



# Budget Facts 2011

from the COMMONWEALTH FOUNDATION

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## Pennsylvania Welfare Spending & Medicaid

*Gov. Tom Corbett's FY 2011-12 budget proposal includes \$63.6 billion in total operating spending—\$27.3 billion in General Fund spending—a reduction of \$3.3 billion from FY 2010-11. This budget restores overall spending to pre-stimulus levels and proposes no new taxes. This is the eighth in a series of fact sheets on the state budget.*

### GROWTH OF WELFARE SPENDING

- Gov. Tom Corbett's proposed FY 2011-12 budget would represent the first time General Fund spending on the Department of Public Welfare would exceed that for the Department of Education.
  - The Governor's proposal increases spending for the Department of Public Welfare (DPW) by \$600 million.
  - Public Welfare spending in the Governor's proposed budget is 72% higher than in FY 2002-03.
- Much of the welfare spending increase is due to the growth of Medical Assistance (Medicaid) and the Federal government's requirements imposed on states to implement the joint program.
  - In 1980, Medicaid represented approximately 12% of the state budget. **Medicaid and long-term care represents 24% of the state General Fund budget in FY 2010-11.**
  - Today, one in six Pennsylvanians receives Medicaid benefits.

### MEDICAID SPENDING & PPACA

- Medicaid costs were projected to consume **94% of Pennsylvania's budget in 2075** before the federal Patient Protection and Affordable Care Act (PPACA) became law.
  - PPACA significantly expands Medicaid eligibility. The increase in Medicaid enrollees will accelerate spending growth at the state level.
- PPACA's primary impact on the state budget will come from the expansion of Medicaid.
  - The Heritage Foundation estimates Pennsylvania's Medicaid **enrollment will increase by 17.6% by 2014**. Meanwhile, Medicaid costs from 2014 through 2020 are estimated to increase an additional \$841.2 million as a result of new mandates.
  - Gov. Corbett's administration estimates Pennsylvania's Medicaid roll could grow by as much as 800,000 from 2,176,010.
- Additional costs to taxpayers will be imposed from employer mandates relating to specific coverage that government worker's health care plans must provide.
  - Hundreds of employers, including the states of Ohio, New Jersey, Massachusetts and Tennessee (but not Pennsylvania) have already received waivers for these mandates.

### MEDICAID REFORM

- In January, Gov. Corbett joined 32 other governors asking the President Obama and members of Congress for greater flexibility to manage and reduce growing state Medicaid costs.
  - A credit system providing Medicaid enrollees with funding to purchase insurance has reduced Medicaid spending in Florida, South Carolina and Louisiana.

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- Rhode Island secured a federal waiver granting more flexibility in managing Medicaid in 2008. In the first 18 months, the state saved hundreds of millions of dollars. From 2007 to 2011 the Ocean State's Medicaid **spending grew 6.2%, while Pennsylvania's grew 24%**.
  - Under current federal mandates, the only ways states can curtail Medicaid growth is through reducing benefits (Arizona ended coverage for organ transplants) or reducing doctor reimbursement rates.
    - Medicaid already provides poor quality care. Studies show that those with private health insurance have better health outcomes than those on Medicaid.
    - Cutting benefits or doctor reimbursements would further deteriorate Medicaid's quality of care.

### **WELFARE FRAUD**

- Auditor General Jack Wagner's investigations into Medicaid fraud revealed improper eligibility determinations on more than 1,600 randomly selected applications between January 2005 and March 2008—resulting in **\$3.3 million in payments to ineligible recipients**.
  - At this error rate, payments to ineligible recipients in Pennsylvania Medicaid approaches \$1 billion annually.
- The budget proposal unveiled in May by House Republicans would reduce Gov. Corbett's proposed welfare spending by \$471 million.
  - This reduction is based on an error rate of 4%.
  - This reduction still represents an increase of \$137 million or 1.3% over the FY 2010-11 General Fund welfare spending.
- Lawmakers in the House have passed six of eight bills designed to reduce fraud and abuse in the welfare system.
  - These reforms include a cross-reference system to verify eligibility, strengthened penalties for fraud and random drug testing for drug felons.

### **LONG-TERM CARE**

- Medicaid pays for most professional long-term care in Pennsylvania.
  - Long-term care currently costs Pennsylvania taxpayers \$6.6 billion per year, making up **40% of all Medicaid spending**, which is higher than the national average.
- Pennsylvania's eligibility standards and benefits are more generous than most states. On average, the state pays \$138 per nursing home patient per day—the **8<sup>th</sup> highest in the nation**.
  - Many Pennsylvanians are able to qualify for Medicaid funded long-term care due to the \$500,000 home equity exemption and many other exclusions.
  - Pennsylvania often fails to recover long-term costs from those with excess assets after death. If the state recovered long-term care funds at the same rate as Oregon, the commonwealth could recover an additional \$213 million per year to pay for these Medicaid services.
- With a large aging population and generous eligibility standards, lawmakers will see a dramatic rise in long-term care costs as more Pennsylvanians utilize Medicaid absent reform.

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