

# The Liberty Bullhorn

News and Commentary Based in Free-Market Economics

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## Short Take

### Federal Funds Update

In 2010 the federal government sent \$630.2 billion to the states in the form of Federal Aid. This is \$72.1 billion more than in 2009. At 14.1 percent, this annual increase is virtually twice as high as the historic trend of 7.1 percent per year. It is the second year in a row when Federal Aid to States has increased much faster than the trend: in 2009 the annual jump was 17.5 percent.

Both the 2009 and 2010 increases represent Stimulus Bill funds going out to the states, though a small portion of the Medicaid share may be attributable to the first steps of Obamacare implementation.

In 2010 Medicaid was responsible for approximately 46.4 percent of all Federal Aid. Transportation funds was 10.3 percent and 8.2 percent went to Education.

The Education funds have been growing rapidly in the past two years. In 2009 they were up 25 percent over the previous year; in 2010 the increase was a staggering 62 percent. The total Education portion of Federal Aid in 2010 was \$73.2 billion, more than twice the \$36 billion that went to states in 2008.

For more on Federal Aid to States, tune in to Wyoming Liberty Group's webcast seminar on Tuesday October 4 at 6PM, MST, at [wyliberty.org](http://wyliberty.org).

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## Federal floodgates: The latest numbers on Medicaid funding

Sven R Larson

Over the past two years the federal government has increased its funding of state-run Medicaid programs by 35 percent. In 2008 the states received a total of \$206 billion for Medicaid and SCHIP combined; in 2010 that number had grown to \$278 billion.

This big expansion solidifies the trend of Medicaid as the major cost drive in state budgets. To get the federal funds, states have to make matching contributions – called Maintenance of Effort (MoE) – which historically have been at an almost dollar-for-dollar level. As federal funding grows, states have to tax their residents for more money to remain MoE compliant.

The latest numbers from the U.S. Census Bureau on Federal Aid to States capture the rapid expansion of Medicaid over the past two years. In five states, federal Medicaid funds increased by more than 20 percent per year, on average, in 2009 and 2010: Wisconsin (26.4 percent per year), Colorado (25.7), Oregon (22.3), Ohio (22.2) and Texas (20).

Such massive expansion in Medicaid funding from Uncle Sam will of course force states into providing significantly more in-state sourced funds. Exactly how much depends on the individual state: as of 2009 MoE requirements varied significantly from state to state (16.5 percent of all Medicaid spending in Mississippi vs. 43.5 percent in New Hampshire). Based on the 2009 MoE requirements, the five aforementioned states had to meet the raise the following amounts of in-state funds from their taxpayers, just to comply with the increase in federal Medicaid funds from 2009 to 2010:

Wisconsin	\$168.6 million
Colorado	\$336.3 million
Oregon	\$141.0 million
Ohio	\$270.2 million
Texas	\$1,612.4 million

These numbers are, again, based on 2009 MoE requirements, which are generally lower than their historical average. The primary reason for this is the increase in Medicaid funds that came with the Obama administration's "Stimulus bill". This bill was supposed to provide temporary extra money for state programs. In reality, [as is well documented](#), states will be reluctant to give up those extra federal dollars when the stimulus bill funding expires.

Federal Medicaid funds increased by at least 15 percent per year, on average, in 29 states plus the District of Columbia. Only three states saw an annual increase below ten percent: New Hampshire (9.7 percent), Mississippi (9.5) and Indiana (4.5). The small average increase in Mississippi is noteworthy: the state has the lowest federal MoE in the country (16.5 percent of total Medicaid costs).

There is no doubt that Medicaid cost increases are hurting states. Two recent examples are [increases in co-pays for Medicaid in Georgia](#) and [health service rationing in Washington state](#). These examples serve as harbingers of what is to come when Congress starts cutting spending.

## Shakedown? Wyoming's troubled Healthy Frontiers program

J P Eichmiller

In an effort to transition people from Medicaid into health insurance independence, in 2010 the state of Wyoming started funding a test version of a program called Healthy Frontiers (HF). Effectively an extension of Medicaid, the HF test program is supposed to show that the state can save money by enrolling people in HF. If evidence exists that such cost savings are indeed possible, the Project's designers are keeping it a secret. Despite receiving numerous public records requests over the past several months, neither the state nor the private firms it contracts with have been able to provide evidence of any research used to develop the Project or support its theories.

"You're looking for data that does not exist," said Sen. Charles Scott, R-Natrona, when asked for research used to support funding the program. "You can't know what the benefit is until you try it."

Scott was the 2010 Senate sponsor of HF. Originally granted \$750,000 in appropriations, the project received an additional \$1 million for operating expenses this year from legislators. According to Scott, the additional funding will allow up to 250 residents to enroll.

HF targets residents through prior involvement with Wyoming's Workforce Services programs. Enrollees participate in preventive-care screenings and receive contributions toward Personal Health Accounts (PHAs). The PHAs are then used to cover the premium and co-pay costs. The state guarantees all costs exceeding individuals' PHA balances up to \$50,000. Any medical costs exceeding the cap become the responsibility of the individuals.

The state has contracted the private health care and consulting firm Human Capital Management Services [HCMS] to design Healthy Frontiers. HCMS founder Dr. Hank Gardner says he has large amounts of data and research to support the design of HF. But despite numerous requests made to HCMS since May, the company has delayed and withheld access to any information relating to the project's design. Similar requests made with the project's insurance administrator, Blue Cross Blue Shield of Wyoming, and multiple state agencies have turned up little else regarding the research or development of HF.

When the Legislature passed HF it did so in part based on Senator Scott's \$4,559 estimate of the per-capita annual enrollment costs.

But two other numbers also stood out: \$3,068 – the average annual cost to enroll a Wyoming adult into a private insurance plan (Blue Cross estimate), and \$2,316 – the state's average share for covering non-disabled adults enrolled in Medicaid (2010 figures).

This begs the question why the state does not simply buy an existing insurance plan from Blue Cross Blue Shield. Are there other, behind-the-scenes players involved that benefit from HF?

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