

# Evidence is Mounting: The Affordable Care Act Has Worsened Medicaid's Structural Problems

Brian Blase

*Senior Research Fellow*

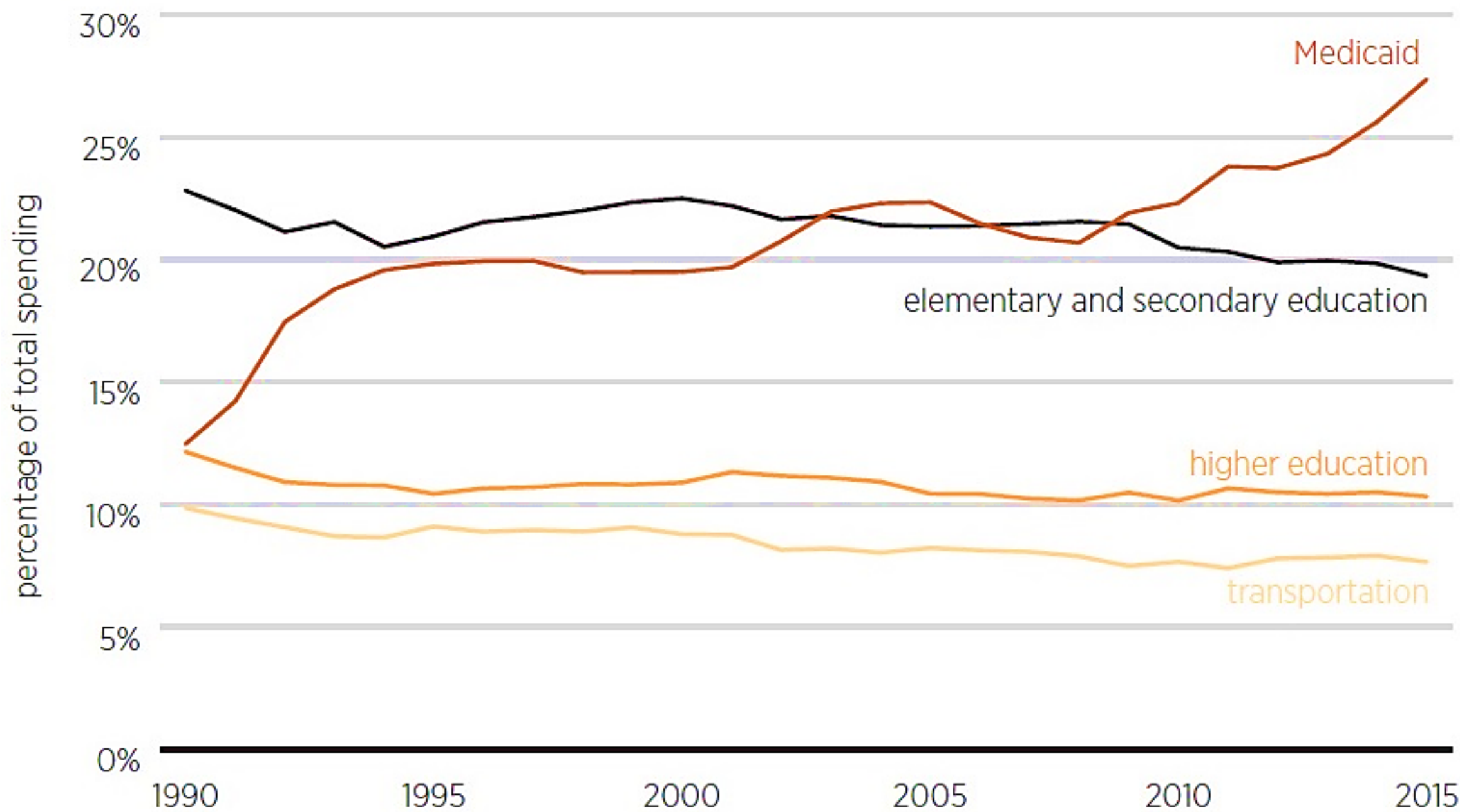


**MERCATUS CENTER**  
George Mason University

# Incentives From Elevated Expansion Match Rate

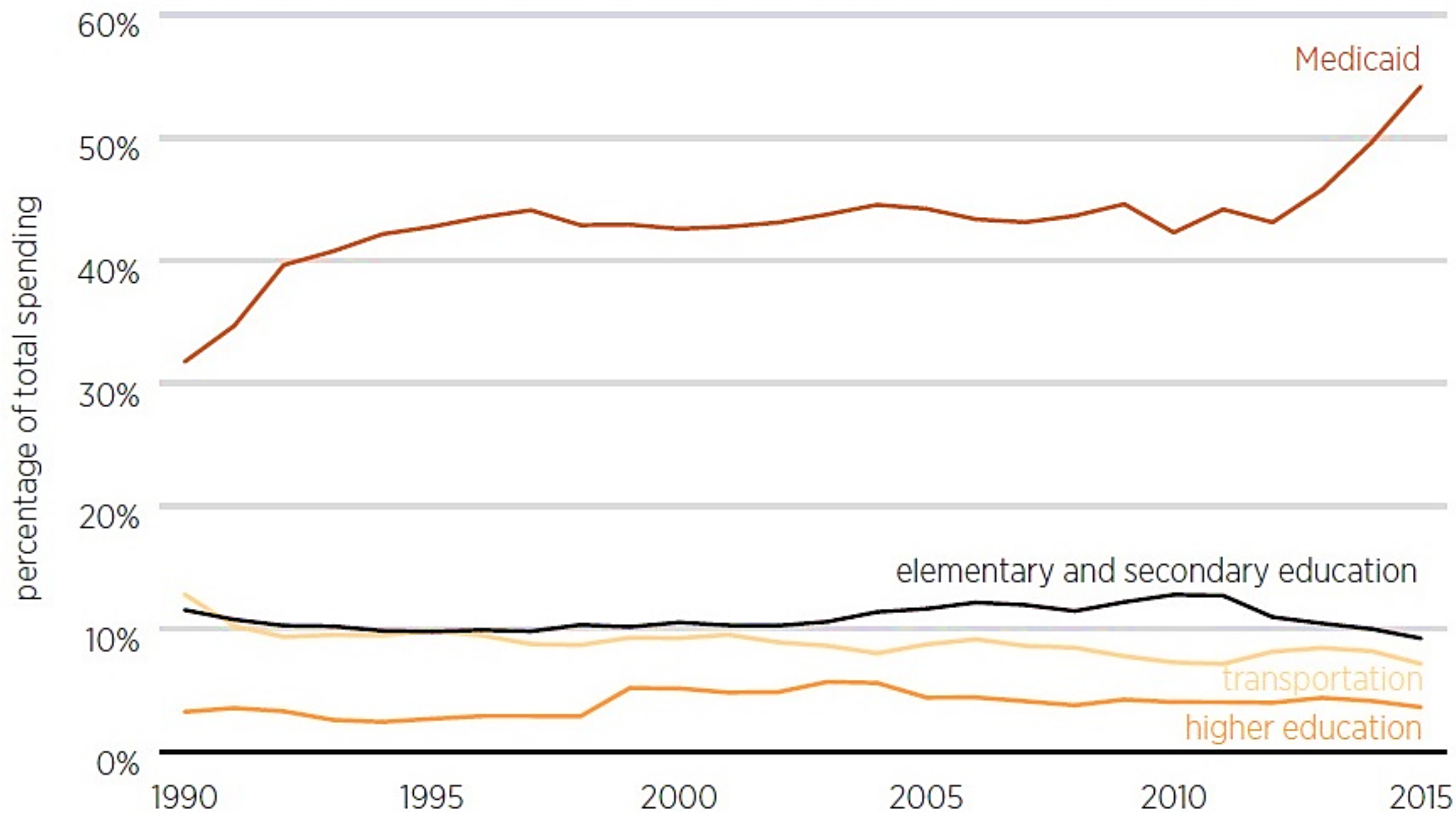
- Boost ACA Medicaid enrollment.
- Create high fees for services commonly used by expansion enrollees as well as high payment rates for insurers.
- Favor newly eligible enrollees over traditional Medicaid enrollees.

# PERCENTAGE OF STATE EXPENDITURES FOR FOUR MAIN SPENDING CATEGORIES



Source: NASBO, *State Expenditure Report*, 1990–2015.

# PERCENTAGE OF FEDERAL FUNDS DIRECTED TOWARD STATE EXPENDITURE CATEGORIES



Source: NASBO, *State Expenditure Report*, 1990–2015.

