**Medicaid Expansion Can and Should Wait**
**MPI Policy Note 01-13**

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**BOTTOM LINE UP FRONT:**

Proponents of Medicaid expansion argue that it would insure more people, that it takes advantage of "free" federal money and that it will create jobs and pump up local economies. But the fact that barely half the states are taking action to expand Medicaid indicates that this federal giveaway may come with unacceptable risks and costs, including: 1) Expansion will dump more people into a system that provides poorer access to care and poorer health outcomes than private insurance. 2) Federal matching funds are neither free nor guaranteed, potentially leaving the state with an unsustainable funding requirement. 3) Expanding Medicaid without fundamentally reforming it perpetuates its shortcomings and will crowd out other public spending priorities.

**There is no cost to delaying, but expansion is forever. This decision should wait until we can learn more.**

**Background:** The Affordable Care Act (ACA), commonly called Obamacare, included a requirement that states expand Medicaid eligibility to 138% of the Federal Poverty Level (FPL) and to childless adults or lose all federal Medicaid matching funds. The U.S. Supreme Court subsequently upheld Obamacare's other major provisions, but left it to the states whether to expand Medicaid. To date, roughly half the states have indicated they will or may expand Medicaid, many after cutting special deals lessening the risks to their states' finances; about a third have said they will not expand, and the rest remain undecided. Several bills under consideration, including at least one supported by the governor, would expand Medicaid under Obamacare's provisions but face opposition in the Republican legislature.

**Proponents argue Medicaid expansion will bring health care and economic benefits:** Supporters of expansion, which primarily consist of the Montana Hospital Association and various left-leaning advocacy groups,[i] cite three basic reasons to expand Medicaid:

1. It will result in more Montanans having health insurance: Estimates vary, but most agree that 60,000-70,000 Montanans would be newly eligible for Medicaid.[ii] About 56,000 of these individuals would be expected to enroll, around 40,000 of whom are currently uninsured and ineligible for Medicaid.[iii]
2. Hospitals will see reduced uncompensated care reimbursements under Obamacare. Medicaid expansion would lessen the impacts of these cuts by insuring more people.
3. Local communities and economies will benefit from the influx of federal matching funds that will pour into the state as a result of the expanded Medicaid population.

These claims rely on a variety of sources, but the most commonly cited – since it is focused on Montana – is by the University of Montana's Bureau of Business and Economic Research titled "An Estimate of the Economic Ramifications Attributable to the Potential Medicaid Expansion on the Montana Economy."[iv] The study should be required reading, along with other resources cited in this Policy Note, for anyone wishing to have an informed opinion on Medicaid expansion in Montana. It provides a wealth of data and is useful in understanding the potential benefits of Medicaid expansion to the state. It does not, however thoroughly examine costs and risks associated with expansion or the effectiveness of Montana's Medicaid program itself. These issues are presumably outside the study's intended scope, but are essential elements of information for those considering whether or not to commit significant new resources to a program that is widely understood to be badly in need of fundamental reform.

**In reality, Medicaid expansion is unfair to taxpayers and will trap more people in a failing system:** Medicaid expansion would force young, healthy adults to become dependent on taxpayers with no other requirement than low incomes. It would trap tens of thousands of Montanans in a system that provides demonstrably inferior access to care, and in many cases inferior health outcomes compared to those with private insurance, and even to the uninsured. The economic benefits touted by expansion proponents are not as clear cut or as permanent as advertised. And finally, the Medicaid system is in dire need of reform. Expanding it without demanding significant reforms will waste a rare opportunity and perpetuate its inefficiencies and shortcomings.

While expansion may make sense under some conditions, there are five basic reasons to reject it now:

1. Medicaid expansion is bad Welfare policy: Forty four percent of the newly eligible would be healthy adults under the age of 34, and seventy five percent would be childless.[v] In addition, a fourth of all new enrollees would be crowded out of their private insurance plans, [vi] creating a new dependency class that taxpayers can ill afford as state and federal budgets are increasingly consumed by expanding entitlement programs. Expansion will trap young, healthy, able, and mostly childless adults in a failing system and reduce their incentives to work and succeed.

