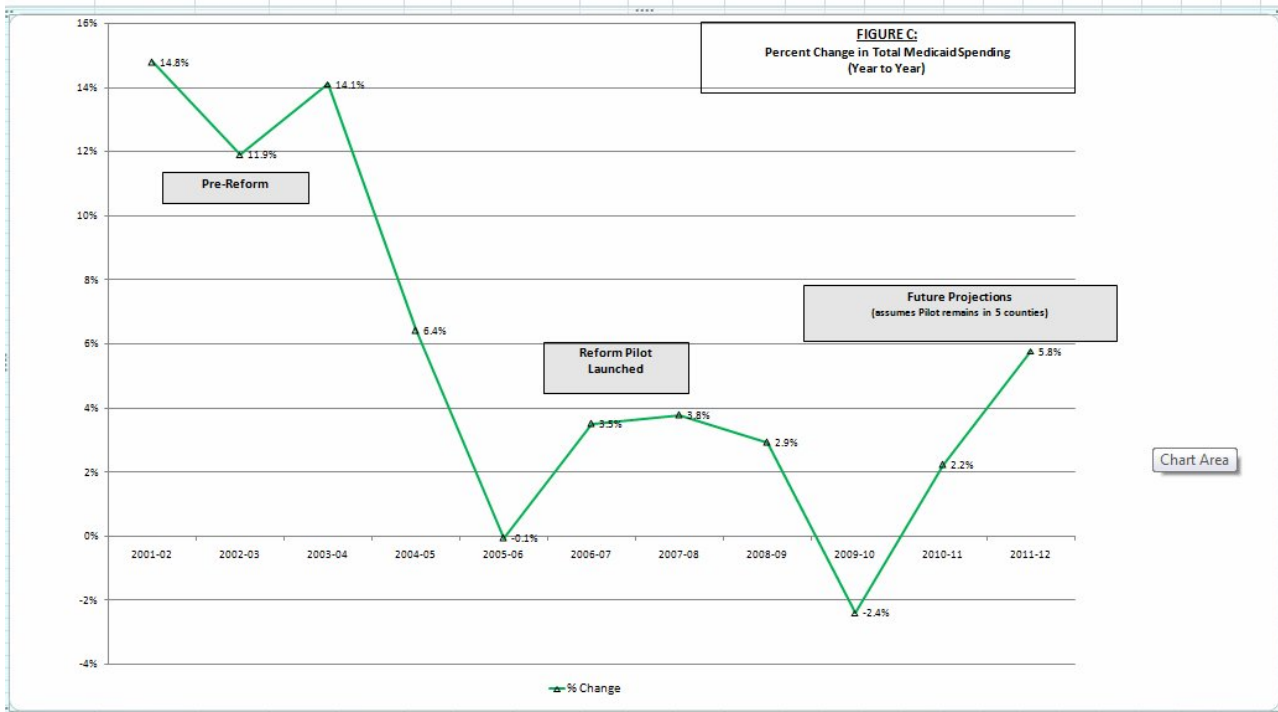
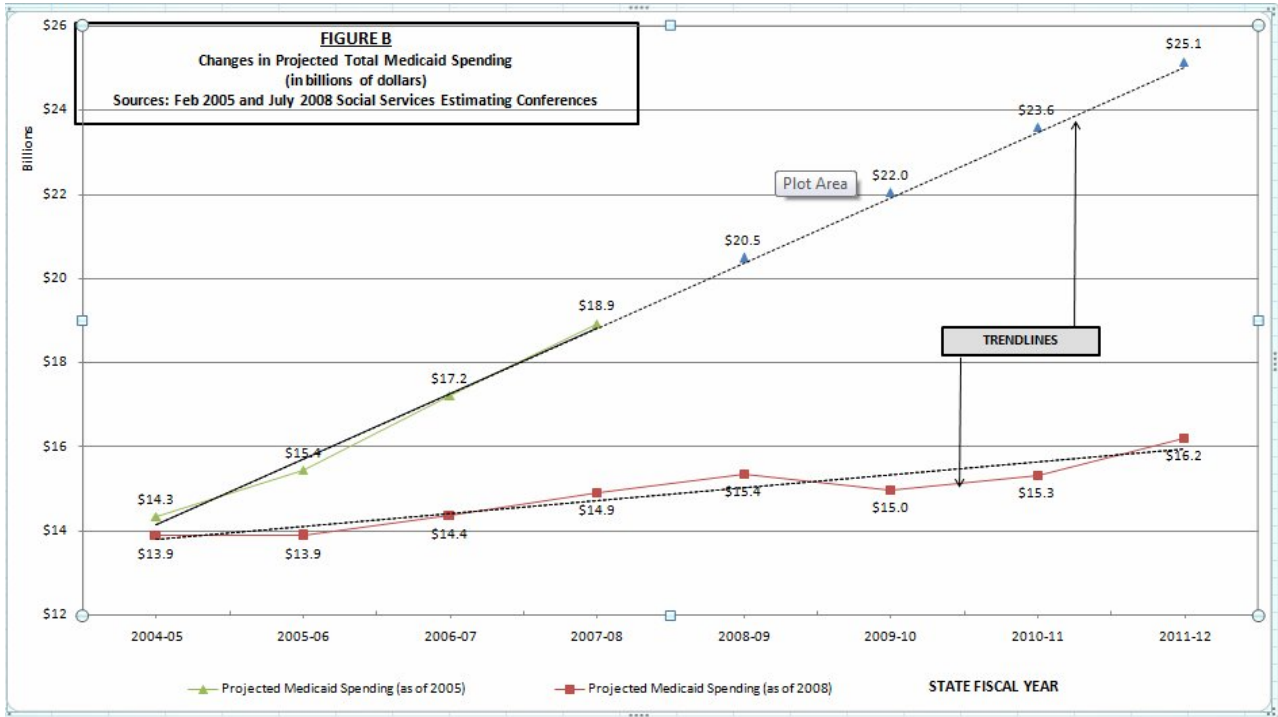
Fast forwarding to the present, the 2008-09 Medicaid budget is projected to be just \$15.3 billion, according to the most recent (July 2008) Medicaid Estimating Conference⁵. In other words, **Medicaid spending this year will be LESS than what State economists had earlier projected it to be for 2005-06!** The same economists now also project that Medicaid spending for 2010-11 - two years from now - will again be \$15.3 billion (though there are additional factors dampening growth that will be discussed below).

