



Obamacare's 'giveaway' is anything but free

By Michael D. Tanner February 10, 2013

If a deal sounds too good to be true it usually is. That's a maxim that Gov. Scott Walker and Wisconsin legislators should keep in mind as they wrestle with the question of whether to expand the state's Medicaid program in conjunction with the Patient Protection and Affordable Care Act, a.k.a. Obamacare.

Obamacare originally required every state to expand eligibility for Medicaid to 138% of the poverty line, or roughly \$32,500 per year for a family of four. The expansion would also make childless single men, a notoriously high-cost group, eligible for Medicaid for the first time in every state (although Wisconsin already covers this group through Badger Care Plus). 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.

Now, like a late-night television huckster with a set of Ginzu knives, the federal government is dangling "free" money in front of state lawmakers as an incentive for them to go along. For the first three years, the federal government promises to pay 100% of cost of the expansion. This 100% funding will gradually decline to 95% in 2017, 94% in 2018, 93% in 2019, and 90% in 2020 and thereafter. Given that the federal government only provides 59.74% of the funding for Wisconsin's current Medicaid program, this sounds like a very good deal.

But as good as it sounds, Wisconsin should resist the temptation.

First, there is no such thing as free money. Wisconsinites pay federal taxes too. Those federal funds are just being recycled. More importantly, even with the federal government picking up 90% of the cost, Wisconsin 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, by 2022, it is estimated the Medicaid expansion will cost Wisconsin taxpayers \$200 million.

However, those estimates significantly underestimate the cost to Wisconsin if it goes forward with the expansion. It ignores 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, with all its attendant outreach and publicity, thousands of Wisconsin residents will discover that they are currently eligible for Medicaid. Some of these people will be uninsured today, but others will either be paying for insurance themselves today or receiving it from their employer. Now, they will be more likely to sign up for Medicaid. In fact, it has been estimated that 72,000 people, roughly 38% of 273,000 new Medicaid recipients enrolled under the expansion, would in fact be "coming out of the woodwork." This group is not eligible for the 90/10 match, but is covered under the old formula, with Wisconsin responsible for slightly more than 40% of the cost.

Overall, adding the additional cost from "woodwork" recipients would increase the total cost to Wisconsin taxpayers to \$384 million by 2022. And much of that cost is backloaded, meaning that Wisconsin's costs will likely escalate rapidly in the out-years. This comes at a time when Medicaid already consumes 11% of Wisconsin's budget, more than education or transportation.

Of course, some claim that the increased Medicaid costs will be offset by a decline in uncompensated care costs. That is one reason why hospitals and other providers are lobbying so hard in favor of the expansion. It is true that there is no free lunch; there is a cost to providing health care to those with no insurance. But it is easy to overstate those costs. Both the Congressional Budget Office and the liberal Urban Institute estimate that the actual cost of providing uncompensated care is less than 2.8% of total health care costs, and the cost-shifting that results adds less than 1.7% to our insurance premiums.

More importantly, there is little evidence to suggest that expanding Medicaid will significantly reduce the cost of uncompensated care. In Massachusetts, where Medicaid was expanded on Mitt Romney's precursor to Obamacare, uncompensated care costs did decline initially, but have since rebounded to the point where there are serious shortfalls in the state's uncompensated care fund.

Of course, any estimate of state costs assumes that the federal government can be counted on to 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 from the 90/10 match for Medicaid expansion to a "blended rate formula," which 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 fully one in five Wisconsin residents will be on Medicaid, a massive increase in dependency, and government control over the health care system.

Yet studies show that patients on Medicaid consistently have far worse outcomes than those with private insurance, and in some cases worse than those without insurance at all. Why then would we want to entice thousands of Wisconsin residents off private payment and into a bureaucratic, low-quality government program with limited options?

Wisconsin lawmakers shouldn't be misled. Going along with this massive Medicaid expansion will end up hurting taxpayers, providers, and patients.