



NASBO Analysis: Medicaid to Stress State Budgets Severely into Fiscal 2003

National Association of State Budget Officers

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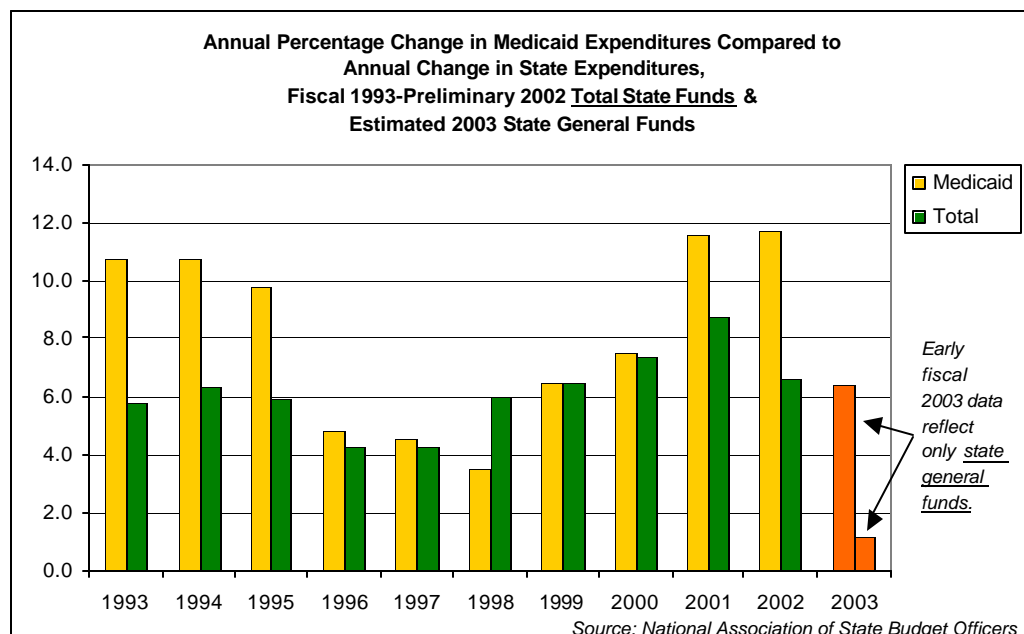
Even as states struggle to close budget gaps and confront revenues growth that will lag a national economic recovery, Medicaid costs continue to grow at a remarkable rate. Based on NASBO's just completed preliminary review of fiscal 2001 and 2002 state expenditures, total state Medicaid spending increased by 11.6 percent and 11.7 percent, respectively, and now amounts to more than 20 percent of total state spending. Just as states are trying to manage the recession's fiscal fallout, NASBO's analysis demonstrates that Medicaid continues to pressure state budgets severely.

Preliminary Review Shows Medicaid Growth Relentless in Fiscal 2001, 2002, 2003

A preliminary review of actual fiscal 2001 and estimated fiscal 2002 state expenditures shows that Medicaid spending continues to outpace total state expenditure growth. While the recession and added economic effects of the September 11 attacks pushed state budgets to current fiscal year shortfalls of nearly \$40 billion, Medicaid is causing particular strain.

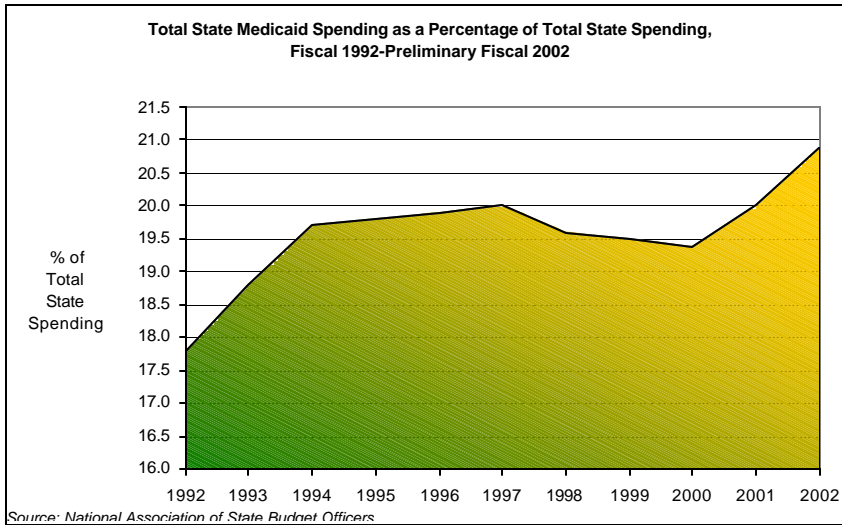
Preliminary calculations show that fiscal 2001 total state spending grew by 8.7 percent over the previous year, while total state Medicaid spending grew by 11.6 percent. Medicaid's rapid growth is even more apparent based on preliminary figures for estimated fiscal 2002: total state spending is growing by 6.6 percent, while total Medicaid expenditures has surged an additional 11.7 percent. An early examination of states' fiscal 2003 Medicaid estimates shows this trend continuing: state general fund Medicaid spending is estimated to grow an additional 6.4 percent in the next fiscal year.

