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RESEARCH SUMMARY

EVIDENCE IS MOUNTING:
The Affordable Care Act Has Worsened Medicaid's Structural Problems

One of the more controversial parts of the Affordable Care Act (ACA) is its expansion of Medicaid. A new study from the Mercatus Center at George Mason University reviews Medicaid's longstanding problems, discusses the incentives states face as a result of the elevated federal reimbursement rate for the ACA Medicaid expansion population, and analyzes the impact of the expansion.

The first two years of the ACA's Medicaid expansion demonstrate that government experts failed to account for how states would respond to the incentives resulting from the elevated federal reimbursement rate. Enrollment and spending are much higher than expected, and this is especially noteworthy since states are adopting the expansion more slowly than expected. Overall, the ACA expansion significantly adds to Medicaid's unsustainable spending trajectory, likely fails to produce outcomes worth the corresponding cost, and creates a large federal government bias toward nondisabled, working-age adults at the expense of traditional Medicaid enrollees.

To read this study in its entirety and learn more about its author, Mercatus senior research fellow Brian C. Blase, please see "Evidence Is Mounting: The Affordable Care Act Has Worsened Medicaid's Structural Problems."

BACKGROUND

The ACA Medicaid expansion population generally consists of working-age, nondisabled adults. Medicaid coverage for this population is currently funded by a 100 percent match from the federal government (which will eventually decline to a minimum match of 90 percent). This expansion population has turned out to be significantly larger and more expensive than expected, a problem likely driven by the incentives produced by the enhanced federal reimbursement rate.

The unanticipated expense casts doubt on the value of the ACA Medicaid expansion. The enhanced federal match incentivizes states to boost ACA expansion enrollment and to categorize Medicaid enrollees as ACA expansion enrollees, and also encourages states to set high fees for

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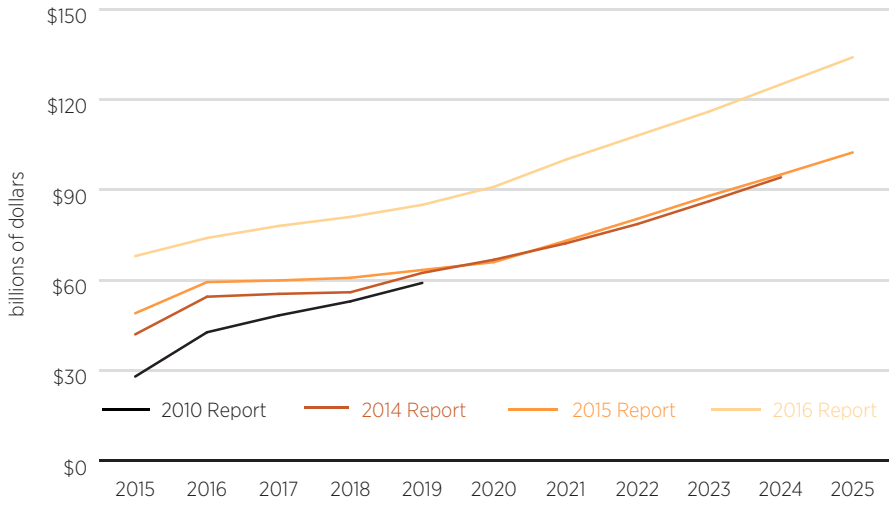
services commonly used by expansion enrollees and high payment rates for insurers participating in states' Medicaid managed care programs.

PROBLEMS WITH THE ACA MEDICAID EXPANSION

- *Enrollment has been higher than expected.* In the states that expanded Medicaid under the ACA, far more people are enrolling in Medicaid—upwards of 50 percent more—than the Congressional Budget Office expected before the expansion took effect in 2014.
- *Total costs have been higher than expected.* After adjusting previous projections for current assumptions of state participation, the Congressional Budget Office's current expectation of federal Medicaid spending between 2016 and 2024 is $232 billion in excess of 2014 estimates (see figure 1).

Figure 1. CBO Projections of ACA Medicaid Expansion Costs, Adjusted for State Adoption of Expansion



Note: The projections for the 2010 and 2014 reports end in 2019 and 2024, respectively. CBO's pre-2016 projections have been adjusted to reflect CBO's current assumption about state adoption of the Medicaid expansion.

Source: Congressional Budget Office, *The Budget and Economic Outlook* reports, 2010–2016.

- *Individual enrollees have been more expensive than projected.* The Department of Health and Human Services (HHS) now projects that newly eligible Medicaid enrollees cost an average of $6,366 in 2015—a 49 percent increase from the amount HHS projected last year. HHS originally projected that newly eligible Medicaid enrollees would be about 20–30 percent less costly than previously eligible adults, but in 2015, newly eligible enrollees cost roughly 23 percent *more* than previously eligible adults.
- *Medicaid expansion enrollees receive inadequate value from the program.* Researchers analyzing the Oregon Medicaid quasi experiment found that expansion enrollees did not

have significantly better physical health on any of the three metrics assessed (blood pressure, cholesterol, and blood sugar). The same researchers estimated that enrollees only valued Medicaid at 20–40 cents for every dollar of program spending on their behalf. Large Medicaid expansions also tend to have rippling effects that affect the allocation of healthcare services, increasing the importance of assessing population effects. Tennessee's large Medicaid expansion in the 1990s failed to produce discernible changes in healthcare utilization and actually showed worse self-reported health and population death rates relative to the changes in Tennessee's bordering states.

LONG-STANDING CONCERNS WITH MEDICAID

The federal government has historically provided an open-ended match of state spending on Medicaid, with the reimbursement averaging about 57 percent. The program previously targeted seniors, the disabled, lower-income children and their mothers, and pregnant women. Before the ACA, Medicaid was already growing rapidly, and contained embedded problems that resulted in large amounts of low-value spending.

- *It crowded out other priorities.* Medicaid's generous federal match rate makes state spending on the program relatively cheaper than other areas of state spending, as $1 of state funds brings between $1 and $3 of federal funds. This open-ended federal subsidy crowds out state spending on other priorities, such as education and infrastructure.
- *It lacked effective oversight.* The open-ended federal subsidy discourages both states and the federal government from conducting effective program oversight, leading to wasteful spending and state schemes to inappropriately obtain federal funding through Medicaid.
- *It disincentivized work.* Medicaid discourages work because income earned above a certain amount results in a loss of coverage. One study found that pre-ACA Medicaid expansions caused a 2–4 percent reduction in the labor supply of men.
- *It resulted in lack of access.* Medicaid has historically paid relatively low rates for many services, making providers reluctant to care for Medicaid enrollees. As a result, enrollees receive a disproportionate amount of nonemergency care in emergency rooms.