Center for American Progress

The Ryan Medicaid Plan

A Threat to Middle Class Security

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Introduction and summary

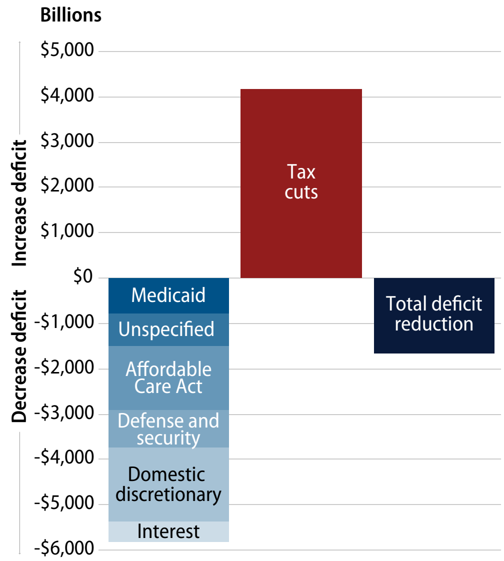
For more than a decade policymakers in Washington and ordinary citizens across the country have engaged in a public dialogue on the federal budget that has frequently served to confuse rather than clarify the choices facing our nation. This year Rep. Paul Ryan (R-WI), chairman of the House Budget Committee, put forward a proposal that attaches significantly greater programmatic detail to the spending reductions he is proposing than previous advocates of large spending cuts. The proposal has been both praised and assailed for its content—but there is little question that it has served to move the budget debate to a more substantive and informative level.

The Ryan plan is important not simply because it provides greater detail as to how cuts in federal spending might be achieved but also because it has legislative credibility. On April 15, 2011 the Ryan budget was adopted by the U.S. House of Representatives by a vote of 235 to 193, with all but four members of the majority party (the Republicans) voting "yes."

This paper examines one key proposal in the Ryan budget plan that has thus far received surprisingly little attention—the proposal to replace the current Medicaid program with block grant payments to states. The Medicaid changes would have extraordinary implications not only for the poor individuals who are normally thought of as the principal beneficiaries but for a very broad swath of middle-class families who are far more likely to become reliant on Medicaid benefits at some point in their life than most currently realize.

A full public discourse on whether the Congress should go forward with these particular cuts as opposed to other policy options available to the Congress requires some in depth probing as to what impact the cuts would likely have on various segments of the population, and whether or not the public at large would be comfortable with the risk that those benefits might disappear. It is also necessary to view the value of these benefits in comparison with other options that might be available to Congress and in particular, the overall policy direction of the broader Ryan proposal—a proposal that not only includes the permanent extension of the Bush era tax cuts but the adoption of additional tax cuts, including the lowering the top individual income tax rate from 35 percent to 25 percent.

FIGURE 1
Ryan budget proposal



Source: Ryan Budget Summary Tables, Table S2 House Budget Committee.

Overall the proposal includes $5.8 trillion in spending cuts (relative to the Congressional Budget Office baseline) that are heavily offset by $4.2 trillion in revenue reductions. Net the plan generates only $1.6 trillion in deficit reduction. Medicaid reductions and most other spending cuts can be fairly seen as largely paying for further tax reductions rather than deficit reduction.

As a result, the federal budget will remain in deficit throughout this period and the public debt will grow by $5.8 trillion. That is less than the $7.4 trillion worth of debt that would accumulate if no deficit reduction plan were adopted, but far less than one might assume given the magnitude of spending cuts Rep. Ryan is proposing.

What does this mean for Medicaid? Under the Ryan plan, Medicaid accounts for $771 billion in spending cuts over the 10-year period of the proposal. That is more than one-eighth of the total cuts in the plan—many times more than the cuts in Medicare. Nonetheless, the Medicaid portion of the package has received far less attention than the Ryan proposal for Medicare. Medicaid is in fact the epicenter of the current budget debate.

Perhaps that is because many of us are under the misperception that Medicaid is simply one more benefit for the nation's poor and that we have reached a point when we can no longer afford to be as generous to the poor as we were in the past.

But in fact Medicaid is not really a poverty program. As this paper will demonstrate, two-thirds of Americans living below the federal poverty line are not Medicaid beneficiaries. But the overwhelming majority of families who make up what is generally considered the nation's middle class will be at significantly greater risk of facing financial catastrophe at some point in their lives if these benefits are taken away.

We all know people—or at least know of people—who had their lives changed in a split second. Whether it is an auto accident, the birth of a severely disabled child, a stroke, or devastating news from the doctor's office, a well-planned and orderly life can be turned upside down almost instantly with grave consequences for not only the immediate victim but friends and family as well.

The medical costs associated with such events can run into hundreds of thousands and even millions of dollars. Many of us are lucky enough to have insurance that will cover most if not all of those costs. But few of us can manage the extraordinary burden of the long-term care requirements that such tragedies often leave in their wake. Few of us could cover such costs if we were the victims and even fewer could make a substantial contribution to the cost of providing such care for a relative that can no longer be cared for at home or in a community setting.

Many elderly and disabled Medicaid beneficiaries once lived in middle class households, and while they make up only 25 percent of Medicaid's enrollees they account for two-thirds of Medicaid spending. It is difficult to envision reductions in Medicaid spending of the magnitude that would be required under the Ryan formula without significant reductions in this portion of the program.

Cutting eligibility for those who are neither elderly nor disabled would also be more problematic than is generally recognized. The overwhelming portion of Medicaid funds going to adults who are neither aged nor disabled goes for prenatal and maternity care and that care is at least partially responsible for the dramatic decreases in miscarriages and infant mortality that have taken place in this country. Reducing the health care available to children would reduce the number who arrive at school ready to learn and would also place the broader population at risk from the stand point of public health.

Finally, this paper will discuss whether the Ryan Medicaid proposal actually resolves the deficit and spending problems we now face or simply relocates them to state capitals. Even if the Ryan proposal to repeal the recently enacted health care legislation is adopted, the cost of providing current levels of service to currently eligible populations will increase by about $337 billion over the next decade. Under the current formula the federal government would pay about $192 billion of that increase leaving the states to pick up the remaining $145 billion.

Ryan would cut the federal contribution to $78 billion, leaving the states with well over a quarter of a trillion in new revenue necessary to fund the current Medicaid program. Under the Ryan proposal the portion of state revenues needed to fund current service and eligibility levels would go from 16 percent at present to 26 percent by 2021. While it is likely that the portion of state revenues going to Medicaid will rise significantly—crowding out other state services such as support for colleges and universities, aid to highways, public health, law enforcement, and the support of local schools —it is not likely that those shifts will resolve the entire shortfall.

As a result, the proposal will also place significant upward pressure on state and local taxes, including sales taxes and property taxes. Combined with the Ryan proposal to lower tax rates on the highest-income federal taxpayers, this will amount to a massive downward redistribution of after-tax income.

Medicaid is a huge program that touches many lives but is nonetheless poorly understood by both the public and policymakers. Perhaps more than any other government program it is the social safety net for middle class families—families that as the result of old age, injury, disease, or some other catastrophic happenstance could face medical and long-term care bills that far exceed what their savings and insurance will cover. Because it insured millions of Americans who got the care that they needed, millions of families did not confront financial disaster.

Changes to this program should be made with extreme caution and not before the public has a clear understanding of the consequences those changes might have on their lives and the lives of their neighbors. In the pages that follow, this paper details the costs and consequences of the Ryan plan as passed by the House of Representatives earlier this year.

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