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TESTIMONY

THE HIGH AND HIDDEN COST OF MEDICAID EXPANSION FOR KANSAS

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House Standing Committee on Health and Human Services

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Good morning, Chairman Hawkins, Ranking Member Ward, and distinguished members of the committee. Thank you for inviting me to testify today on the subject of Medicaid expansion in the state of Kansas.

In 2012, the Supreme Court ruled in *National Federation of Independent Businesses v. Sebelius* that states could choose whether to expand their Medicaid programs under the Affordable Care Act. Since then, several states around the country are still in the process of making that decision.

To date, the Kansas legislature has barred the governor from expanding Medicaid. To reverse this action, the legislature would need an affirmative vote to proceed with the expansion.

This testimony will lay out four reasons why it would be unwise for Kansas to expand Medicaid:

1. There are hidden costs to Medicaid expansion.
2. There are real opportunity costs to the state budget if Medicaid is expanded.
3. Medicaid has a poor track record of providing adequate care.
4. New data shows that not expanding Medicaid helps reduce the federal deficit.

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MEDICAID EXPANSION WILL BE EXPENSIVE

Under the ACA, states that expand Medicaid would have to expand eligibility beyond the previous subset of poor Americans, such as pregnant women, to cover all adults with incomes of up to 138 percent of the federal poverty level ($15,415 for an individual in 2012; $31,809 for a family of four). The ACA, of course, offers a sweetener. Between 2014 and 2016, the federal government would pay for 100 percent of the expansion. That share would drop to at least 90 percent thereafter.

It may seem like a great deal, but states should be cautious. Charles Blahous, my colleague at the Mercatus Center at George Mason University and a public trustee for Social Security and Medicare, has explained why in his essay "Medicaid Under the Affordable Care Act," published last year in *The Economics of Medicaid*: states face different financial situations and different budgetary circumstances; they deal with very different populations, which make different value judgments. Thus, it's only natural that we should see varying responses from the states.[1]

What does expansion look like for Kansas? According to a paper by economist Jagadeesh Gokhale, the expansion would be costly. He writes:

> As a result of the "Mandate Effect" incumbent in the Supreme Court's ACA ruling, Kansas can expect a 10-year Medicaid State General Fund (SGF) spending increase of $4.1 billion above expected non-ACA cost increases. Expanding Medicaid would result in an additional $625 million in SGF expenditures and, when combined with the "Mandate Effect," would increase SGF spending on Medicaid to $4.72 billion. This assumes that the federal government maintains its match of state Medicaid expenditures, hardly a guarantee given the federal government's extremely unsound financial condition.[2]

In addition, every state will face added cost following the expansion of the program.

First, it is true that the federal government will cover 100 percent of the cost for the first 3 years of the expansion. However, the state would still have to foot the bill for the administrative costs of covering those additional adults as well as other costs related to other parts of the expansion.[3] According to a 2010 analysis by Edmund F. Haislmaier, "The most recent available Medicaid expenditure data (for federal FY 2006 and 2007) show that administrative expenses add an average of 5.5 percent on top of total (federal and state) benefit costs and that, on average, the federal government pays 55 percent of total administrative costs, with the other 45 percent paid by the states."[4] That is not a negligible cost increase.

Second, for years after 2016, the federal government will phase out its subsidy gradually to reach 90 percent of costs by 2020. Under the current federal matching rate schedule for new enrollees among the newly Medicaid eligible, the federally unpaid portion of Medicaid costs must be paid for out of state general funds. A 10 percent drop in federal contribution is not negligible, either. Considering that Kansas's FY 2016 budget is currently under review, Kansans will have to foot more of the bill sooner.

