



LONG-TERM TRENDS IN MEDICAID SPENDING BY THE STATES

Since 2011, state spending on Medicaid has grown rapidly as enrollment increases and healthcare costs escalate. Growing enrollment, even prior to enactment of the Patient Protection and Affordable Care Act (ACA), has precipitated increasing program costs, while the end of temporary increases in federal assistance for the program has put additional financial burdens on states. As these trends continue, state budget officials and other policymakers are becoming increasingly concerned that the growth in state Medicaid expenditures will displace other state budget priorities.

In a new study for the Mercatus Center at George Mason University, policy analyst Marc D. Joffe examines state financial data to better understand the effects these trends in Medicaid are having on state budgets. The study finds evidence that growth in state Medicaid spending is crowding out spending on other major state programs, most notably education and transportation infrastructure. However, there is little evidence that growing state Medicaid expenditure is increasing state debt burdens. As the ACA continues to drive increasing enrollment in all states, those states that have opted for the Medicaid expansion will experience a greater fiscal burden as federal assistance for the expansion gradually shrinks.

To read the study in its entirety and learn more about the author, [Marc D. Joffe](#), see “[Long-Term Trends in Medicaid Spending by the States.](#)”

BROAD TRENDS IN MEDICAID ENROLLMENT AND SPENDING

Actual and Projected Federal and State Medicaid Spending from 2000 to 2025

Both the federal and state governments share responsibility for funding Medicaid, with the federal government historically providing a majority of funding.

- Federal spending as a percentage of GDP is projected to grow 84 percent between 2000 and 2025, with most growth occurring before 2004 and after 2013.
- Over the same period, state spending on Medicaid is also expected to grow considerably, but at a slower rate.

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Increasing Medicaid Enrollment Is the Primary Driver of Spending Growth

Medicaid enrollment had experienced considerable growth between 2000 and 2013, prior to the enactment of the ACA.

- Monthly Medicaid enrollment grew from 31.7 million in June 2000 to 55.0 million in June 2013, an increase of 73 percent, far outstripping overall US population growth of 12 percent.

Changing Federal Medicaid Assistance

The proportion of federal Medicaid assistance has fluctuated over time and differs between states.

- The federal government provides Medicaid assistance to states based on per capita income, with wealthier states getting a 50 percent match, while poorer states can receive up to 83 percent.
- Provisions of the American Recovery and Reinvestment Act (ARRA) temporarily increased the average Federal Medicaid Assistance Percentage (FMAP) to states between fiscal year (FY) 2009 and FY 2011, though the downward trend in the average FMAP continued after the temporary increase expired.

KEY FINDING: INCREASING MEDICAID ENROLLMENT AND SPENDING AFFECTS STATE BUDGETS

The percentage of state spending nationwide devoted to Medicaid has increased as Medicaid enrollment and spending have grown.

- Between 2000 and 2014, the percentage of total state spending for Medicaid (including federal contributions) grew from 19.1 percent to 25.8 percent.
- Excluding federal contributions, the percentage of state spending nationwide for Medicaid increased from 11.0 percent to 14.8 percent.
- While the percentage of state spending nationwide for Medicaid excluding federal contributions fell between FY 2004 and FY 2010, it increased rapidly following the expiration of the ARRA's temporary increase in federal Medicaid contributions.

As the proportion of state spending nationwide devoted to Medicaid increases, other categories have seen a marked decrease in their share of state expenditure, including education, transportation infrastructure, corrections, and other public assistance programs.

BUT IT DOES NOT AFFECT STATE DEBT

Although other state spending priorities have been affected by the increase in state Medicaid spending, these increases are not likely causing states to increase borrowing.

- The nationwide state debt-to-GDP ratio increased from 5.4 percent to 7.5 percent between 2000 and 2010, but decreased to 6.9 percent by 2013.
- The recent increases in state Medicaid spending coincided with the decrease in state debt relative to GDP, suggesting that the increase is not leading to more state borrowing.

MEDICAID EXPANSION AND POPULATION AGING WILL PLACE FURTHER PRESSURE ON STATE BUDGETS

Medicaid enrollment growth and rising healthcare costs will continue to exert pressure on state budgets for years to come. The ACA's expansion of Medicaid eligibility, as well as increased awareness among already eligible beneficiaries, have led to dramatic increases in Medicaid enrollment.

- While new enrollees who were eligible for Medicaid before the ACA are already causing increased expenditures on Medicaid in every state, newly eligible beneficiaries will cause increased state expenditures in 2017 for the 28 states that have opted into it. During this period, the federal contribution for Medicaid expansion drops from 100 percent to 95 percent. The federal contribution for the expansion will gradually drop to 90 percent by 2020, placing further strain on state budgets.

Population aging may also place upward pressure on state Medicaid expenditures.

- While Medicaid beneficiaries are mostly under the age of 65, the small proportion that is elderly has significantly higher per-enrollee costs than younger enrollees. Medicaid's costs for coverage of long-term care, primarily used by elderly beneficiaries, may significantly increase as the baby boomer generation ages, though the increase will be smaller than Medicare's cost increase.

CONCLUSION

Between 2004 and 2010, Medicaid did not exert substantial pressure on state budgets. When supplemental federal assistance declined in 2011, the proportion of overall state expenditures devoted to Medicaid began growing, possibly leading to "crowding out" of other state spending priorities. Growing enrollment due to the ACA will likely accelerate this trend, especially as federal assistance for newly eligible beneficiaries shrinks. Population aging may also add to increasing state Medicaid costs.