Figure B below shows how the State’s official Medicaid spending forecast has changed between 2005 and today. Using actual spending totals and updated Estimating Conference forecasts, spending is now expected to grow at only a quarter of that rate, reaching only \$16.2 billion by 2011-12. That’s a \$9 billion dollar difference between the current and obsolete forecasts for that year alone. **And over the course of the 7 fiscal years from 2005-06 through 2011-12, Florida will have spent a total of \$38 billion less than had been projected at the time Florida’s Medicaid Reform waiver application was pending.** This turnaround may be one of the best kept secrets in Florida budget history.

The Medicaid Reform experiment was authorized in 2005 and implemented in 2006 with the promise that the savings it would achieve were only to keep Medicaid from swallowing the State budget. But the reality is that **the total Medicaid budget for 2010-11 is now projected to be less than it had been projected (inaccurately) to be for 2005-06, five full years earlier.**

CONTINUING TO PLAY THE “OUT OF CONTROL” CARD

Uncontrollable growth in Medicaid spending is therefore not presently a crisis, and in fact has not been at any time since Reform began. Figure C below shows the change (increase or decrease) in total Medicaid spending from one year to the next. The crisis, as discussed further below, relates to plummeting State revenue as a whole and not to Medicaid spending growth.



Yet Reform proponents continue to raise the specter of a Medicaid budget that dwarfs all else. For example, House Speaker Marco Rubio earlier this year lamented that "...our current Medicaid system is unsustainable. It is

currently 22 percent of the state budget⁶.” The fact is, however, Medicaid spending comprised a greater percentage of Florida’s budget in each of the 3 years prior to the start of Reform.

Even more extreme were pronouncements made by then-Governor Jeb Bush in laying out his case for Reform in 2005, namely that Medicaid could consume \$50 billion - nearly 60 percent of the State budget - by 2015 if left unaddressed⁷. That claim was regurgitated and cited as fact as recently as last month by the James Madison Institute⁸.

However, projecting forward to 2015 using a trendline based on the estimates generated by the most recent Estimating Conference, **Medicaid spending that year will be \$17.1 billion, an almost unimaginable \$33 billion less than the Governor’s ominous prediction.** The 10-year forecast for Medicaid that struck fear in the hearts of Florida budget writers may in fact end up having been three times higher than what actually came to pass.

Admittedly, the percentage of the State budget absorbed by Medicaid *has* increased significantly since the beginning of 2007-08. However, this is only because Florida’s economic downturn has had a devastating effect on Florida’s primarily sales tax-supported revenue base and the budget it can support. It is Florida’s inadequate and volatile revenue base that have caused revenue to plummet so dramatically, NOT the spiraling costs of Medicaid. Florida’s entire budget, not just Medicaid, is presently under severe strain. EDR Director Amy Baker as recently as this month nevertheless opted to explain the problem as stemming from “costs ballooning in areas such as Medicaid and State prisons”⁹.

Florida’s economy will ultimately rebound from this recessionary cycle, and since Medicaid is not the cause of Florida’s budget woes, the Legislature is left with a completely different question than the one with which it wrestled in 2005. In particular, does Florida’s temporary revenue shortfall justify significantly and permanently eroding the Medicaid system upon which the poorest and sickest Floridians depend.

