

POLICY NOTE

Expanding Medicaid program has crowded out state funding for higher education

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Key Findings

1. *The financial priorities of state lawmakers have changed since 1965.*
2. *The addition of spending on the Medicaid entitlement has crowded out the amount of funding available for other core responsibilities of the state government such as higher education.*
3. *Since 1965, the state budget increased 400 percent while the population has little more than doubled.*
4. *Over the same time period, spending on higher education dropped from 14 percent to 9 percent of the budget, while Medicaid spending increased from 0 to 27 percent of the budget.*
5. *A good education is unquestionably the best way for people to rise out of poverty and make the most of their potential. The goal of government and elected officials should be to help lift people out of poverty and make them independent and self-sufficient citizens.*
6. *Making it financially easier for low-income individuals to get an advanced education should be a priority for elected officials rather than trapping them in the welfare Medicaid entitlement.*

Introduction

Until just this year, the tuitions paid by students attending Washington state colleges and universities have gradually increased for over 50 years. This has placed a greater financial burden on students and their families. It is now common for students to graduate burdened by thousands of dollars of school debt.

The Washington state budget has increased more than 400 percent over the same 50 years, and taxes today are higher than ever, while the state population has little more than doubled.¹ Not only have the financial priorities of state lawmakers changed since 1965, the addition of spending on the Medicaid entitlement has crowded out the amount of funding available for other core responsibilities of the state government.²

Budget changes and Medicaid

Congress enacted the traditional Medicaid entitlement program in 1965 as a health insurance safety-net for low-income families with children and for the disabled. It also provided some long-term care for seniors. From the beginning, the program was funded by both federal and state taxpayers, with the federal government contributing a higher percentage of funding in lower-income states. Taxpayers in Washington state have historically paid 43 percent of the Medicaid cost, while federal taxpayers paid for the rest.³ Of course, state taxpayers are also federal taxpayers, so in many ways, the percentage division is meaningless.

The Affordable Care Act (ACA), or Obamacare, expands Medicaid coverage to any low-income adult age 18 and older. Federal taxpayers fund the majority of the expanded Medicaid until 2020 and then state taxpayers contribute 10 percent. It is too early to know the financial impact of this expanded Medicaid program directly on Washington

1 "U.S. Census Bureau," at <http://www.census.gov/>.

2 "Washington state budgets, 1889-1891 to 2013-2015," Legislative Evaluation and Accountability Program Committee, Washington State Legislature, at <http://leap.leg.wa.gov/leap/default.asp>.

3 "A Review of the Medicaid program," by Dr. Roger Stark, Policy Brief, Washington Policy Center, May, 2009 at <http://www.washingtonpolicy.org/publications/brief/review-medicaid-program>.

state taxpayers, although they are already contributing to paying the federal portion.⁴

The Washington state budget was \$3.7 billion in 1964, with no funds allocated to Medicaid. At that time, higher education in Washington state received \$541 million or 14 percent of the state budget.⁵

(Note: All dollar amounts in this study are inflation-adjusted to 2014 dollars. Currently the Washington state legislature enacts a two-year budget. For accurate yearly comparisons in this study, the biennial budgets are divided by two.)

The state budget grew 300 percent to \$11.6 billion by 1990. Medicaid spending accounted for 24 percent of the budget, and the portion of the state budget devoted to higher education dropped to 12 percent.

Since 1990, average Medicaid spending in Washington state has grown 9.4 percent per year.⁶ Over the same time period, average inflation has only increased by 2.7 percent per year.⁷

By 2013, the state budget had increased by over 400 percent from the 1965 level, yet the population had only doubled. Medicaid spending accounted for 27 percent of the budget in 2013 and the level of state funding directed to higher education had dropped to 9 percent.⁸

Cost of higher education and state funding

Over the years, the tuition charged by the University of Washington has gradually, but relentlessly, increased. It was \$2,500 per year in 1965 and was relatively stable until the mid-1980s. Tuition increased to \$3,500 in 1990 and had nearly quadrupled to \$12,000 per year by 2014.

Tuition paid by students covers only part of the total cost of education. The total cost of educating one student in Washington state universities, however, has remained remarkably stable. In the late 1980s, the full cost at the University of Washington was \$20,000 to \$22,000 per year, but since 1993, the cost has remained in the \$18,000 per year range.

In 1990, Washington state taxpayers paid 84 percent of the full cost of education and the students, through tuition, paid 16 percent. By 2014, however,

4 “Medicaid expansion in Washington state,” by Dr. Roger Stark, Policy Note, Washington Policy Center, September 2014, at <http://www.washingtonpolicy.org/publications/notes/medicaid-expansion-washington-state>.

