# BAD MEDICINE:

## *The President's Medicaid Regulations Will Weaken Illinois's Economy*

Families USA
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Across the country, states are facing the fallout of the recession and the resulting reduction in state revenues. In this difficult economic climate, the Bush Administration has suddenly proposed to change the rules of the state-federal partnership that finances Medicaid and to withdraw an estimated $50 billion in federal funding from state economies over the next five years.[1]

The Administration issued seven new Medicaid regulations in 2007 that, taken together, will sharply reduce the federal funding that states receive for Medicaid services. These new regulations restrict federal funding for rehabilitation services, school-based transportation services and administrative services (such as outreach and enrollment), and case management services. They also significantly affect public hospitals and funding for the training of graduate medical students.

The potential human impact of these regulations has already been documented, and children and people with disabilities will be the hardest hit.[2] These consequences alone are sufficient reason for Congress to enact moratoria suspending implementation of these regulations. However, the regulations will also cause *serious and quantifiable harm to state economies*. In March, the Majority Staff for the House Committee on Oversight and Government Reform estimated that, if all the regulations are fully implemented, states stand to lose nearly $50 billion in federal matching funds over the next five years.[3] Illinois is estimated to lose about $487.7 million during the first year of implementation and a total of $2.5 billion over five years. This loss of federal funding means that there will be fewer dollars circulating through Illinois's economy, which translates into a reduction in business activity, jobs, and wages—a reduction that will be sustained for as long as the regulations are in place.


The Medicaid program is a state-federal financial partnership: For every dollar a state spends on Medicaid, the federal government contributes matching funds—money that would not otherwise go to the state. For every one state dollar that Illinois spends on Medicaid, the federal government contributes one matching dollar. This injection of new federal dollars into state economies has a measurable effect on business activity, wages, and jobs within the state. The new dollars pass from one person to another in successive rounds of spending, generating additional business activity, jobs, and wages that would not otherwise be produced. Economists call this the "multiplier effect." The magnitude of the multiplier effect varies from state to state. The converse of the multiplier effect is also true: A reduction in the amount of federal funding going to a state causes a corresponding reduction in business activity, jobs, and wages. Table 1 estimates the economic impact that the Medicaid regulations will have in Illinois.[4]

Table 1.

**Economic Impact of Medicaid Regulations on Illinois in the First Year of Implementation**

| Lost Federal Dollars in the First Year | Lost Business Activity | Lost Jobs | Lost Wages |
|---|---|---|---|
| $487.7 million | $1.2 billion | 10,800 | $418.8 million |

Source: Families USA calculations using the Regional Input-Output Modeling System (RIMS II) and state estimates of lost federal funding based on seven Medicaid regulations (cost limit for public providers, payments for graduate medical education, redefinition of outpatient hospital services, allowable provider taxes, rehabilitative services, payments for costs of school administration and transportation services, and case management services). RIMS II is produced by the U.S. Department of Commerce, Bureau of Economic Analysis. A full methodology is available upon request.

In the coming months, as people lose their jobs or see their paychecks diminish because of the recession, they are more likely to become eligible for Medicaid, so Medicaid rolls will grow. States whose budgets are already strained, like Illinois, will then be forced to pay for these increases in Medicaid costs at a time when their revenues are lower than normal. To add insult to injury, the Bush Administration's Medicaid regulations will cut federal support for Medicaid by at least $8.6 billion over the next year alone, with Illinois losing $487.7 million.[5]

The Administration unexpectedly imposed these new rules on state governments without congressional review or debate and seems determined to see them through, despite broad bipartisan opposition and calls for moratoria on their implementation.[6] Allowing these regulations to go forward is the wrong choice for Illinois's families, who will need the Medicaid safety net more than ever in the coming months. It is also the wrong choice for Illinois's economy, which will be further weakened by these cuts.

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[1] Majority Staff of the House Committee on Oversight and Government Reform, *The Administration's Medicaid Regulations: State-by-State Impacts* (Washington: House Committee on Oversight and Government Reform, March 2008).

[22] Allison Orris and Judith Solomon, *Administration's Medicaid Regulations will Weaken Coverage, Harm States, and Strain Health Care System* (Washington: Center on Budget & Policy Priorities, February 13, 2008); Sara Rosenbaum, *CMS' Medicaid Regulations: Implications for Children with Special Health Care Needs* (Washington: First Focus, March 14, 2008).

[3] Majority Staff of the House Committee on Oversight and Government Reform, op. cit.

[4] These calculations build upon the estimated loss of federal dollars that each state provided to the Majority Staff of the House Committee on Oversight and Government Reform for their report (see endnote 1). A detailed methodology is available upon request.

[5] Majority Staff of the House Committee on Oversight and Government Reform, op. cit.

[6] Robert Pear, "Governors of Both Parties Oppose Medicaid Rules" *New York Times,* February 24, 2008; National Association of Public Hospitals, *Hospitals File Lawsuit against Federal Government to Stop Medicaid Cuts* (Washington: National Association of Public Hospitals, March 11, 2008), available online at http://www.naph.org/naph/Communications/FINAL_Press_Release_03_10_08.pdf.

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