The preliminary review of fiscal 2002 state spending—based on 27-state data—also shows that Medicaid now accounts for more than 20 percent of total state expenditures, second only to elementary



and secondary education. By comparison, Medicaid accounted for 17.8 percent of total state spending in fiscal 1992.

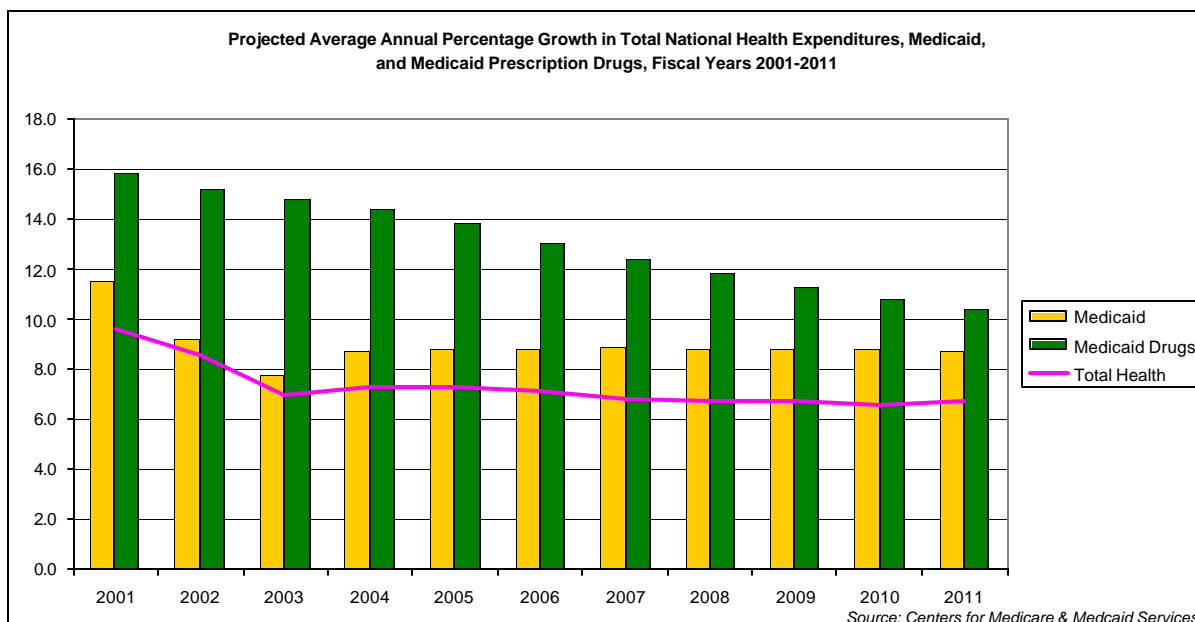
The substantial increases in state Medicaid spending reflect cost increases that most states had



not earlier estimated they would incur. In fiscal 2001, state general fund Medicaid costs exceeded budgeted amounts by more than 9 percent, or nearly \$1.1 billion. So far in fiscal 2002, general fund Medicaid costs are exceeding budgeted amounts by more than \$1.3 billion.

Projections Show Upward Trend Continuing

According to figures released March 11 by the Centers for Medicare and Medicaid Services (CMS), Medicaid growth will remain strong though 2011, outpacing growth in total national health expenditures (for CMS’ complete report on national health expenditures, see <http://www.hcfa.gov/stats/nhe-proj/>). The biggest Medicaid cost driver—spending for prescription drugs—also will continue to grow. Through 2011, CMS projects Medicaid prescription drugs spending will grow at an average annual rate of 12.7 percent. The resources allocated to health care spending is evident in a rather stark statistic: for fiscal 2001, CMS calculates that national health care expenditures accounted for 14 percent of gross domestic product.



If you would like additional information, please contact Nick Samuels (nsamuels@sso.org or 202-624-8439) or Scott Pattison (spattison@sso.org or 202-624-8804) in NASBO’s Washington, D.C. office.