# High Spending Per ACA Expansion Enrollee

## 2014 Report Per Enrollee Cost Estimate for 2015

---

Previously Eligible Adults \$4,817

Newly Eligible Adults **\$4,281**

---

## 2015 Report Per Enrollee Cost Estimate for 2015

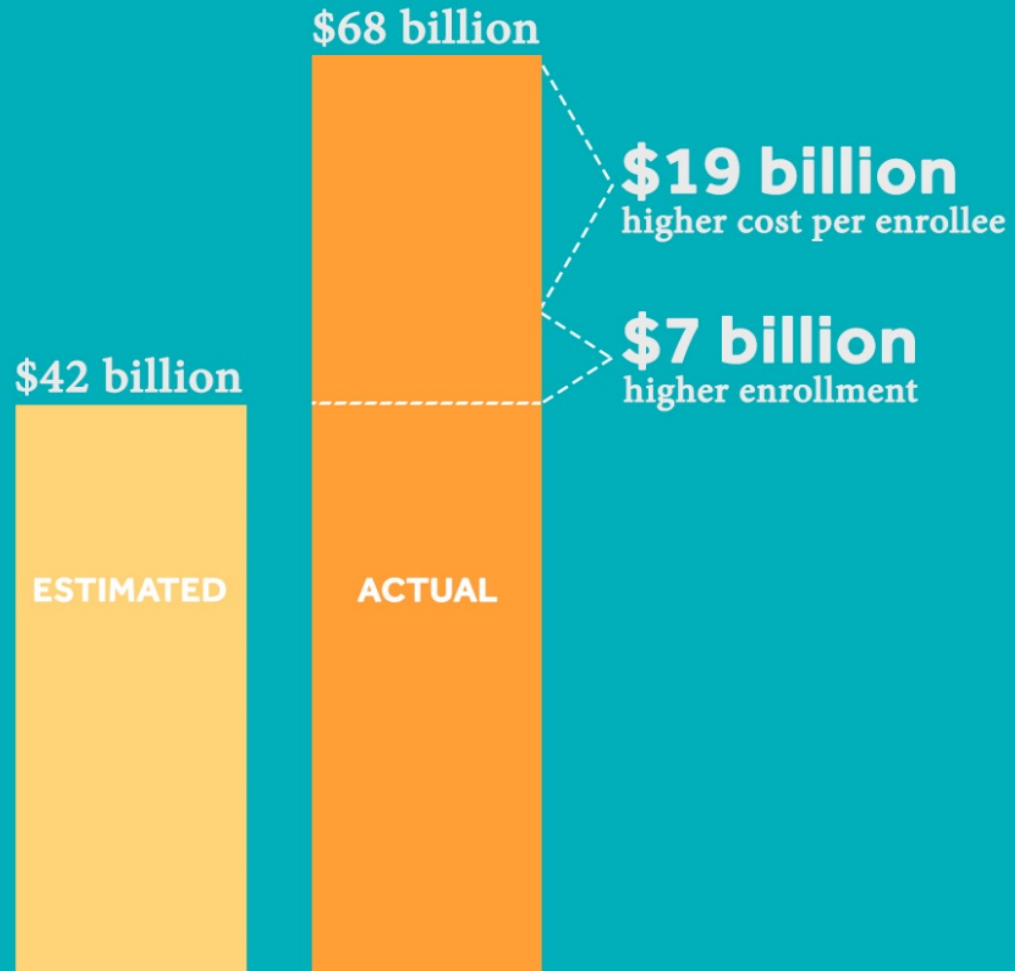