ADDITIONAL NOTES:

For the sake of completeness, an additional factor widening the gap between the 2005 and 2008 Estimating Conference projections were cuts to Medicaid made by the Legislature since 2005, particularly within the past year. For example, major components of the Medically Needy and Medicaid Aged and Disabled Waiver programs are currently scheduled to sunset at the end of 2008-09. As a result, although advocates intend to rally to ensure that these critical programs are not lost, the official forecast for future years does not include the cost of maintaining these critical programs at their current service levels, which added a cost of \$300 million in 2008-09. In addition, the Legislature slashed payments to nursing homes, hospitals, Medicaid HMOs, county health departments and others by a total of approximately \$600 million. Taken together with other cuts made in an earlier special session of the Legislature that were made permanent, perhaps \$1 billion of the \$5 billion separating the old and new forecasts could be attributed to these cuts.

Another factor affecting the rate of growth in overall Medicaid spending is enrollment, which varies according to a number of demographic and economic factors such as population growth. By 2012-13, some 2.3 million Floridians will be enrolled in Medicaid, up from 2.1 million in 2006-07. In terms of spending per beneficiary, the State’s contribution was \$221 per beneficiary per month in 2004-05. Eight years later, in 2012-13, that amount is projected to rise to \$260, a 17.6% increase, which is LESS than the overall rate of inflation. Figure D below shows how Medicaid spending per beneficiary has increased over time, as compared with the 2001-02 spending rate

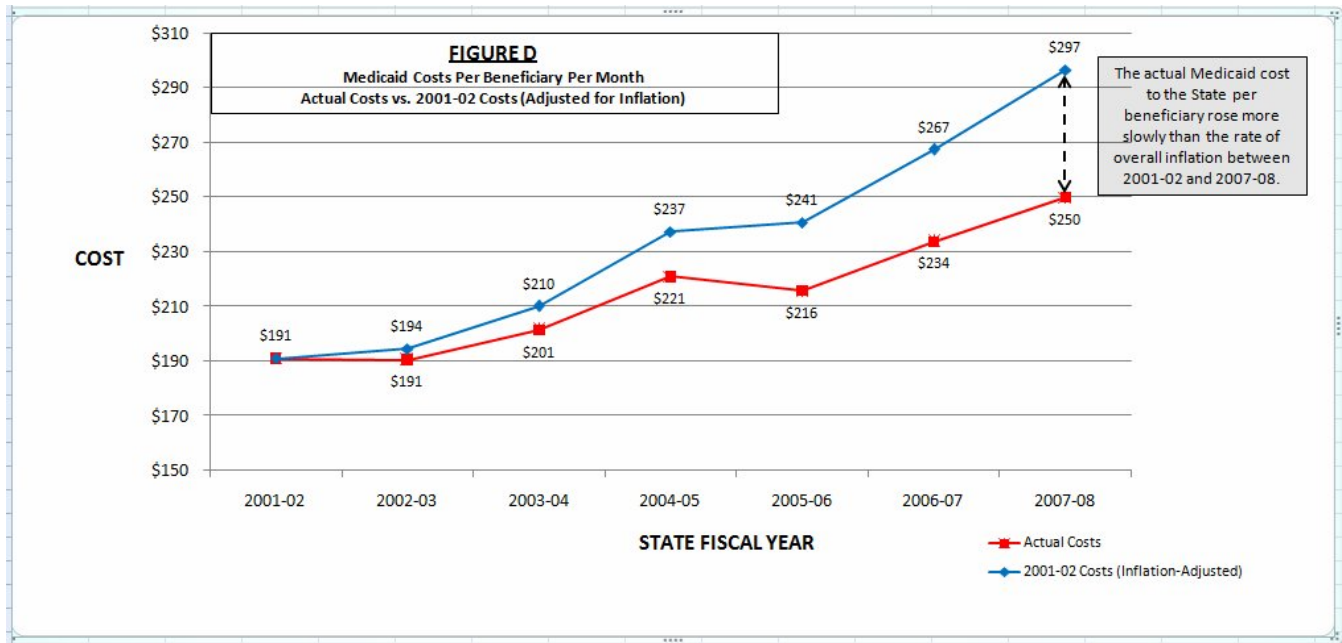
6 Pending Medicaid cuts raise concerns, Miami Herald, 3/6/08.

7 See e.g., [Florida Medicaid Reform – Application for 1115 Research and Demonstration Waiver, AHCA, p.1.](#)

8 [An Evaluation of the Pilot Project to Reform Florida’s Medicaid Program, James Madison Institute, p.1.](#)

9 *State dips into budget reserves*, Orlando Sentinel, 9/11/08.

adjusted for increases in the Consumer Price Index¹⁰ to provide a frame of reference.



Finally, for the sake of brevity, and following the example of others this policy brief examines changes in the total Medicaid budget over time. Medicaid is large and complex program consisting of a wide array of service categories and cost centers impacting a diverse group of beneficiaries. A more illuminating and precise understanding of trends in Medicaid spending could be derived from analyzing trends within program or population components.

¹⁰ [Consumer Price Index, U.S. Department of Labor, Bureau of Labor Statistics.](http://www.bls.gov)