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Medicaid expansion too good to be true

By: Michael Tanner – March 11, 2013

If a deal sounds too good to be true, it usually is. That's a maxim Gov. Rick Snyder seems to have forgotten with his decision to expand Michigan's Medicaid program in conjunction with the Patient Protection and Affordable Care Act, or Obamacare.

Obamacare originally required every state to expand eligibility for Medicaid to 138 percent of the poverty line, or roughly \$32,500 per year for a family of four. Not surprisingly, many states balked, and last summer the Supreme Court ruled 7-2 that the federal government could not force states to expand their programs.

So to incentivize states to go along, the federal government is dangling "free" money in front of them. For the first three years, the federal government promises to pay 100 percent of cost of the expansion. This will gradually decline to 95 percent in 2017, 94 percent in 2018, 93 percent in 2019, and 90 percent in 2020. Given that the federal government only provides two-thirds of the funding for Michigan's current Medicaid program, this sounded like too good a deal for Snyder to resist.

But even with the federal government picking up 90 percent of the cost, Michigan taxpayers are not completely off the hook for state taxes. Ten percent of a very big number is still a very big number. In fact, over the next 10 years, it is estimated the Medicaid expansion will cost Michigan taxpayers \$2.25 billion.

Even those estimates significantly underestimate the cost because they ignore a second category of recipients likely to be added to the Medicaid rolls if this expansion moves forward, what the Robert Wood Johnson Foundation has dubbed "the woodwork effect."

As the Medicaid expansion moves forward, thousands of Michigan residents will discover that they are eligible for Medicaid. Some of these people will be uninsured, but others will either be paying for insurance themselves or receiving it from their employer. Now some will sign up for Medicaid. In fact, it has been estimated that 202,000 people, roughly 37 percent of the 547,000 new Medicaid recipients enrolled under the expansion, would be "coming out of the woodwork." This group is not eligible for the 90/10 match, but is covered under the old formula, for which Michigan is responsible for nearly 34 percent of the cost.

While there have been no reliable estimates for Michigan of the additional cost from "woodwork" recipients, it is safe to assume that the woodwork effect would significantly increase the total cost to Michigan taxpayers. This comes at a time when Medicaid already consumes 21 percent of Michigan's budget, more than education or transportation.

Of course, any estimate of state costs assumes that the federal government will keep its side of the bargain when it comes to future funding. But with Washington facing an ongoing debt crisis, Medicaid funding will almost certainly be on the table. Indeed, as part of the fiscal cliff negotiations in December, the Obama administration reportedly offered to change the 90/10 match for Medicaid expansion to a "blended rate formula." This formula would merge the new expansion reimbursement rate with existing Medicaid and SCHIP formulas, creating a federal funding level somewhere in the middle, but below 90/10. While the administration eventually backed off that offer, it shows just how tenuous federal funding promises really are.

It is also worth noting that the combination of the Medicaid expansion and the woodwork effect would mean that nearly a quarter of Michigan residents will be on Medicaid, a massive increase in dependency and government control over the health care system.

Fortunately, the final decision lies not with the governor, but with Michigan lawmakers. Snyder may have decided to chase after the fool's gold of federal funding, but legislators can still defend taxpayers by saying "No."

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