---

Previously Eligible Adults \$5,159

Newly Eligible Adults **\$6,366**

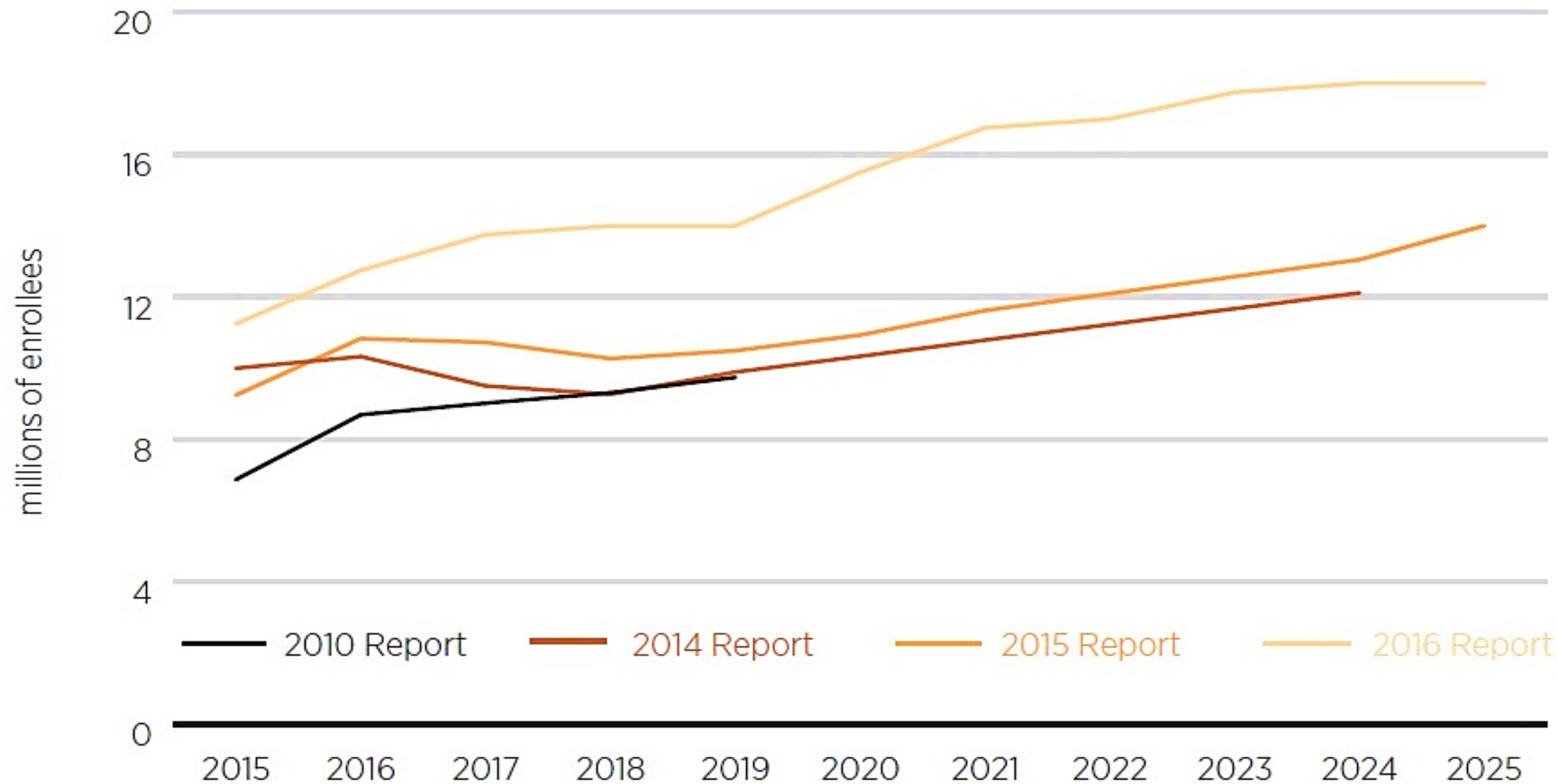
---

# MEDICAID EXPANSION COST, 2015



Source: Centers for Medicare and Medicaid Services,  
Congressional Budget Office

