WSJ

Why Obama Stopped Auditing Medicaid

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November 18, 2019

Medicaid expansion was a key component of ObamaCare. In 2014 when the expansion started, the feds stopped doing audits of states' Medicaid eligibility determinations. The Obama administration's goal was to build public support for the new law by signing up as many people as possible. Now, after a four-year hiatus, the Centers for Medicare and Medicaid Services have begun auditing program eligibility again. According to a report released Monday, the audits found "high levels of observed eligibility errors," meaning a significant number of people are enrolled in Medicaid who shouldn't be.

Our analysis of the CMS report suggests that the expansion appears to have more than tripled the amount of improper spending in the program. Twenty percent or more of Medicaid spending in 2019—an amount likely to exceed $75 billion—is improper. Before ObamaCare, the Medicaid improper-payment rate was 6%.

Medicaid is a welfare program that finances health and long-term-care expenses of eligible recipients. America is a generous country, and it should have a public safety net to help individuals who confront extreme difficulties. Since welfare programs are expensive, it's important that only eligible recipients receive benefits. Historically, the Medicaid program largely met that standard, covering lower-income children, pregnant women, adult caretakers, seniors and the disabled.

ObamaCare created a new category of Medicaid enrollees—working-age adults with income up to 138% of the poverty line, about $17,000 for a single person in 2019. For these new enrollees, states received a much higher reimbursement rate than for traditional Medicaid participants—100% from 2014 to 2016, gradually declining to 90% in 2020, where it is scheduled to remain.

ObamaCare's Medicaid expansion presented states with an opportunity to increase substantially the federal dollars flowing into their coffers. It also offered states the chance to game the program's rules. As a result of the elevated reimbursement, states have a major incentive to classify people as expansion enrollees. Some who were eligible before ObamaCare were reclassified as expansion enrollees so states could take advantage of the higher reimbursement rate.

Higher overall Medicaid payments came with benefits for state-level interest groups that profited from maximizing enrollment. Insurers have reaped substantial profits from the Medicaid

expansion—owing in part to large government payments for people who are enrolled but don't go to the doctor or use much medical care.

Since states view the Medicaid expansion as a cash cow, they have generally failed to conduct proper eligibility reviews. One federal audit by the Health and Human Services Department's inspector general found that more than half of sampled enrollees in California's Medicaid program were either improperly enrolled or potentially improperly enrolled. Whether out of greed or incompetence, many states neglect to obtain proper documentation and fail to verify income eligibility and citizenship.

New research we have conducted shows the problem is common in expansion states, but most severe in California, Kentucky, New Mexico, New York and West Virginia. Overall, we estimate that between 2.3 million and 3.3 million people with income above eligibility thresholds—and who would not be eligible for Medicaid for another reason like pregnancy or disability—are enrolled in Medicaid in expansion states. Within these states, there are some areas, such as New York City and Los Angeles, where the problem appears so large that it suggests purposeful and fraudulent abuse on the part of local officials and the medical industry.

ObamaCare created an incentive for states to view the Medicaid expansion population as a cash cow, but CMS deserves part of the blame. In addition to canceling eligibility audits for four years, the agency has never taken meaningful actions to minimize improper payments from the expansion. With limited federal oversight and little if any effective federal action to penalize states for improper eligibility determinations, states have almost no incentive to administer their programs responsibly or lawfully.

The findings in the CMS report confirm that Medicaid's improper-spending problem is large and growing. Federal policy makers have a responsibility to those who are truly eligible and most need Medicaid, as well as to the nation's taxpayers, to address the problem. They should start by requiring eligibility redeterminations in areas where the problem is most severe and by recouping funds improperly claimed by states.

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