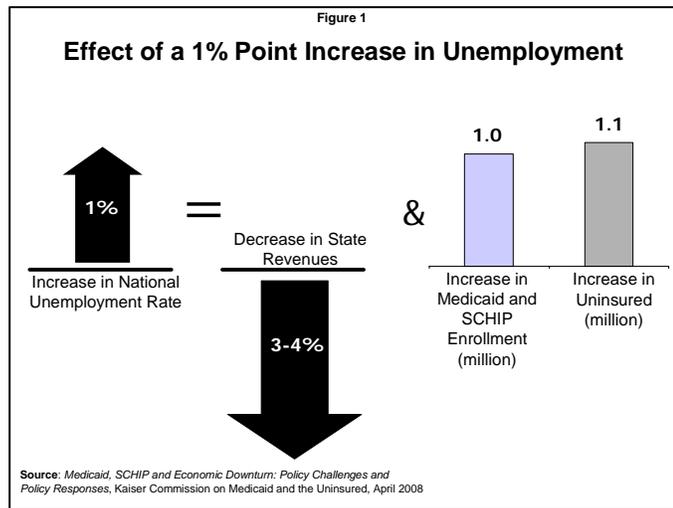


Rising Unemployment Medicaid and the Uninsured: A Multi-Year Snapshot of State Financing Effects

As the U.S. economy continues to decline the impact on Medicaid and the uninsured will continue to grow. December data shows that the national unemployment rate had increased to 7.2 percent up from an average of 4.6 in 2007.¹ Economic forecasts suggest that the unemployment rate will continue to rise and could reach 10 percent and that the downturn could last into 2011. Recent estimates show that combined budget gaps for the remainder of state fiscal year 2009 and state fiscal years 2010 and 2011 could total \$350 to \$370 billion. States will fall under increasing pressure to make Medicaid cuts to address these shortfalls. Reductions in state Medicaid spending or increases in state taxes to pay for Medicaid would likely worsen the impact of the recession. As state budget conditions continue to deteriorate and unemployment rises, the argument for temporarily increasing federal payments to states through increases in the Medicaid federal matching assistance percentage becomes stronger. This strategy proved to be effective in the last downturn in helping states avoid deeper Medicaid cuts and maintain eligibility levels (a condition of receiving the federal funding).

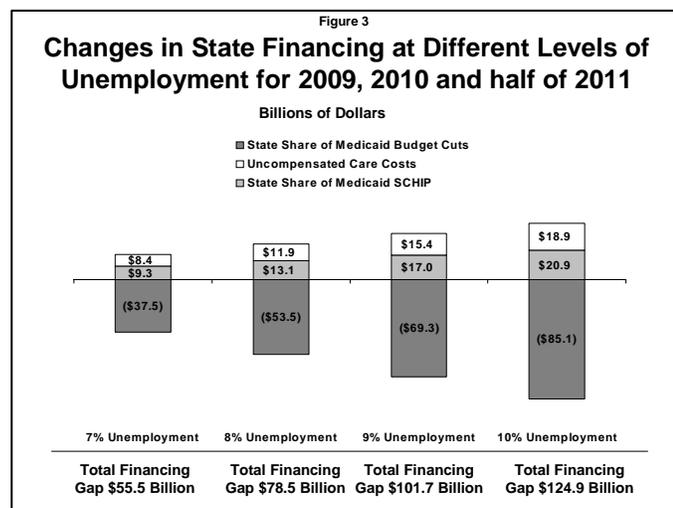
Rising Unemployment Results in State Revenue Decline and Increases in Medicaid/SCHIP and the Uninsured.

Assuming that states maintain eligibility levels for public programs, every one percentage point increase in unemployment is likely to result in one million more Medicaid and SCHIP enrollees and 1.1 million more uninsured. This increases state costs for Medicaid and uncompensated care, while at the same time state revenues are expected to fall by 3 to 4 percent with every one percentage point increase in unemployment. Because states must balance their budgets annually, declines in revenues require states to increase taxes or cut spending.



The combination of increased costs for Medicaid/SCHIP enrollment and uncompensated care costs in conjunction with revenue declines result in significant financing gaps for states as unemployment rises.

Declines in state revenues limit states' ability to pay for state programs including Medicaid and SCHIP. With unemployment steady at 7 percent from 2009 through half of 2011, the Medicaid/SCHIP "share" of state budget cuts could amount to \$37.8 billion and could reach \$85.1 billion with steady 10 percent unemployment. Because of federal matching, state budget cuts require overall cuts in Medicaid/SCHIP spending of at least twice as much. Program cuts in conjunction with increased funding needs due to increased enrollment in Medicaid and SCHIP and higher uncompensated care costs could result in program funding gaps of \$55.5 billion at steady 7 percent unemployment from 2009 through half of 2011 and \$124.9 billion at 10 percent unemployment over the same period. Based on the experience in the last economic downturn, the estimates for Medicaid costs and coverage are conservative. In addition, since federal fiscal relief cannot be perfectly targeted, relief may need to be larger than these estimated gaps.



¹ This snapshot is based on Rising Unemployment, Medicaid and the Uninsured <http://www.kff.org/uninsured/7850.cfm>