

JEC Response to Erroneous Democratic Analysis on Medicaid

The Democratic staff of the Joint Economic Committee recently released an issue brief analyzing proposed Medicaid spending reforms.¹ The brief drastically overestimates the number of people who would lose health coverage as a result of the approved House budget for three key reasons.

Misinterpretation of the House Budget Resolution

The brief assumes that every single Medicaid offset from an outdated House Budget Committee menu of options will be enacted,² accounting for \$2.3 trillion in spending reforms. This ignores the fact that the directed House budget resolution's floor for deficit reductions from the House Energy & Commerce Committee is \$880 billion over ten years, less than 40 percent of \$2.3 trillion. Spending reductions to meet the \$880 billion figure could come from any of the policy areas under Energy & Commerce's jurisdictions. It is unrealistic to base any coverage projections on the \$2.3 trillion figure.

Flawed assumptions

The brief also assumes that there is a one-to-one relationship between decreases in federal funding and lost coverage, which ignores the structure of Medicaid financing and academic evidence about the relationship between funding and coverage.

States have the option to maintain similar health insurance levels if they increase their contribution to Medicaid financing. Even if reductions in federal subsidies are not balanced out by state-level increases in spending, the Congressional Budget Office (CBO) historically has projected that on net, states would replace a significant part of the lost federal funds, mitigating lost coverage.³ In addition, many of the (outdated) potential spending reform options cited by JEC Democrats focus on reining in ever-growing federal Medicaid subsidies and help cut waste, fraud, and abuse.

There is also contradictory evidence on the exact relationship between funding and coverage, increasing uncertainty around the brief's projections. In particular, studies have found:

- Lost federal health insurance pushes individuals to find employer-sponsored insurance, which mitigates lost coverage from spending cuts.⁴
- Expansions in Medicaid eligibility result in coverage of individuals who still would have had private insurance without Medicaid coverage, known as a "crowd-out" effect.⁵

¹ Joint Economic Committee Democrats, "Republican Budget Cuts to Medicaid," JEC Democrats analysis (March 2025), <https://www.documentcloud.org/documents/25553748-jec-medicaid-cuts/>.

² Benjamin Guggenheim, "GOP budget menu outlines sweeping spending cuts," *POLITICO*, January 17, 2025, <https://subscriber.politicopro.com/article/2025/01/reconciliation-menu-reveals-wide-ranging-gop-policy-priorities-00198940>.

³ Congressional Budget Office, "Establish Caps on Federal Spending for Medicaid," December 2022, <https://www.cbo.gov/budget-options/58622>.

⁴ George J. Borjas, "Welfare reform, labor supply, and health insurance in the immigrant population," *Journal of Health Economics* 22, no. 6 (November 2003): 933–58, <https://doi.org/10.1016/j.jhealeco.2003.05.002>.

⁵ Jeffrey R. Brown, Norma B. Coe, and Amy Finklestein, "Medicaid Crowd-Out of Private Long-Term Care Insurance Demand: Evidence from the Health and Retirement Survey," *Tax Policy and the Economy* 21 (2007): 1–34, <https://doi.org/10.1086/tpe.21.20061913>.

The JEC Democrats do not incorporate these effects and instead use an oversimplified approach that is unlikely to be realistic.

Overlooking economic growth

The brief also ignores the fact that Medicaid spending reforms will be coupled with an extension of the *Tax Cuts and Jobs Act* (TCJA). Extending the TCJA saves Americans from a significant tax hike,⁶ which in turn, encourages economic growth.⁷ Economic growth, especially at the lower end of the income distribution, lowers the number of people eligible for Medicaid, decreasing overall reliance on federal entitlement programs. Ignoring the growth effects of the TCJA and the resultant effects of Medicaid helps invalidate the brief's estimates of lost coverage.

⁶ Garrett Watson and Erica York, "Tax Calculator: How the TCJA's Expiration Will Affect You," *Tax Foundation*, March 12, 2024, <https://taxfoundation.org/data/all/federal/tax-calculator-tcja-expiration/>.

⁷ Adam N. Michel, "Slashing Tax Rates and Cutting Loopholes," *Cato Institute Policy Analysis*, June 17, 2024, <https://www.cato.org/policy-analysis/slashing-tax-rates-cutting-loopholes>.