

Budget Basics: Medicaid

Dec 21, 2016

Medicaid is a health insurance program for low-income people that is financed jointly by the federal government and the states. This budget explainer describes what Medicaid is, how it is financed, and who benefits from it.

In 2014:

- Medicaid provided health insurance for 78 million Americans.
- Medicaid spending represented 16 percent of all health spending in the U.S.
- Medicaid cost the federal government \$303 billion and the states \$195 billion.

In addition, the program plays a significant role in the country's healthcare system:

- More than one-third of all American children are covered through Medicaid and a related program, the Children's Health Insurance Program (CHIP).
- 65 percent of Medicaid's funds are spent on elderly and disabled beneficiaries.¹
- Medicaid is the largest single payer of long-term care. The program funds about a third of all nursing home care.

What Does Medicaid Do? How Does It Work? What Does It Cost?

Medicaid is a health insurance program for low-income people. The program is administered by the states (but is subject to federal oversight) and is financed jointly by the federal government and the states. As a result, there are actually more than 50 different Medicaid programs (including Washington, DC and the various territories) in the United States.

The federal government matches state spending on the program using a formula that takes into account differences in per capita income among the states. The federal government covers 60 percent of the total cost of the program, but the federal share ranges from 50 percent in a number of wealthier states to over 70 percent in several poorer states.

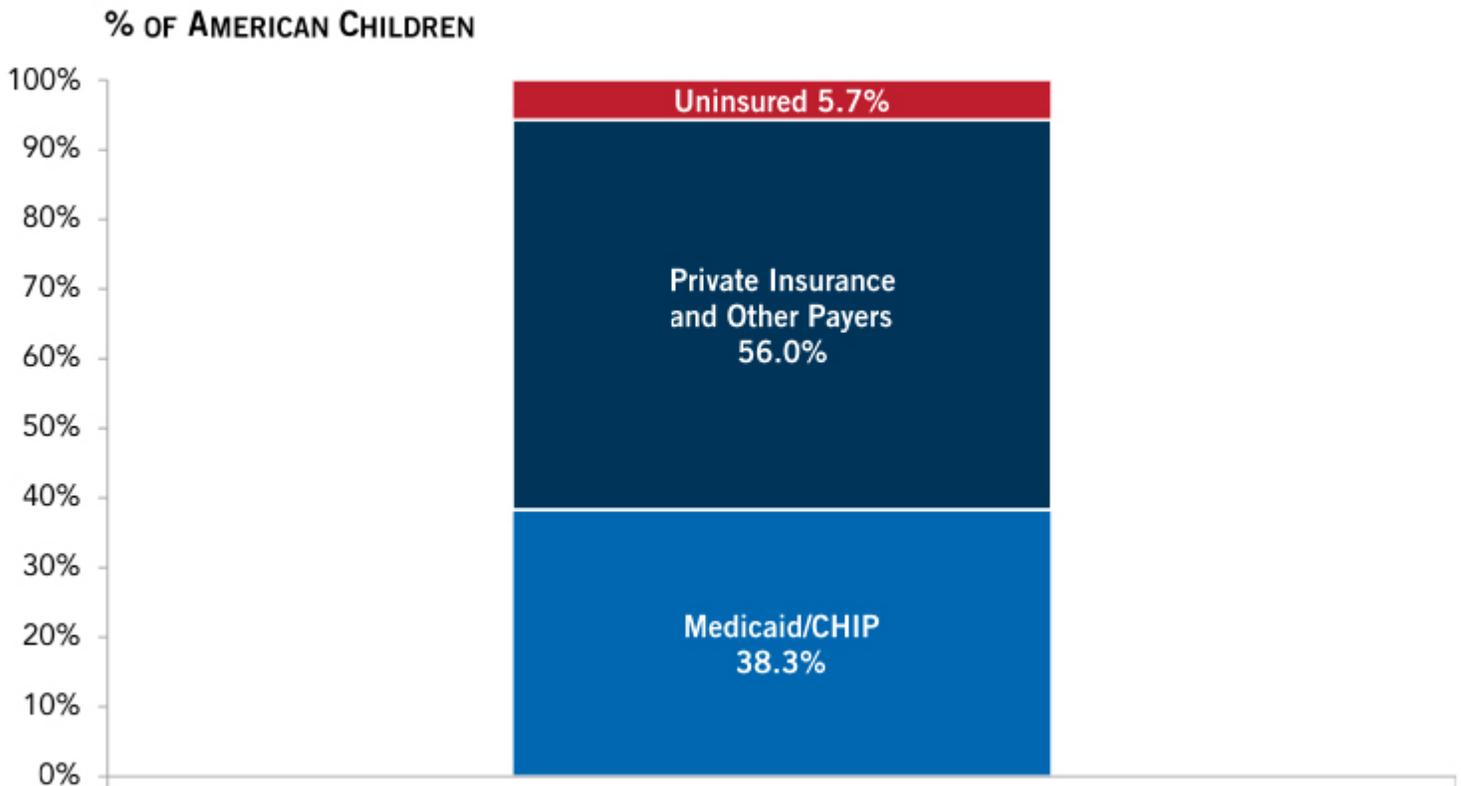
In 2014 the program spent \$498 billion and 78 million people received benefits. 70 percent of beneficiaries were enrolled in a managed care delivery system. Managed care aims to reduce unnecessary care and costs through various mechanisms and controls, and represents 34 percent of total benefit spending.