1. Charles Blahous, 2013. "The Affordable Care Act's Optional Medicaid Expansion: Considerations Facing State Governments," http://mercatus.org/sites/default/files/Blahous_MedicaidExpansion_v1.pdf.
2. Jagadeesh Gokhale, 2013. "Should Kansas Expand Medicaid Under the Affordable Care Act? A Perspective On Weighing the Costs and Benefits," *Cato Policy Brief,* http://object.cato.org/sites/cato.org/files/articles/kpi_policy_brief_-_should_kansas_expand_medicaid_under_the_aca.pdf.
3. Michael F. Cannon, 2013. "Yes, Florida Voters Oppose ObamaCare's Medicaid Expansion," http://www.cato.org/blog/yes-florida-voters-oppose-obamacares-medicaid-expansion.
4. Edmund F. Haislmaier, 2010. "Expanding Medicaid: The Real Costs to the States," Heritage WebMemo #2757 on Health Care, http://www.heritage.org/research/reports/2010/01/expanding-medicaid-the-real-costs-to-the-states#_ftn2; April Grady, 2008. "State Medicaid Program Administration: A Brief Overview," Congressional Research Service, *Report for Congress*; John Holahan, Alshadye Yemane, and David Rousseau, 2009. "Medicaid Expenditures Increased by 5.3% in 2007, Led by Acute Care Spending Growth," Kaiser Commission on Medicaid and the Uninsured.

In addition, it is unclear whether the federal government will maintain their commitments to the costs of the Medicaid expansion in the future. The federal government is facing serious fiscal problems of its own, and it is very possible that future fiscal constraints at the federal level will leave the states over exposed to the costs expansion. In other words, states should be wary of the impact the expansion will have on their state budgets when the expansion is perceived as permanent, but the federal aid turns out to be temporary.

As Gokhale points out:

> The high currently promised match rate is intended to suggest that state general fund commitments for Medicaid expansion would be a relatively small portion of the total increase in state spending on Medicaid and that federal matching funds for Medicaid expansion would help spur economic growth in states' health care sectors and to state economies generally. The latter claim, however, is rather weak because the supply of health care goods and services is unlikely to keep pace with the growth in demand.[5]

Third, an aspect often omitted from these cost estimates is the fact that, among the new enrollees in Medicaid, many were previously eligible but simply never enrolled. For these people, the old and much less generous formula applies. In Kansas, for instance, the pre-ACA Federal Medical Assistance Percentage (FMAP) rate for regular Medicaid enrollees is 56.5 percent (for 2013) and will likely remain at this level for a while.[6] That means that under the Medicaid expansion, the adults already eligible for Medicaid but not yet enrolled will be induced to enroll into the program, but the Kansas state general fund will have to cover 43.5 percent of their Medicaid health service costs.[7]

This part of the tab could end up being significant for the state of Kansas if a large number of people were eligible under Medicaid before the ACA was enacted but never enrolled.

For all these reasons, Blahous concludes: "Despite the arguments of some advocates that expanding Medicaid will reduce state costs of treating the uninsured, the available data do not appear to support the suggestion of net cost savings for states. On average, states should expect their total expenditures to rise significantly if they choose to expand Medicaid."

MEDICAID EXPANSION HAS A REAL OPPORTUNITY COST

Medicaid has become one of the biggest programs in most states' budgets over the past decade, and it's still growing.[8] Kansas has not been spared. Between 2001 and 2009 Medicaid's share of the state general fund spending went from 9.8 to 13.5 percent, forcing reductions in both the shares of education (from 66.4 to 65.1 percent) and other public services (from 23.8 to 21.4 percent) over the same period.

Any expansion in Medicaid, therefore, adds to an already unsustainable situation. Federal assistance might reduce the cost of each new beneficiary added under the expansion to the state but does not change this fundamental dynamic.

As the cost of Medicaid expands and as Medicaid consumes a larger share of the state budget, tradeoffs will have to be made. Gokhale writes:

> Kansas' lawmakers face a crucial decision about whether to expand Medicaid according to the dictates of the ACA. Potential benefits must be weighed against the lost opportunities to spend on other priorities (e.g., K-12 education). It may be better to spend the $625 million on other Kansas' budget items,

5. Jagadeesh Gokhale, 2013.
6. Jason J. Fichtner, 2014. *The Economics of Medicaid: Assessing the Costs and Consequences*, "The Federal Side of the Budget Equation," http://mercatus.org/sites/default/files/EconomicsofMedicaid.pdf.
7. Jagadeesh Gokhale, 2013.
8. Charles Blahous, 2013. "Expanding Medicaid: The Conflicting Incentives Facing States," e21 at the Manhattan Institute, http://www.economics21.org/commentary/expanding-medicaid-conflicting-incentives-facing-states.

> especially considering that this is over and above the estimated $4.1 billion Medicaid spending increase already committed under the "Mandate Effect."

