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Three Medicaid Expansion Myths Exposed

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Key Points

- The "Texas solution" would simply be the ObamaCare Medicaid expansion by another name, just as it has been in every state that has tried and failed to gain flexibility from the federal government.
- If Texas does not expand Medicaid, our tax dollars do not go to other states; the federal government will simply spend less on Medicaid.
- Expanding Medicaid would only cover an estimated 13 percent of the state's uninsured population in 2015, leaving millions uninsured.

Introduction

Amid the debate over how to reduce the number of uninsured Texans, some have proposed expanding Medicaid under the federal Patient Protection and Affordable Care Act (ACA), aka ObamaCare. Advocates of this approach do not call it "Medicaid expansion," but nevertheless argue that Texas should take advantage of new federal Medicaid funds available through the ACA. In general, they have advanced three arguments repeatedly in favor of this approach:

- State lawmakers can use federal Medicaid expansion dollars to craft a unique "Texas solution," like Arkansas and other states have done.
- If we don't take the federal funding for Medicaid expansion, it will go to other states.
- Medicaid expansion will solve our state's uninsured problem.

Each of these claims is demonstrably false. Given the size of the current Medicaid program relative to state spending—more than 28 percent of the All Funds budget for the 2014-15 biennium, or $56.2 billion[1]—and the costs that Medicaid expansion would impose on Texas taxpayers, it is important to understand each of the myths that proponents of Medicaid expansion most often repeat.

MYTH #1: State lawmakers can use federal Medicaid dollars to craft a unique "Texas solution," like Arkansas and other states have done

In reality, every state that has tried to gain significant flexibility from CMS has failed. Five states—Arkansas, Iowa, Michigan, Pennsylvania, and New Hampshire—have implemented Medicaid expansion under a waiver, allowing them to make slight changes to the program for the expansion group. These states sought to implement a "conservative" version of Medicaid expansion using private insurance, and tried to include work requirements, greater cost-sharing, and narrower benefits.

But the changes they were allowed to make are merely cosmetic. CMS did not allow for significantly greater cost-sharing, work requirements, or narrower benefits. New Medicaid enrollees face no consequences for refusing to participate in work programs or pay voluntary premiums and copays: they won't lose eligibility, they won't pay higher premiums, they won't be subject to a penalty, and they won't be kicked out of the program.

Arkansas' much-hyped "private option" pays for private coverage through the ACA exchange, yet enrollees do not pay for any portion of the premium or the deductible, which is paid by taxpayers as wrap-around coverage. Any copays must comply with federal rules that limit copayments for all Medicaid enrollees,* who are entitled to full Medicaid benefits under federal law. Whatever isn't covered by the private plan, the state Medicaid program must cover under a standard fee-for-service (FFS) model.

As a result, the vast majority of private option enrollees have no cost-sharing obligations whatsoever. That is costing Arkansas taxpayers more. According to the Government Accountability Office (GAO), Arkansas' three-year, $4 billion budget cap for the private option, "was approximately $778 million more than what the spending limit would have been if it was based on the state's actual payment rates for services provided to adult beneficiaries under the traditional Medicaid program."[2] Actual program expenditures reflect this. Arkansas has exceeded its budget for private op-

* For those above the poverty line, copays are capped at 10 percent of the cost of service, while total cost-sharing is capped at five percent of a family's monthly income.

tion coverage every months since it began in January, 2014. By April, the program was 15 percent over budget, and by the end of the year cost overruns could reach $45 million.[3]

While the details of each state plan vary, the basic restrictions imposed on Arkansas have been repeated in the other four states. Pennsylvania's "Healthy PA" program sought 24 changes to Medicaid but got only three—in severely water-down forms.[4] Among the requests CMS denied:

- The ability to charge premiums to those above the poverty level for the first year;*
- An increase in co-pays for non-emergency ER visits from $8 to $10;
- Customized benefits and disallowing wrap-around coverage;
- $25-$35 premiums for Medicaid enrollees earning above the poverty level.†

The same could be said about Iowa's Health and Wellness Plan, Healthy Michigan, and the New Hampshire Health Protection Program, as well as plans under consideration in Indiana, Utah, Tennessee, and Wyoming. They are merely Medicaid expansion by another name, subject to the same rules as traditional Medicaid, leaving states with no flexibility to reform or improve the program and leaving taxpayers on the hook for higher costs.