Eligibility for Medicaid is determined by a number of factors, the most important of which is income. The Affordable Care Act expanded the Medicaid program to cover individuals with incomes up to 133 percent of poverty, with the federal government covering nearly all the cost of the expansion.

The health reform law originally allowed states to forego the expansion of the program, but doing so would result in the loss of their *entire* share of federal matching funds. In June 2012, the Supreme Court ruled that some of the Medicaid provisions in the ACA were unconstitutional, in particular the provision penalizing states with the complete loss of matching funds. After the Court's ruling, states choosing not to expand their Medicaid program face no financial penalties for doing so.



Over one-third of American children are covered by Medicaid or the Children's Health Insurance Program (CHIP)



SOURCE: Medicaid and CHIP Payment and Access Commission, *MACStats: Medicaid and CHIP Data Book*, December 2015. Compiled by PGPF.
NOTE: Data are from 2014.

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Who Receives Medicaid?

The government plays an important role in providing health coverage for children through Medicaid and the Children's Health Insurance Program (CHIP), which extends Medicaid benefits to children of low-income families who make too much money to qualify for the traditional Medicaid program. Approximately one-third of the nation's 78 million children age 18 and under received their health insurance through Medicaid or CHIP.

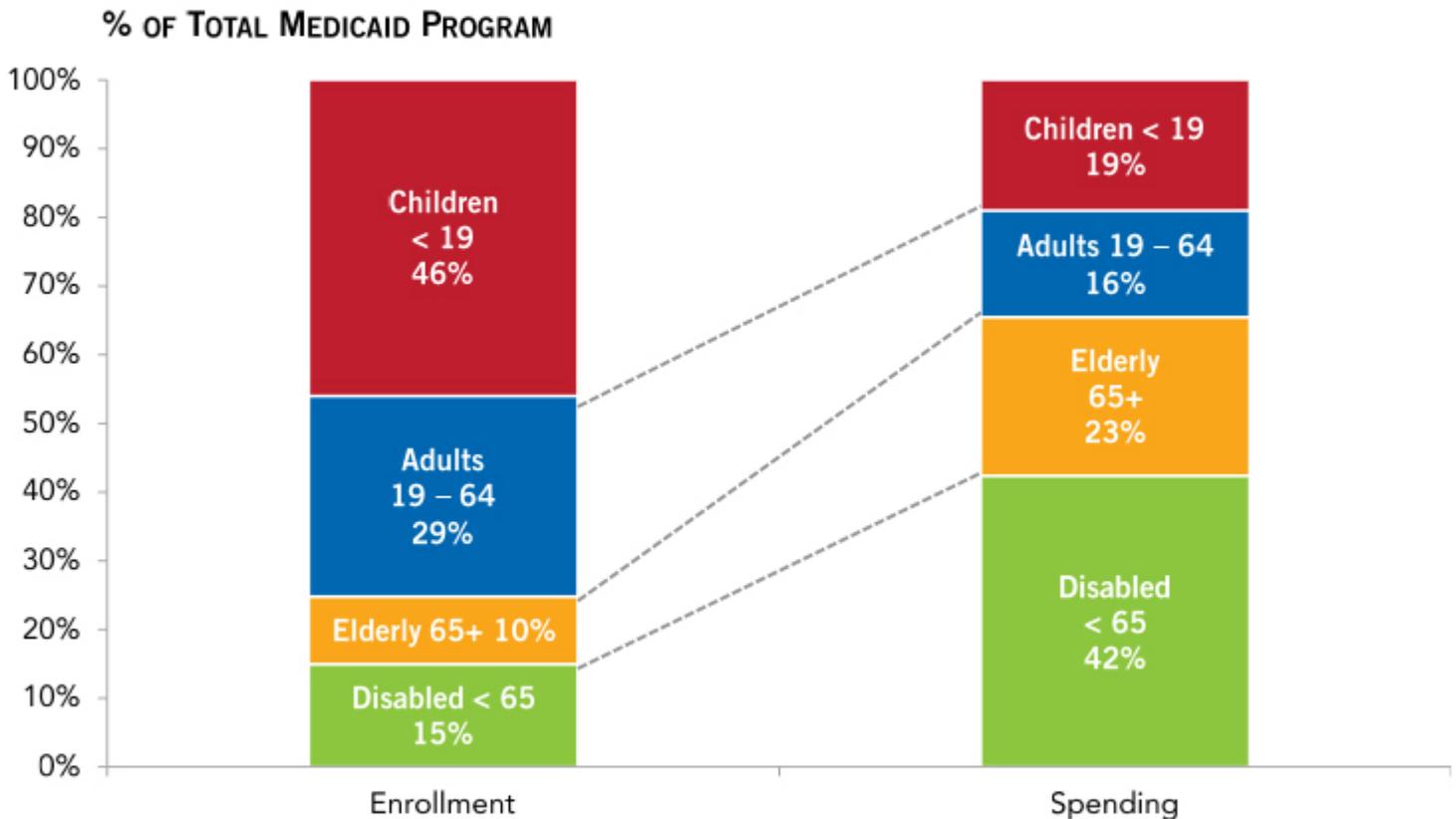
Even though children make up almost half of beneficiaries, they account for less than 20 percent of the program's spending.² Medicaid spends 65 percent of its money on elderly and disabled beneficiaries.³ These enrollees must meet asset and income tests to qualify for assistance. Spending for elderly beneficiaries accounts for almost 25 percent of Medicaid's annual costs, and spending on behalf of disabled enrollees accounts for 43

percent.

Per capita spending for beneficiaries age 18 or younger was \$2,363. For the elderly, it was \$13,446, more than five times greater. For disabled beneficiaries, per capita spending was \$16,184, more than six times greater than it was for children. Program-wide per beneficiary spending was \$5,721.4



Medicaid provides health insurance to low-income Americans. Children make up nearly half of the program's enrollment, but most spending is directed towards the elderly and disabled.



SOURCE: Medicaid and CHIP Payment and Access Commission, *MACStats: Medicaid and CHIP Databook*, December 2016. Compiled by PGPF.
NOTE: Data are from FY 2013.