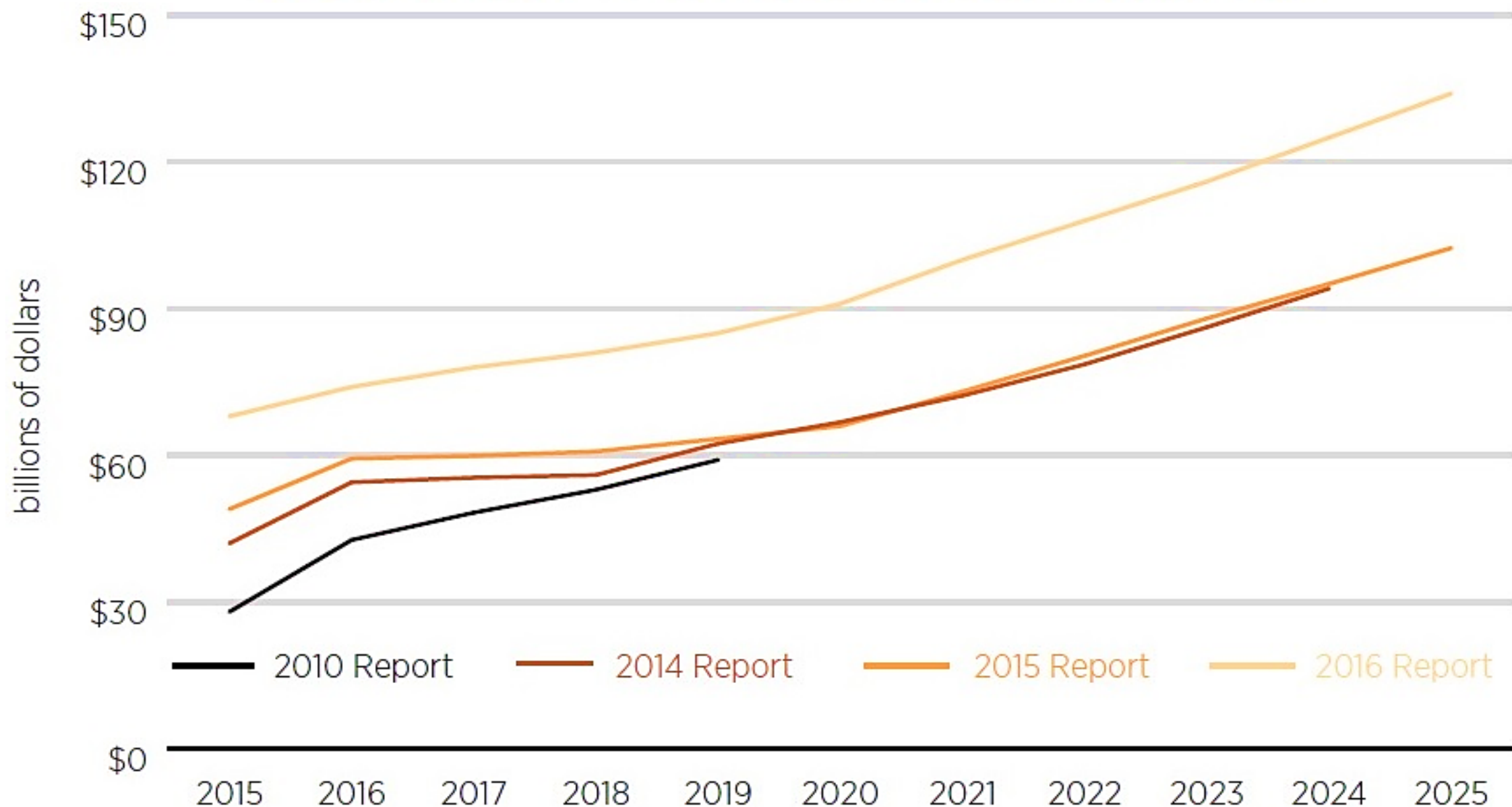
# CBO PROJECTIONS OF ACA MEDICAID EXPANSION ENROLLMENT, ADJUSTED FOR STATE ADOPTION OF EXPANSION



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



# CBO PROJECTIONS OF ACA MEDICAID EXPANSION COSTS, ADJUSTED FOR STATE ADOPTION OF EXPANSION



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



# Interpreting the Results

- In states that expanded:
  - à Enrollment is about 25-50% above expectations.
  - à Spending is about 40-50% above expectations.
- Using same assumptions of state adoption of expansion, federal Medicaid spending from 2016 to 2024 is \$232 billion in excess of CBO's 2014 projection.

# The Value of Medicaid

Source: Amy Finkelstein, Nathaniel Hendren, Erzo F.P. Luttmer,  
“The Value of Medicaid: Interpreting Results from the Oregon  
Health Insurance Experiment,” NBER Working Paper No. 21308  
Issued in June 2015



# Proliferation of Medicaid Misspending

- \$26 billion: Medicaid improper payments in 2013.
- \$67 billion: Medicaid improper payments in 2016.
- This is a ***\$41 billion increase in 3 years.***

# Medicaid Spending, by State Per Capita Income

Quintile	PC Income	State Spend	Fed Spend	Total Spend
Lowest	\$40,126	\$2,192	\$4,301	\$6,494
2nd	\$45,070	\$2,381	\$4,518	\$6,899
3rd	\$49,284	\$3,506	\$5,482	\$8,987
4th	\$56,463	\$4,582	\$4,937	\$9,519
Highest	\$62,943	\$5,248	\$5,839	\$11,087

# Medicaid Reform Goals

- “[T]o reduce federal funding over the long term, while preserving a safety net for needy, low-income Americans.”
- “[T]o advance federalism by reducing the federal government’s role and giving states and governors more freedom and flexibility in managing their Medicaid programs and helping people in their states.”