MYTH #2: If we don't take the federal funding for Medicaid expansion, it will go to other states

There is no designated federal tax for Medicaid. If one state chooses not to expand and therefore spends less on its program, another state does not get more Medicaid funding. Because the program is match-funded, federal dollars are apportioned based on how much a state spends on its own program, not how much other states spend on theirs. The net effect of not expanding Medicaid in Texas is therefore that the federal government will simply spend less on Medicaid overall.

During the last legislative session, one Texas lawmaker claimed that not expanding Medicaid would "send $9 billion in federal taxes paid by Texans to other states to insure their working poor."[5] Politifact Texas ruled this claim false: "there's no dedicated dollar amount for Medicaid expansion. Rather, the states will be sent federal money for new participants as they come in."

MYTH #3: Medicaid expansion will solve our uninsured problem

In fact, Medicaid expansion would only cover an estimated 13 percent of the state's uninsured population in 2015. Currently, Texas' uninsured rate is 22.1 percent, or about 5.7 million.[6] According to the Texas Health and Human Services Commission (HHSC), Medicaid expansion would increase Medicaid caseload by about 776,000 in 2015, increasing to 1.04 million in 2016.[7] This would leave more than 4 million uninsured. Of those, an estimated 20 percent are ineligible for taxpayer-funded health coverage because of immigration status.[8]

Conclusion

As of this writing, 27 states and the District of Columbia have expanded Medicaid under the ACA. Among the 23 states that have not expanded, four states—Utah, Wyoming, Tennessee, and Indiana—are in discussions with CMS about a waiver for Medicaid expansion. They will not get any better of a deal than the five states that have tried and failed to gain flexibility from the feds, and Texas should not join their ranks. Medicaid expansion will not solve our uninsured problem, and spreading myths about how our tax dollars will go to other states or how we can gain flexibility from CMS for a "Texas solution" won't change that. ✯

* Healthy PA caps premiums at 2% of income, making it more generous than traditional Medicaid.

† In the first year the state may not charge any premiums. In the second year, premiums are allowed only for those above 100% FPL but the state must cover all copays (excluding the $8 non-emergency ER use fee). Those who don't pay premiums for three consecutive months will be kicked off their plan but may re-enroll immediately.

[1] *Fiscal Size-Up 2014-15*, Legislative Budget Board (Feb. 2014) 162.

[2] *Medicaid Demonstrations: HHS's Approval Process for Arkansas's Medicaid Expansion Waiver Raises Cost Concerns*, Government Accountability Office (8 Aug. 2014).

[3] Josh Archambault, "Arkansas' Medicaid 'Private Option' To Seek Federal Bailout For Large Cost Overruns; Director Resigns," *Forbes* (14 May 2014).

[4] *Special Terms and Conditions, Healthy PA*, Pennsylvania Department of Public Welfare, Center for Medicare and Medicaid Services.

[5] Sue Owen, "Lon Burnam says rejecting expansion would send $9 billion of Texans' taxes to Medicaid in other states," *Politifact Texas* and *Austin American-Statesman* (12 Apr. 2013).

[6] Jessica C. Smith and Carla Medalia, "Health Insurance in the United States: 2013, Current Population Reports," U.S. Census Bureau (Sept. 2014).

[7] Kyle L. Janek, Executive Commissioner, *Presentation to the House Appropriations Committee*, Texas Health and Human Services Commission (8 Mar. 2013).

[8] "How Will the Uninsured in Texas Fare Under the Affordable Care Act?" Kaiser Family Foundation (6 Jan. 2014).