THERE IS A DIFFERENCE BETWEEN COVERAGE AND OUTCOMES

So what are the potential benefits? The first one that comes to mind is that many low-income Kansans who didn't have health care coverage will now be covered under Medicaid. However, we must remember that health care coverage is quite different from quality health care.

The empirical evidence shows that, unfortunately, Medicaid is a bad deal for the recipients themselves. To boot, the program often provide second-class care. Poor access and poor health outcomes are often the fate that awaits Medicaid beneficiaries, including the need for greater reliance on emergency rooms and higher mortality rates.[9]

As American Enterprise Institute scholar and practicing physician Dr. Scott Gottlieb points out,

> There's now a voluminous body of clinical literature showing that access to Medicaid alone doesn't improve (and can worsen) medical outcomes. Boosters of Medicaid dismiss much of this literature, arguing that the research can't control for all the socioeconomic factors that contribute to bad medical outcomes among the poor. But the sheer volume of literature is becoming hard to ignore.[10]

In other words, expanding Medicaid is neither good for the state budget nor for Medicaid's new beneficiaries.

REJECTING MEDICAID EXPANSION IS HELPING REDUCE THE FEDERAL DEFICIT

One under-appreciated argument against Medicaid expansion is the effect a refusal to expand would have on the federal budget. According to the Congressional Budget Office, the federal government has not set aside a budget to pay the Medicaid subsidies to the states that choose to expand.[11] That means that when a state chooses to expand, the federal government has to borrow money to pay for the subsidies. That new borrowing will be added to the deficit and the national debt.

Refusing to expand is an act of fiscal responsibility, especially when one considers our $18 trillion national debt. This should matter to every taxpayer in each and every state that is considering the expansion since these state taxpayers are also federal taxpayers who will end up paying higher taxes to face our growing debt and interests.

How much are we talking about? A report by the Council of Economic Advisors from July 2014 noted states that rejected the Medicaid expansion so far have "saved federal taxpayers at least $26 billion in 2014. If those states continue to reject Obamacare, federal taxpayers will spend $368 billion less on Medicaid expansion through 2022."[12]

9. Charles Blahous, 2014. *The Economics of Medicaid: Assessing the Costs and Consequences*, "Medicaid under the Affordable Care Act," http://mercatus.org/sites/default/files/EconomicsofMedicaid.pdf.
10. Scott Gottlieb, 2014. "New Study Shows How Medicaid Fails the Poor, and Why Obamacare Will Fail the Middle Class," *Forbes*, http://www.forbes.com/sites/scottgottlieb/2014/01/02/new-study-shows-how-medicaid-fails-the-poor-and-why-obamacare-will-fail-the-middle-class/.
11. Congressional Budget Office, 2012. "Estimates for the Insurance Coverage Provisions of the Affordable Care Act Updated for the Recent Supreme Court Decision," http://www.cbo.gov/sites/default/files/cbofiles/attachments/43472-07-24-2012-CoverageEstimates.pdf.
12. Josh Archambault, 2015. "Congressional Research Service: There's No Magic Pot of Obamacare Medicaid Expansion Money," *Forbes*, http://www.forbes.com/sites/theapothecary/2015/03/12/congressional-research-service-theres-no-magic-pot-of-obamacare-medicaid-expansion-money/.

Moreover, states that refuse to expand shouldn't fall for the argument that they are sending that Medicaid expansion money to other states. A recent report from the Congressional Research Service (CRS) confirms that when a state refuses to expand, the money is simply never spent rather than spent by another state.[13]

According to the CRS report,

> If a state doesn't implement the ACA Medicaid expansion, the federal funds that would have been used for that state's expansion are not being sent to another state. There is not a set amount of federal funding for Medicaid. Each state gets the federal funding necessary for their Medicaid program.

One hopes that this report will put an end to the states' fear that by refusing Medicaid expansion, they are just shipping money to other states. They aren't.

CONCLUSION

Kansas state legislators should ask themselves whether the expansion is really worth the future cost to taxpayers in their states and whether it is really fair to throw more low-income Americans into costly, substandard health care.

13. Congressional Research Service, 2015. "Questions About the ACA Medicaid Expansion," http://uncoverobamacare.com/wp-content/uploads/2015/02/CRS-memo-Questions-About-the-ACA-Medicaid-Expansion-Jan.-2015.pdf.