

# Policy Focus

## Medicaid: Don't Expand a Broken System

RECIPES FOR RATIONAL GOVERNMENT FROM THE INDEPENDENT WOMEN'S FORUM

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### WHAT YOU NEED TO KNOW

**T**he Affordable Care Act (ObamaCare) was passed in part to reduce the number of Americans without health insurance. One of the primary ways ObamaCare would accomplish this is by expanding Medicaid—the program that currently provides insurance to low-income Americans—so more Americans are eligible.

The original law sought to compel states to expand their programs (or face the threat of losing *all* federal funding for Medicaid). However, in 2012, the Supreme Court ruled that the federal government can't force states to expand Medicaid. Since then, states have grappled with a decision: Should they take generous but short-term federal funding to expand Medicaid, or should they avoid the expansion altogether?

As Americans consider this debate, it is important to understand the current state of Medicaid. As it is today, Medicaid is expensive and rife with problems. Approximately 58 million people have insurance through Medicaid, but the quality of health care they receive is substandard, sometimes even worse than care for the uninsured. Medicaid already takes up nearly a quarter of the average state budget, competing closely with K-12 education for state dollars.

Past expansions of Medicaid show that states often end up spending far more than anticipated, and do not increase the rate of people with insurance. Instead, expanding the program moves people from private insurance onto government rolls. Instead of expanding a broken program, lawmakers should reform Medicaid to make it more patient-centered and market-based.

## WHY YOU SHOULD CARE

Most Americans care deeply about providing for the health needs of low-income people. But expanding a broken Medicaid system is not likely to help anyone:

- **Hurting the Truly Needy:** Today many Medicaid patients struggle to make doctors appointments and get timely care. This results in poor health outcomes. Adding millions more patients to Medicaid will worsen the problem by increasing demand for the small number of providers who accept Medicaid patients.
- **Increasing Costs and Cost-Shifting:** Expanding Medicaid will demand more taxpayer dollars from state governments. That means states will have to reduce spending on other priorities, like education, or raise taxes to make up the difference. More Medicaid patients at hospitals will also mean higher costs for everyone else, since the government doesn't reimburse health providers at market rates and hospitals pass costs on to the privately insured.
- **Discouraging Real Reform:** This expansion discourages needed innovation and reform to the Medicaid system. Instead of expanding, states should focus on reforming Medicaid to make it work for patients and taxpayers.

The Medicaid expansion, while it may have good intentions, will have serious consequences for recipients, for taxpayers, and for the cause of reform.

## MORE INFORMATION

# Medicaid: Background and Check-Up

**S**tarted in 1965 as a part of the Social Security Act, Medicaid seeks to provide a last-resort government-funded health insurance for low-income Americans. The first year it was offered, 4 million Americans participated at a combined state and federal cost of \$0.4 billion.

Since then, Medicaid has grown dramatically. Today about 58 million people are enrolled, and spending on the program exceeds \$400 billion per year. This expense is shared by the state and federal governments. The federal government pays states for a certain percentage, officially the “Federal Medical Assistance Percentage” or FMAP, of program expenditures.

The FMAP varies from state to state, but ranges from around 50 to 75 percent with an average of 57 percent. This funding structure gives states an incentive to spend more: Even with 50 percent federal matching, states benefit from distributing 2 dollars in spending for one dollar of cost to the state.

The Affordable Care Act would raise the eligibility income ceiling in participating states from 100 percent of the Federal Poverty Line (FPL) to 133 percent. This would result in a projected

12 million more individuals becoming eligible and enrolling in Medicaid.

However, before expanding Medicaid, lawmakers should consider how the program is operating today, for the current Medicaid population. The facts are not encouraging.

### Lack of Access to Care

The Medicaid program fails to keep its promises to current recipients and strains our medical provider community.

Nationally, for every dollar of primary care received by someone with employer-sponsored insurance in 2008, Medicaid only paid 52 cents. That means that doctors received just about half of the payment for treating a Medicaid patient that they did from someone with private insurance.

Not surprisingly, because of this broken payment structure, [Health Affairs](#) reports that only 70 percent of physicians accept Medicaid patients. This makes it difficult for Medicaid patients to get appointments with private physicians.

The health outcomes for Medicaid patients confirm they are not receiving a high quality of care: A [University of Virginia Study](#) shows that surgical patients on Medicaid are 13 percent more likely to die than patients with no insurance at all. They are 97 percent more likely to die than those with private insurance. The poor standard of care for Medicaid patients has resulted in severe harm and in some cases, even death.

### Costly and Wasteful

In 2011, the [Government Accountability Office](#) classified Medicaid as a high-error risk program. GAO reported that Medicaid paid out \$21.9 billion in improper payments, including \$15 billion in overpayments as a result of eligibility review errors or insufficient or inaccurate information.

Like other government anti-poverty programs, Medicaid becomes a more significant budgetary burden during times of economic slowdown. More people enroll in the program just as tax revenues decrease, resulting in a financial strain on Medicaid.

This presents a serious challenge for state budgets. Nationwide, Medicaid spending [represented 22 percent of total state spending in 2010](#). Education (K-12), the second greatest budget item, represented 21 percent. Since the start of the recession through FY 2012, states have faced collective [shortfalls of more than \\$540 billion](#). They face an additional projected shortfall of \$55 billion in FY 2013.

In addition to adding many newly eligible Medicaid recipients, other changes in the health legislation will result in higher costs to states. For example, [some 10-13 million people are already eligible for Medicaid](#) but aren't enrolled. Due to the individual mandate, many of these people are likely to enroll, but the promise of additional federal funding for the newly enrolled won't apply to this group.