Source: GOP, “A Better Way, Our Vision for a Confident America,” June 22, 2016, [http://abetterway.speaker.gov/\\_assets/pdf/ABetterWay-HealthCare-PolicyPaper.pdf](http://abetterway.speaker.gov/_assets/pdf/ABetterWay-HealthCare-PolicyPaper.pdf).

# Fixed Allotments

- Reduce the ability of states to increase spending that is financed by taxpayers outside the state.
- Incentivize states to care about how they spend money on the program.
- Eliminate financing gimmicks.

# Lesson #1 from Medicaid Oversight Work

## **“Medicaid” as a verb.**

- In New York, they use the phrase “Medicaid It.”
- All states employ strategies to minimize the state share of expenditures and increase the federal money flowing into the state.



**Scenario 1:  
No Provider Tax**



**Scenario 2:  
Provider Tax Shifts Costs  
from State to Federal Government**



**Scenario 3:  
Provider Tax Increases  
Overall Medicaid Expenditures**



# Lesson #2 from Medicaid Oversight Work

## Medicaid LTC is available for just about everyone.

- Medicaid estate planning is prevalent.
- There are a large number of exempt resources.
- Janice Eulau, assistant administrator of Medicaid Services in Long Island:

“As a long-time employee of the local Medicaid office, I have had the opportunity to witness the diversion of applicants’ significant resources in order to obtain Medicaid coverage. It is not at all unusual to encounter individuals and couples with resources [beyond exempt resources] exceeding \$500,000, some with over \$1 million. There is no attempt to hide that this money exists; there is no need. There are various legal means to prevent those funds from being used to pay for the applicant’s nursing home care. Wealthy applicants for Medicaid’s nursing home coverage consider that benefit to be their right, regardless of their ability to pay themselves.”

# Lesson #3 from Medicaid Oversight Work

**Rules are really complicated; Medicaid overpays for a lot; CMS often doesn't know what states are doing.**

- New York Developmental Centers
- Minnesota Managed Care
- Braces in Texas
- Health Insurance Tax in California, Pennsylvania, Other States

# Reforms that Advance the Ball Down the Field

- Reduce elevated match rate for expansion population.
- Oversight of exploding cost of expansion population, including managed care contracts
- Limit states' use of provider taxes and intergovernmental transfers.
- Require the CMS Office of the Actuary or GAO to certify budget neutrality of Medicaid waivers.
- Require that states pay public providers no more than the actual/reasonable cost of services rendered.
- Restrict ability of relatively affluent to use Medicaid to pay for LTC.
- Require that states submit institution level Medicaid data as a condition of receiving federal funds.

# Sources

- Brian Blase, "Evidence is Mounting: The Affordable Care Act Has Worsened Medicaid's Structural Problems," *Mercatus Center*, Arlington, VA, September 2016, <http://mercatus.org/publication/aca-worsened-medicaid-structural-problems>.
- Brian Blase, "Obamacare Medicaid Expansion: A Lot of Spending of Little Value," *Forbes*, September 18, 2016, <http://www.forbes.com/sites/theapothecary/2016/09/18/obamacare-medicaid-expansion-a-lot-of-spending-of-little-value/#7a9b508c5263>.
- Brian Blase, "Medicaid Provider Taxes: The Gimmick That Exposes Flaws with Medicaid's Financing," *Mercatus Center*, Arlington, VA, February 2016, <http://mercatus.org/publication/medicaid-provider-taxes-gimmick-exposes-flaws-medicaid-financing>.
- Brian Blase, "Ending Obamacare's Medicaid Policy Would Be Big Improvement," *Forbes*, December 3, 2015, <http://www.forbes.com/sites/theapothecary/2015/12/03/ending-obamacares-medicaid-policy-would-be-big-improvement/#621bc9d2c26b>.

# Brian Blase

*Senior Research Fellow*

**Bblase@mercatus.gmu.edu**



**MERCATUS CENTER**

George Mason University