

# MassHealth and State Fiscal Health

## A New Look at the Effects of Medicaid Spending on State Finances

June 2006

A new report from the Massachusetts Budget and Policy Center and the Massachusetts Medicaid Policy Institute looks at the relationship between state Medicaid spending and state fiscal conditions. To interpret the fiscal effects of Medicaid spending growth and because the economy is cyclical and Medicaid is by nature *counter*-cyclical, the report looks at spending over the course of an entire economic cycle, at Medicaid spending in the context of economic growth, and at state revenues.

Over the last decade, Medicaid spending grew at approximately the same rate as the economy. This means that, over time, the economy grew quickly enough to support the costs of Medicaid spending growth. Between Fiscal Years 1994 and 2005:

- Medicaid spending grew 5.6 percent.
- The economy (as measured by personal income) grew 5.3 percent.

Medicaid became a larger share of the state budget, not because Medicaid spending grew faster than the economy, but because state revenues — the amount of money available to fund the state budget — did not keep pace with the economy.

- Medicaid spending stayed almost constant as a share of the economy. Medicaid spending was 2.08 percent of personal income in 1994, and 2.14 percent of personal income in 2005.
- State revenues dropped as a share of the economy. Revenues were 10.02 percent of personal income in 1994, and 9.12 percent of personal income in 2005.
- Medicaid spending as a share of state revenues increased from 20.8 percent to 23.4 percent, creating perception that Medicaid spending was the primary cause of the state's fiscal stress. This overlooks the relationships among Medicaid spending, state revenues and the Massachusetts economy, however.



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The effect on state finances of revenue reductions is far greater than the effect of Medicaid spending growth.

- Revenues were \$2.47 billion lower in Fiscal Year 2005 than if they had been the same share of personal income as in FY 1994. This is almost ten percent of the state budget. More than \$2 billion of this revenue reduction was the result of tax cuts.
- Medicaid spending was \$158 million higher in FY 2005 than if it had been the same of personal income as in FY 1994. Since the federal government reimburses the state for close to half of its Medicaid spending, the fiscal impact of Medicaid spending growth is approximately \$79 million. This is less than one-third of one percent of the state budget.

Between Fiscal Year 1994 and Fiscal Year 2005, Medicaid spending became a larger share of revenues that were a shrinking share of the economy. Although the relationship between Medicaid spending and state revenues varied widely from year to year, Medicaid spending between FY 1994 and FY 2005 changed very little in relation to personal income, and therefore was sustainable given the economic growth over that same period. Looking at Medicaid spending with this broader view provides a new context for policy makers as they think about the Medicaid budget now and in the future.

