Congress Should Help Medicaid Hold the Bulwarks of the Health Care Safety-Net

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A storm is gripping our nation – the likes of which we’ve never seen before. The COVID-19 pandemic is stressing the health care system, and it is plunging the economy into a recession with great precision and speed. For states and communities to weather COVID-19 and this recession, Congress needs to provide state Medicaid programs with additional, immediate fiscal relief.

Medicaid is on the frontlines of this pandemic, providing access to life-saving care to over 70 million people. This includes older Americans and individuals with chronic conditions who are the most vulnerable and at-risk of death from this virus.

At the same time, states are bracing for the economic downturn that COVID-19 is leaving in its wake. As the nation’s largest public health insurance program, Medicaid will serve many of the 36.5 million Americans who lost their employer-provided insurance along with their jobs.

Medicaid is designed to do this. When the economy contracts, Medicaid expands. The program can serve more people who need it.

In this recession – like in the 2008 economic downturn – Medicaid Directors will face many difficult decisions. Medicaid, which is already about 30% of a state’s annual budget, will cost more as more people come onto the program.¹ States will still have to balance their budgets, and Medicaid will be one of the main ways to do this. At the same time, state revenues will decline as fewer people and companies pay taxes. A recent report estimated state revenues will drop by 15 to 20%.²

But that is where the similarities with the 2008 recession end. This recession will be different from 2008 – and exponentially more difficult for Medicaid – in three main ways:

1. This recession is taking hold quickly and having a deep impact across all states and communities. We’re seeing a fiscal cliff across all 50 states, D.C. and the territories. As one author noted, it is akin to “pulling the plug on the economy.”³ The 2008 recession, on the other hand, gradually took hold as industries shrank their workforce in response to dwindling consumer demand.

2. Medicaid programs are addressing a pandemic at the same time as a recession. We didn’t have this in 2008. This will make it hard for Medicaid to use the few tools in its toolbox, like provider

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rate reductions, to balance state budgets.

Many providers are struggling with lack of capacity to manage the surge of COVID-19 patients. At the same time, other providers are at risk of closing their doors in a matter of days or weeks because patients aren’t coming in for visits and elective procedures have been canceled, resulting in loss of revenue. In short, provider networks are deteriorating. This will impact access to care for Medicaid beneficiaries and threaten access for all Americans. For example, if opioid treatment providers or pediatricians shudder their doors, everyone suffers, not just Medicaid members. These closures will also have ripple effects on the economic activity in states.

Reducing provider rates is one of the few ways states balanced budgets in the 2008 recession. However, those cuts would exacerbate providers’ financial challenges and further destabilize the health care system. But without additional federal fiscal relief for states, this may be states’ only option.

3. This is the first recession since Medicaid expansion was implemented. Medicaid expansion, which essentially gave states the option to provide Medicaid coverage to childless adults, is almost entirely funded by the federal government: states pay 10% and the federal government pays 90%. This means the overall fund mix of Medicaid has changed, and the federal government pays for a larger share of the program. In practical terms, Medicaid cuts must be bigger to generate a small amount of state savings. For example, to generate $10 million in state savings around the expansion population, a state must cut $90 million in federal dollars.

Making these large cuts is not only difficult, but it also means you’re pulling tens or hundreds of millions of federal dollars out of a state’s economy. This reduces economic activity in the health care sector, which in turn exacerbates state revenue shortfalls.

Medicaid programs are preparing for a recession unlike what we saw in 2008. They are weighing impossible trade-offs around budget cuts in the middle of this pandemic. Congress needs to ensure Medicaid can shore up the bulwarks of the health care safety-net. It can do this by providing additional, and more substantial, fiscal relief to states over a period of time that mirrors the economic recovery. This will ensure that Medicaid can deliver on its mission of providing health care to those who need it most, when they need it most.