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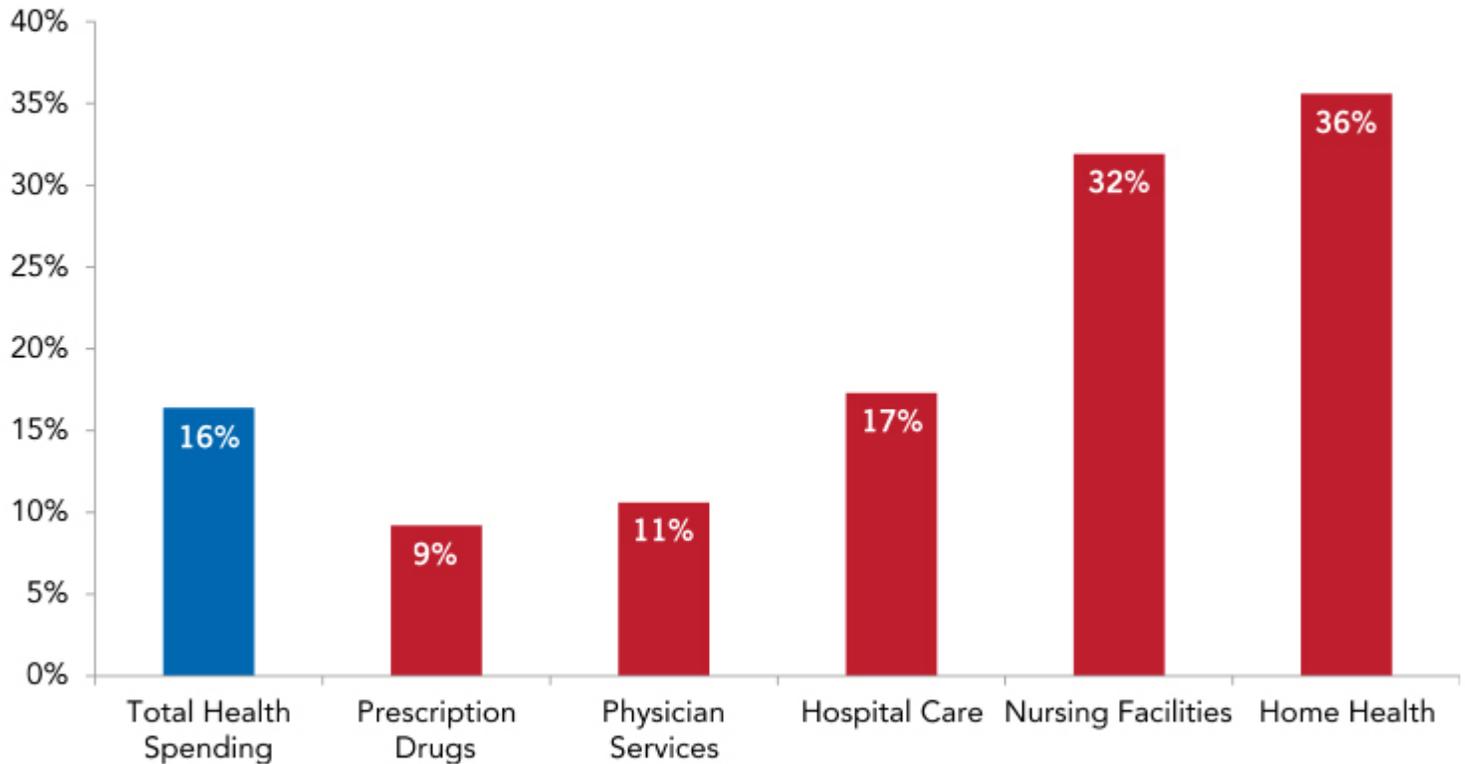
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Medicaid Plays a Major Role in Financing Health Care

Medicaid pays for a wide variety of services and plays an important role in healthcare finance.

Medicaid is the largest single payer of nursing home services in the country, financing about one-third of the total spending. It also finances more than 35 percent of home-based health care and almost 20 percent of hospital-based services. By contrast, it pays for approximately 10 percent of the total U.S. spending on physician services. Overall, the program financed 16 percent of the country's total health spending in 2014.

% OF HEALTH SPENDING PAID BY MEDICAID



SOURCE: Medicaid and CHIP Payment and Access Commission, *MACStats: Medicaid and CHIP Databook*, December 2016. Compiled by PGPF.
NOTE: Data are from 2014.

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¹ This data is for FY2013, the latest year for which data are available. (Back to citation)

² Same as above. (Back to citation)

³ Same as above. (Back to citation)

⁴ Same as above. (Back to citation)

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