2. Expansion is bad medical policy: Medicaid recipients encounter barriers to primary care at nearly twice the rate as those with private insurance.[vii] This lack of primary care contributes to their use of emergency rooms at rates nearly twice those of the privately insured.[viii] There is extensive evidence that Medicaid also contributes to poorer health outcomes, including poorer surgical outcomes, higher in-hospital mortality rates, longer average hospital stay lengths, and higher total costs than private insurance, and even having no insurance at all.[ix] Medicaid patients are 13% more likely to die after receiving care than those with no insurance, and nearly twice as likely to die as those with private insurance.[x] Shoveling over 70,000 new Montanans into this system[xi] while also decreasing provider reimbursements under Obamacare won't make access to quality care any easier for these people or for anyone else in the state. Additionally, the impact on Montana's health care infrastructure of Medicaid expansion and the federally subsidized exchanges, estimated at another 104,000 people,[xii] vary significantly by county, rely on many unknowable assumptions and simply cannot be predicted with certainty.[xiii] Medicaid expansion could easily result in poorer access to quality care for virtually all Montanans.

3. Expansion is bad economic policy: In fact it's pure crony capitalism, with select health care providers, mostly hospitals, lining up at the taxpayer-provided trough to rake in their share of the $1 trillion bonanza.[xiv] One analysis claims that the "free" money coming from Washington may create around twelve thousand jobs in Montana;[xv] but will those jobs create health benefits that are commensurate with their costs? If not, the money is better left in the private economy where it can be spent more productively. A recent *New England Journal of Medicine* article said that "Treating the health care system like a (wildly inefficient) jobs program conflicts directly with the goal of ensuring that all Americans have access to care at an affordable price."[xvi] And those dollars could come with less risk. It'd be much cheaper, for example, to just put those who are eligible for federal subsidies into the new exchanges and let Washington pay their entire bill. This would not insure all the newly eligible under expansion, but it would result in better welfare policy and not put Montana taxpayers on the hook for commitments made in Washington D.C. Hospitals also claim that they need Medicaid expansion to make up for lower federal Disproportionate Share Hospital (DSH) Allotments. It would be better policy and much cheaper for the state to simply make up these payments, about $11 million/ per year,[xvii] than to distort our entire health care system and make promises we may not be able to keep.

4. <u>It's not free, and future federal funding is uncertain at best</u>: It's taxpayer money whether you write the check to Helena or to Washington, and dollars not spent in Montana will not be spent elsewhere, either. The net cost to Montana taxpayers of Medicaid expansion through 2021 is over $50 million according to one estimate,[xviii] and closer to $100 million according to another,[xix] with total federal costs coming in at nearly $6 billion.[xx] That's after the "free" money and jobs and tax revenues, and assumes the federal government will keep its promise to cover 100% of expansion costs in the early years and 90% later on. That claim is dubious, though. The President's own past two budgets included reductions in those commitments.[xxi] The Senate's new draft budget would decrease federal health care spending by $275 billion, placing more pressure on state reimbursements.[xxii] In reality nobody knows what it will cost or when the feds will bail, but there's precious little precedent for entitlement spending coming in below or even near initial estimates. In 1965 Medicare was estimated to cost $9 billion annually by 1990. The actual cost in 1990 was $67 billion.[xxiii] There's no reason to think Medicaid expansion estimates will fare any better. Montana taxpayers would be on the hook for the difference since it's politically unlikely that these entitlements would be reversed once they're put in place, crowding out funding for other priorities like education, roads, and public safety.

5. <u>Medicaid expansion would perpetuate a failing system</u>: It is clear that we have a responsibility to repair Medicaid before inflicting its flaws on yet more potential recipients. What's the best way to do this? Leave it to the states as laboratories of democracy to find the best (and worst) solutions. We may want to expand Medicaid funding but use those funds to provide better access and care to its most vulnerable recipients. Or perhaps we could move the Medicaid population into the Exchanges and provide 100% subsidies for private insurance. We could think outside the Medicaid box by funding training and treatment programs that reduce the vulnerable population rather than subsidizing it. We could emulate what was done with the Aid to Families with Dependent Children program in the mid-90s under President Clinton and restructure it as a series of block grants to the states, allowing each state to tailor its program to its citizens' wants and needs. Doubling down on mediocrity, however, is not the right answer.

