

WebMemo



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The President's Budget: Improving Medicaid and SCHIP

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President Bush's fiscal year 2008 budget for Medicaid and the State Children's Health Insurance Program (SCHIP) builds on the Medicaid reforms in the Deficit Reduction Act of 2005 and recommends the reauthorization of SCHIP. The President's budget presents Congress with a guide to reforming and improving both SCHIP, which is the joint federal and state program for low income children, and Medicaid, the large and growing health care entitlement program for the poor and the indigent. It points toward a sound direction in health policy for both programs.

Improving Medicaid. The President's proposal for Medicaid builds on the success of the Deficit Reduction Act of 2005. The President proposes to reform Medicaid's reimbursement system, including pharmacy reimbursements; redefine the home equity limits for Medicaid eligibility; and make other programmatic changes.¹ In addition, the President would change several regulations through the normal administrative process. These changes would save \$25.7 billion over the next five years. From a fiscal standpoint, the changes would slow the average annual growth of Medicaid from 7.3 percent to 7.1 percent over the next five years. This is a modest, but important, step that keeps with the goal of regaining fiscal control over this program by slowing its rate of growth.

The President's budget plan provides Congress with a roadmap to improve the fiscal stability of Medicaid and the overall structure of the program. It would make Medicaid more efficient and address the needs of those with the lowest incomes. Like

other massive government entitlements, Medicaid's financial future is unsustainable at both the federal and state level. Congress, as well as state legislatures, must adopt changes that would set the program on a manageable budgetary glide path.

While the President's plan focuses primarily on promoting greater efficiency within the existing administration of the program, federal and state policymakers should consider other changes that are consistent with empowering beneficiaries. For example, moving toward a defined-contribution model would allow lower-income families to use existing Medicaid funds to purchase private health insurance and help mainstream them into the market that serves the vast majority of their fellow Americans. Only in the private market does consumer demand spur innovation and improve the quality of care—especially when consumers exercise direct control over the flow of dollars in the system.

State Children's Health Insurance Plan.² The President's SCHIP proposal recommends reauthorizing the program for 5 years and \$5 billion to maintain current enrollment levels for low-income children. The President also proposes to refocus the SCHIP program on low-income uninsured children below 200 percent of the federal poverty level and

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targeting federal dollars to those states with populations most in need.

Unlike some alternative proposals with much heftier price tags for taxpayers, the President's plan would take a fiscally prudent approach to funding. It would, as noted, prioritize appropriations to those states with populations most in need. In addition to these efforts, federal and state lawmakers should also make policy changes to improve SCHIP. In particular, they should take decisive steps to expand competition and increase private coverage options.

Conclusion. The President's budget for Medicaid and SCHIP provides policymakers with a rational

and positive roadmap for the future for these programs. The challenge for policymakers is to take these recommendations and improve upon them. They can do that by integrating greater personal choice and control over the flow of health care dollars in these programs and requiring providers and plans to compete directly for these dollars. Increased choice and serious market competition would rejuvenate the care and improve the quality of service delivered in these government-run health care programs.

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1. U.S. Department of Health and Human Services, "Budget in Brief," February 05, 2007, pp. 58–63, at www.hhs.gov/budget/08budget/2008BudgetInBrief.pdf.
 2. *Ibid.*, pp. 64–65.