Importantly, the Affordable Care Act prohibits any state from restricting Medicaid eligibility through its "Maintenance of Effort" requirement.

This means states have limited ability to control Medicaid's costs, and will have to look elsewhere to make up their budget shortfalls. This could mean reductions in payments to providers or hospitals, increases in state taxes, or cuts to other state budget items.

An honest assessment of Medicaid's current situation is sobering. It seems ill-advised, to say the least, to encourage more people to enter a system that provides such poor service at such a high price to taxpayers.

## ObamaCare Will Worsen Medicaid Problems

When the Affordable Care Act passed, states immediately filed lawsuits challenging some provisions of the law as unconstitutional, including the Medicaid expansion. The Supreme Court ruled that no state could be forced to comply with the expansion, which left the states the option of whether to change Medicaid as prescribed in ObamaCare. Since the June 2012 ruling, 20 states have committed to the Medicaid expansion. Fourteen have refused it. Sixteen states remain undecided.

Even for states that are ideologically opposed to ObamaCare, the promise of temporary increases in federal funding for Medicaid is tempting. The Obama Administration has promised to fund 100 percent of the costs for newly-eligible Medicaid enrollees from 2014-2016, and 90 percent of their costs in later years. The [Congressional](#)

[Budget Office](#) estimates this will cost the federal government more than \$630 billion over 10 years.

Yet states should be warned that the expansion of Medicaid will come with serious costs for states as well, especially in the long run.

Past expansions of Medicaid have proven much more costly for taxpayers than anticipated: For example, the [Foundation for Government Accountability](#) reports that Arizona's past Medicaid expansion has cost the state four times more than originally projected.

If costs exceed expectations, states will likely find that the federal government is not committed to the long-term 90 percent match rate. In fact, in his FY 2013 budget, the President proposed reducing this match rate to save federal dollars.

States should also recognize that past Medicaid expansions have failed in terms of increasing the portion of citizens with insurance. For example, expansions in Arizona, Maine, Oregon, and Delaware had no impact on the rate of uninsured. Instead, according to the [Foundation for Government Accountability](#), the rate of people with private insurance decreased. States should not be in the business of encouraging self-sufficient people on private insurance to move into a government program that cannot deliver on its promises.

State taxpayers will likely also pay for the Medicaid expansion through higher private insurance costs. A 2008 study from actuarial consulting firm [Milliman](#) shows that, to make up for the money lost

providing care to Medicaid patients, health providers shift costs to people who are privately insured. The average family pays \$1800 more per year in health costs to help providers recoup the costs of underfunded government insurance programs. This cost-shifting will only become more of a burden as the program grows in size.

### A Different Solution: Give States Freedom

A simple expansion of Medicaid will not solve the problems of our nation's health care system. In fact, the Medicaid expansion is indicative of the larger flaw in the Affordable Care Act: It focuses on expanding health *insurance* coverage without facing the realities of supply and demand in health *care*.

A better way to address the problems of limited access and high costs would be to move toward a more patient-focused health care market where individuals have more responsibility – and choices – when it comes to their own care.

The federal government should convert Medicaid into a block grant program, giving states a set amount of funding each year to use as states see fit. Then, states could experiment with eligibility, delivery, and reimbursement to determine what works for their population, and what doesn't. The Affordable Care Act moves in the wrong direction, limiting flexibility in state policy by requiring that states keep their programs the same. This provision is called "Maintenance of Effort."

But past waivers show reforms can work. Rhode Island, Indiana, and Florida have all

seen cost savings and improved outcomes by introducing market competition and individual responsibility to Medicaid.

No one wants to see fellow Americans struggle with health insurance bills or health care costs. It's our responsibility to find the best policy solutions to make high-quality health care options available to everyone, at every income level. The best way to do this is to allow states – who are closer to and more knowledgeable of their populations – to find out what works and implement real reforms.

### Charity Care: A Realistic Option?

Medicaid is part of a large, expensive, and complicated government social safety net. In any discussion about the social safety net, it's fair to consider what's the role of government and what's the role of individuals who want to care for one another.

Many doctors and health care professionals want to provide some free health services to vulnerable populations, through charity care. In fact, many providers already do some kind of community care at free clinics. There are over 1,200 free clinics in the United States.

These clinics will become even more important as ObamaCare is implemented. In 2022, the CBO estimates that 30 million people in the United States will still be uninsured. And because of the difficulty Medicaid patients face in trying to get doctors' appointments, many Medicaid recipients end up in charity clinics as well.

Some free-market advocates would prefer that charity care replace Medicaid entirely. Regardless of Medicaid policy, charity care does and will continue to play a vital role in meeting the health needs of individuals who struggle to pay for care.

## WHAT YOU CAN DO

You can learn more about the Medicaid expansion and its impact on the U.S.

- **Get Informed:** To learn more visit:
  - [Independent Women's Forum](#)
  - [HealthReformQuestions.com](#)
  - [MedicaidCure.org](#)
- **Talk to Your Friends:** Help your friends and family understand these important issues. Tell them about what's going on and encourage them to join you in getting involved.

- **Become a Leader in the Community:** Get a group together each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. A few motivated people can change the world.
- **Remain Engaged:** Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

## ABOUT THE INDEPENDENT WOMEN'S FORUM

The Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility.

IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.

We rely on the support of people like you! Please visit us on our website [www.iwf.org](http://www.iwf.org) to get more information and consider making a donation to IWF.

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