Americans and Montanans want to and should provide medical assistance to the needy. We're not going to step over bodies in the name of fiscal discipline. So the question becomes how to provide that assistance in the most economical, efficient, and humane way possible. Medicaid as it is currently structured and administered is demonstrably not up to the task. So it makes no sense to expand this system, trapping even more of our most vulnerable into inferior health outcomes and forcing taxpayers to foot the rapidly growing bill, until it is fundamentally reformed and does the job it was meant to do.

Montana should resist any Medicaid expansion until the federal government gives governors and state legislators more control over how the money is spent to get the best care at the lowest cost to their own citizens. At a minimum, deferring the decision will give Montana's leaders and citizens ample opportunity to evaluate expansion in other states and make a more informed decision during the next legislative session in 2015.

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[i] Montana Media Trackers, 3/15/2013, http://montana.mediatrackers.org/2013/03/15/montana-hospital-association-behind-public-campaign-in-support-of-medicaid-expansion/.

[ii] The Urban Institute, "Opting in to the Medicaid Expansion under the ACA: Who Are the Uninsured Adults Who Could gain Health Insurance Coverage," August 2012, pp. 8-9; and University of Montana Bureau of Business and Economic Research, "An Estimate of the Economic Ramifications Attributable to the Potential Medicaid Expansion on the Montana Economy," January 2013, p. 7.

[iii] *Ibid*., BBER, pp. 6-7.
[iv] *Ibid*.
[v] *Ibid*., The Urban Institute, pp. 8-9.
[vi] *Ibid*., BBER, p. 6
[vii] 16.3% of Medicaid patients encountered barriers versus 8.9% of those with private insurance. *Annals of Emergency Medicine*, "National Study of Barriers to Timely Primary Care and Emergency Department Utilization Among Medicaid Beneficiaries," 2012, p. 4.
[viii] *Ibid*
[ix] See Avik Roy, "The Medicaid Mess: How Obamacare Makes It Worse," *Issues 2012*, The Manhattan Institute, March 2012 or Scott Gottlieb, "Medicaid Is Worse Than No Coverage at All," *The Wall street Journal*, March 10 2011 for multiple examples of studies demonstrating inferior medical outcomes for Medicaid recipients.
[x] *Ibid*., Roy, p. 2.
[xi] Urban Institute, *op. cit.*, p. 18 and BBER, *op. cit.*, p. 7.
[xii] *Ibid*., BBER, p. 31.
[xiii] BBER estimates a surplus of approximately 82,000 visits per year after expansion out of nearly over two million available, a comfort factor of less than 4%. *Ibid*., BBER, p. 36.
[xiv] Kaiser Family Foundation, The Cost and Coverage Implications of the ACA Medicaid Expansion: National and State-by-State Analysis, http://www.kff.org/medicaid/upload/8384.pdf, p. 3.
[xv] *Ibid*., BBER, p. 27.
[xvi] Katherine Baicker, Ph.D. and Amitabh Chandra, Ph.D, *The New England Journal of Medicine*, "The Health Care Jobs Fallacy, June 28 2012, p. 2435.
[xvii] Kaiser Family Foundation, "State Health Facts," March 2013, http://www.statehealthfacts.org/profileind.jsp?rgn=28&ind=185.
[xviii] BBER, *op. cit.*, p. 29.
[xix] The Heritage Foundation, "Obamacare and the Medicaid Expansion: How Does Your State Fare?" March 5th 2013, http://blog.heritage.org/2013/03/05/obamacare-medicaid-expansion-state-by-state-charts/.
[xx] *Ibid*., BBER, p. 12.
[xxi] Charles Blahous, Mercatus Center, "The Affordable Care Act's Optional Medicaid Expansion: Considerations Facing State Governments," 2013, p. 32.
[xxii] Rich Daly, Senate Dems propose $275B in healthcare cuts, ModernHealthcare.com, March 13th 2013, http://www.modernhealthcare.com/article/20130313/NEWS/303139944.
[xxiii] Conn Carroll, The Foundry, "Health Care Reform Cost Estimates: What is the Track Record?" August 4th 2009, http://blog.heritage.org/2009/08/04/health-care-reform-cost-estimates-what-is-the-track-record/.



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