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California should accept the federal government's invitation to trim Medi-Cal rolls

Marc Joffe

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Despite tougher fiscal conditions, Governor Newsom's January budget proposal for California misses an opportunity to take advantage of a large cost-saving opportunity other states will be leveraging in the coming months.

Since 2020, the federal government has prevented states from removing no-longer-eligible Medicaid beneficiaries from the program's rolls. Now that this pandemic emergency measure was eliminated by the omnibus budget bill Congress passed last month, California should join other states in enforcing eligibility requirements for those receiving healthcare benefits.

Of the \$297 billion in state revenues Newsom expects to spend in 2023-2024, the largest share – \$102 billion – is devoted to Health and Human Services. Most of the spending in this category will take the form of provider reimbursements by the state's Medicaid program, known as Medi-Cal.

Normally, the federal government covers 50% of Medi-Cal reimbursements for most beneficiaries. But during the COVID-19 pandemic, Congress increased the federal percentage to 56.2%, as long as the state maintained continuous coverage for everyone using the program as of early 2020 or added to the program thereafter. Now, the federal share will gradually fall back to 50% in early 2024, and the continuous coverage mandate will be removed.

According to federal data, California's population of Medicaid beneficiaries grew from 10.3 million at the beginning of the pandemic to 12.6 million in September 2022 (the last month that data was available). An additional, 1.3 million young people are enrolled in the Children's Health Insurance Plan, meaning that over one third of the state's population is now covered by federal/state health programs that do not require participant contributions.

Many states plan to respond to the federal policy change by systematically reviewing all Medicaid beneficiaries to see whether they still qualify for benefits. For example, Texas has identified a cohort of 1.4 million beneficiaries that are most likely to be deemed ineligible because they have reached the age of 65 (and should instead use Medicare) or no longer have an eligible dependent child in their household. Once the state is allowed to begin disenrollments in April 2023, it plans to run electronic data matching algorithms on this cohort to determine who should be removed from the program.

California appears to have no such plan. The governor's budget summary projects a large increase in General Fund Medi-Cal spending due to the "loss of increased federal funding

consistent with the end of the federal Public Health Emergency while costs for caseload persist through the year.”

This is unfortunate because the state expects to have a \$22.5 billion budget shortfall in the next fiscal year and further deficits thereafter. Rather than make meaningful cuts to balance the budget, many of Newsom’s budget balancing measures involve taking on more long term debt and shifting resources between funds.

In California, where political leaders have emphasized the need for universal health coverage, the idea of disenrolling Medi-Cal beneficiaries may seem anathema. But it is necessary to minimize wasteful and fraudulent spending. Right now, Medi-Cal is covering highly skilled workers who, after being temporarily unemployed, got high paying jobs as the economy bounced back. These individuals can afford to pay for their company’s insurance coverage. Other beneficiaries may have moved out of state or stopped participating in the program for other reasons. Unless their names are removed from the rolls, unscrupulous providers could file claims under their names.

Medi-Cal beneficiaries who are now self-employed or who hold jobs at employers that do not provide healthcare benefits are eligible to buy policies on Covered California, often with large federal insurance subsidies. So, rather than contribute nothing to the cost of their care, they might expect to pay a relatively small amount for healthcare coverage.

While enforcing eligibility rules may seem cruel, it is necessary to ensure that state resources are available for the truly needy without bankrupting taxpayers or driving them out of the state. The previous Democratic-controlled Congress has invited all states to trim their Medicaid rolls; this is an invitation that California should accept.

Marc Joffe is a federalism and state policy analyst at the Cato Institute.