

# THE DAILY CALLER

## Medicaid Expansion Will Bust Virginia's Budget

By Nicole Kaeding

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Virginia is grappling with a tough decision: Should the Commonwealth expand their Medicaid programs as desired by Obamacare? Policymakers are waging a fierce battle threatening to shut down the Commonwealth's government over the issue. Governor McAuliffe and other proponents argue that expansion is a good deal for the state because it's free. However, regardless of what supporters may say, Medicaid expansion is a bad deal for Virginia, adding billions of new spending to the Commonwealth's budget over the next ten years.

Medicaid is a joint state-federal program in which the costs are split and the administrative burden is borne mostly by the states. The program has traditionally provided insurance coverage to low-income populations, primarily children, pregnant women, and the disabled.

Medicaid expansion under Obamacare, according to the Congressional Budget Office (CBO), could add up to 13 million new individuals to the program by 2023, almost entirely consisting of healthy adults. An estimated 400,000 would join the rolls in Virginia. It is one of the main vehicles for expanded coverage under the health law.

The costs of this expansion will be massive. Medicaid is already the largest spending item in state budgets according to the National Association of State Budget Officers. Virginia is no exception. The states spends more on Medicaid than K-12 education. The national program, as it is now, costs the federal government an estimated \$250 billion each year, with states spending another \$150 billion.

To get states to participate in the expansion, the federal government decided to sweeten the deal for them. For any individual that is newly eligible, the federal government will pay 100 percent of the costs for three years, with the federal contribution eventually falling to 90 percent by 2020 and into perpetuity. CBO estimates that it will cost the federal government \$792 billion for the next ten years, with states paying an additional \$46 billion. Virginia's share would be in excess of \$1 billion.

Supporters argue this is a great deal for states. They get to provide health insurance for their residents at little to no cost. According analysis by the left-leaning Center for Budget and Policy Priorities, more than 95 percent of the expansion costs would be assumed by the federal government.

While technically correct, the CBPP analysis ignores the fiscal reality of the situation. Almost \$800 billion is an enormous sum of money, even for the federal government. The CBO estimates total federal Medicaid spending to top \$4.5 trillion, or almost 10 percent of total federal spending, over the next ten years.

It is very likely that Congress changes this provision due to the large strain it places on the federal budget. The administration has also started to change its tune after the Supreme Court ruling made the Medicaid expansion voluntary. The president has twice suggested that Congress decrease the federal reimbursement to states for newly-eligible enrollees. He offered such a deal in 2011 to Speaker Boehner to solve the debt ceiling fight. He also included it as a proposal within his fiscal year 2013 budget proposal. He needs to keep the appearance of honoring its promise to get states to accept the deal.

But when the federal government finally moves to get its fiscal house in order, it will surely cut its share of spending for the newly-eligible population. Even if the federal government only footed 90 percent, instead of 95 percent of the cost, the states' share would double to almost \$90 billion over ten years.

That will leave states like Virginia holding the bag. Even the smallest change in the federal match would wreak havoc on state budgets and taxpayers will bear the brunt of the costs. Medicaid costs already crowd out spending on other state programs, including K-12 education, and road construction and repairs. Last year's \$6 billion tax hike to fund transportation illustrates this issue. Or even worse, Virginia could be forced to dramatically raise taxes, again, to pay for this costly entitlement expansion.

Even if the federal government honors its promise to pay the large bulk of the Medicaid expansion into eternity – an extremely unlikely possibility – it's important to note that the CBO's projections likely understate the problem too. Historical projections of federal spending, particularly health care spending, are notorious for underestimating costs. The CBO itself admits that it is hard to forecast future spending.

Proponents will continue to promise states “free money” to encourage them to expand Medicaid, but regardless of the rhetoric, Virginia policymakers should resist. It's not only a bad idea; it's fiscally irresponsible to expand this broken system.

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