

# POLICYMAKER'S GUIDE TO CORPORATE WELFARE

## Medicaid Expansion

### The Issue

In 72-point font, newspaper headlines exclaim: “Doesn’t Texas care about poor people?” “Texas MUST expand Medicaid!” “Why is Texas rejecting all that free money?” There is pressure from some individuals and advocacy groups for Texas to expand our Medicaid program as mandated by the 2010 Patient Protection and Affordable Care Act (ACA). In 2012, the mandate became optional when the Supreme Court struck down that component of the ACA. To date, Texas has declined the option to expand Medicaid.

Expansion would raise the financial eligibility threshold for Medicaid enrollment from 100 percent of poverty line to 138 percent. It is estimated that if Texas expanded Medicaid, enrollment could increase from 4.4 million to 4.8 million. The ostensible purpose of such expansion is to reduce the number of the uninsured citizens, remembering that only those with legal resident status are eligible for government-supported health insurance coverage.

The federal government has promised to pay 100 percent of the cost of new enrollees but only for those who become newly eligible under expansion, not for new enrollees who met pre-expansion eligibility requirements. The latter individuals comprise an unquantified but undoubtedly large fraction of the newly insured. They will present a large financial burden to the state, as the costs they incur will not be covered by federal support.

During the years following Medicaid expansion, ACA law reduces the federal matching rate from 100 percent to 90 percent.

According to data from the Urban Institute, by expanding its Medicaid program Texas could receive as much as \$4.5 billion in additional Medicaid funds from the federal government. However, states that have expanded their Medicaid programs have reported ... delays in the federal government actually delivering the money it promised to pay.

### The Arguments

Advocates for Medicaid expansion claim that it will:

- Offer an opportunity to provide health insurance coverage to more Texans. Texas has the highest uninsured rate—16 percent—in the United States.
- Remediate the massive and growing cost of uncompensated care due to the unfunded mandate created by the Emergency Medical Transport and Active Labor Act of 1986 (EMTALA).
- Infuse a large number of “free” federal dollars into the Texas state budget.

Proponents of expansion argue that the new federal dollars will defray bills for previously uncompensated health related goods and services, and would increase productivity when sick people get the care they need when they need it, making them able to return to work instead of staying at home or in hospital because of illness.

Experience in our neighboring state of New Mexico shows that despite an infusion of 3.2 billion new (!) federal dollars into

their state coffers, their Medicaid budget experienced a shortfall of \$416 million for 2017. This forced New Mexico to cut its already low reimbursements to Medicaid providers by an additional 3 to 8 percent. In other words, while expansion increased revenue, it increased costs more. Expansion actually reduces the care available to patients

A 2013 study by Families USA suggested that the new money from Washington would boost our economy by producing 70,500 new jobs within Texas. These jobs are predominately to implement federal healthcare “BARRC”—bureaucracy, administration, rules, regulations, and compliance. Healthcare tax dollars will go to pay bureaucrats, not nurses, doctors, or other care givers.

Rather than a net gain for the Lone Star State, creation of bureaucratic jobs in healthcare meets the very definition of dollar inefficiency and provides an excellent demonstration of wasteful spending: money consumed by the healthcare system that produces no health *care*.

In fact, Medicaid expansion is a particularly egregious form of corporate subsidy. The corporation is the government and those dependent on it, especially hospitals. If Texas did expand its Medicaid program and did receive federal funds, where would the money go? By federal (not Texas) law, the money would pay for actuaries, accountants, administrators, billers and coders, compliance reviewers, consultants, information technology systems, insurance agents and companies, IRS agents, forensic accountants, outreach, oversight officers, navigators, websites, etc. Each federal dollar spent on healthcare bureaucracy is a dollar that cannot be spent on health care services, or on education, infrastructure, economic expansion, military, etc. The Commonwealth Fund reported, “They [Washington] are claiming that every state gains more in federal funds than they pay in taxes, a clear violation of the laws of [simple] arithmetic.”

Most projections of economic growth assume that there is a large unused capacity in healthcare. There isn’t. Economic studies also presume that doctors will accept the large influx of new Medicaid patients. They won’t. One third of Texas physicians did not accept new Medicaid patients before Obamacare. By reducing the reimbursement schedule even further, Medicaid expansion is certain to decrease the number of physicians who can afford to see these patients. As Robert Moffitt of Heritage Foundation testified before Congress, “You can’t get more of something by paying less for it.”

Medicaid reimbursement rates to care providers are already quite low, averaging 53 percent of what private insurance pays. Keep in mind these are all predetermined (fixed) fee schedules. The bills you see with a doctor’s charges have nothing to do with what he or she is paid. Payment is decided by the federal government, not by state government and most definitely not by the seller of services.

Reducing payments to doctors forces them to see more patients if they hope to keep their doors open. As a result, patients

have longer wait times, get less time with the doctor, get lower quality of care ... and those are the lucky ones who can even find a doctor willing to see them.

Medicaid expansion tends to crowd out private insurance companies. Some people who now have private insurance will qualify for Medicaid with expanded eligibility and will switch to Medicaid coverage since it looks cheaper.

Superficially, Medicaid expansion may look good, but careful analysis and evidence of effect prove that it is a bad deal for Texas and for Texans. Adding Medicaid enrollees would actually reduce access to care. It would also be a large financial drain on the Texas budget. Extrapolating from the New Mexico experience, with expansion Texas Medicaid might experience a \$5.4 billion budget deficit on top of the current projected \$1.8 billion shortfall. Finally, losses from uncompensated care are likely to increase due to low and dropping Medicaid reimbursement rates.

## **Recommendations**

Do not expand the Texas Medicaid program: Texas will lose money and Texans will lose access to care. ★

## **Resources**

[National Federation of Independent Businesses v. Sebelius et al](#), No. 11-393 (June 28, 2012).

“[Why expanding Medicaid actually reduces medical options for the poor](#),” *Dallas Morning News*, Dr. Deane Waldman (Aug. 2016).

[Medicaid Expansion: Texas Should Chart its Own Course](#) by Devon M. Herrick, National Center for Policy Analysis (Jan. 2015).

[Missed Opportunities: The Consequences of State Decisions Not to Expand Medicaid](#), Office of the President of the United States (June 2015).

[Expanding Medicaid Will Not Stimulate the Economy or Create Jobs](#) by Robert Book, American Action Forum (Dec. 2014).

[Texas's Economy Will Benefit from Expanding Medicaid](#), Families USA (Feb. 2013).

[Health Insurance Coverage in the United States for 2015](#), Kaiser Family Foundation, kff.org (accessed Sept. 2016).

“[Evidence Is Mounting: The Affordable Care Act Has Worsened Medicaid's Structural Problems](#)” by B. Blase, Mercatus Center at George Mason University (accessed Sept. 20, 2016).