5 “Grapevine,” College of Education, Illinois State University, 2015 at <https://education.illinoisstate.edu/grapevine/historical/>.

6 “Average annual growth in Medicaid spending,” The Kaiser Family Foundation, 2015 at <http://kff.org/medicaid/state-indicator/growth-in-medicaid-spending/>.

7 “United State inflation calculator,” 2015 at <http://www.usinflationcalculator.com/inflation/historical-inflation-rates/>.

8 Ibid #2.

the state's contribution had dropped to 34 percent and students paid 66 percent of the cost. In other words, the cost of educating a student in higher education has been stable in Washington state, yet the state has shifted a greater portion of the financial burden onto students and their families.⁹

The number of students enrolled in higher education in Washington state has been relatively constant. In 1980, 267,000 students were enrolled. Last year, 247,000 students took higher education classes in the state.

Medicaid enrollment

Medicaid was a new entitlement program with zero enrollees in 1964. By 1980, 20 million people were in the program nationally. There was a large spike in enrollment from 1985 to 1995. By 2013, 60 million people were in the program nationally, with 1.3 million enrolled in Washington state. Medicaid is now one the three largest budget items for nearly every state.

Policy analysis

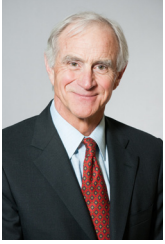
State officials are elected to make decisions about the priorities of government and the overall size and cost of government. Over the past 50 years, federal and state officials have chosen to expand the Medicaid entitlement program and place a greater financial burden on taxpayers. State officials have also required students in higher education to pay more for their education.

In addition to crowding out funding for higher education, the growing Medicaid entitlement program has resulted in a number of other harmful consequences. First, it discourages work and job improvement for low-paid employees, since with increasing income workers face loss of their Medicaid benefits.

It also encourages low-wage paying employers not to offer health benefits. They assume, or hope, taxpayers will provide those benefits. Medicaid also discourages private insurance companies from offering nursing-home policies, and this market shrinks further every year.

The real tragedy for people in Medicaid is the program provides no better medical outcomes than having no insurance. In 2008, Oregon lawmakers decided they had enough additional public money to put 10,000 more people on the state's Medicaid program. So, Oregon officials held a lottery that ultimately signed up 6,400 new Medicaid enrollees. A further 5,800 people were eligible for the program, but were not selected. People in this group had the same health and economic profile as the lottery winners, allowing researchers to make valid comparisons. This created the perfect test-case on the effectiveness of Medicaid in providing care. These 5,800 people became the control group in an objective, randomized health care study.

9 "Tuition at Washington state public colleges and universities," 2015, Economic Opportunity Institute at <http://www.eoionline.org/data/tuition-at-wa-state-public-colleges-and-universities/>.



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It turns out that being put on Medicaid does not improve health outcomes nor does it improve mortality statistics, compared to having no insurance coverage at all. The Medicaid enrolled group had no improvement in the important objective health measurements of blood sugar levels, blood pressure, and cholesterol levels.¹⁰

Conclusion

State lawmakers unfortunately have been caught in a vicious cycle in which the more they spend on the traditional Medicaid program, the more money they receive from the federal government because of the previous 50/50 funding match. To state officials, federal funding feels like it's free, although, as noted previously, state taxpayers and federal taxpayers are the same people. This has increased Medicaid spending at the expense of other important state government programs like higher education.

A good education is unquestionably the best way for people to rise out of poverty and make the most of their potential. Last year, the Federal Reserve determined that, on average, a college graduate earns \$830,000 more than a high school graduate over a working career.¹¹

The goal of government and elected officials should be to help lift people out of poverty and make them independent and self-sufficient citizens. Making it financially easier for low-income individuals to get an advanced education should be a priority for elected officials rather than trapping them in the welfare Medicaid entitlement.

In 2015, the legislature enacted a Republican-sponsored proposal to lower the tuition at state colleges and universities. The policy shift, while welcome, does not solve the funding crowd-out problem created by state Medicaid expansion. Washington state lawmakers have an obligation to students, low-income people and taxpayers to explain honestly why they believe directing more funding to the Medicaid entitlement program is more important than funding higher education for students and their families.

¹⁰ "The Oregon experiment: Effects of Medicaid on clinical outcomes," by Katherine Baker, et, al, *The New England Journal of Medicine* 2013; 368: 1713-1722, May 2, 2013 at <http://www.nejm.org/doi/full/10.1056/NEJMsa1212321>.

¹¹ "Is it still worth going to college?," by Mary C. Daly and Leila Bengali, Federal Reserve Bank of San Francisco, May 5, 2014 at <http://www.frbsf.org/economic-research/publications/economic-letter/2014/may/is-college-worth-it-education-tuition-wages/>.