



No miracle in Medicaid expansion

By Michael Tanner
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To hear Gov. Terry McAuliffe tell it, expanding Medicaid would provide hundreds of thousands of Virginians with better coverage, save hospitals and businesses more than \$1 billion and stimulate the economy. Best of all, it would cost Virginia taxpayers hardly anything. Hallelujah, it's a miracle!

The problem is that he is wrong about nearly all of it.

McAuliffe counts on roughly \$14.7 billion in federal funding over the next 10 years to pay for most of the expansion. Under the Affordable Care Act, the federal government would pay the entire cost through 2016.

After that, the federal share would gradually decline, but it is still supposed to pick up at least 90 percent of the cost for those made newly eligible in perpetuity. This is a much higher share of costs than Virginia receives under traditional Medicaid. McAuliffe sees this as virtually free money.

There are at least three big problems with this way of thinking. First, even though the feds will cover 90 percent, Virginians will have to pay 10 percent. Ten percent of a really big number is still a really big number.

Medicaid already is one of the biggest drivers of Virginia's budget, accounting for more than 18 percent of spending. That's significantly higher than the national average, and more than the state spends for transportation, public assistance or higher education.

Second, the increased federal funding applies only to Virginians added to Medicaid as a result of expanding eligibility to 138 percent of the poverty level. This 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, thousands of state residents will discover they are eligible under traditional Medicaid.

Some will be uninsured, but others will either be paying for insurance themselves or receiving it from their employer. It has been estimated that roughly 20 percent of new Medicaid recipients in Virginia would be "coming out of the woodwork." This group is not eligible for the increased level of federal funding, meaning state taxpayers must pay 50 percent of their costs.

Overall, the Kaiser Family Foundation estimates state taxpayers would have to pony up at least \$1.3 billion in additional taxes through 2022.

Of course, any estimate assumes the federal government will keep its side of the bargain when it comes to future funding. But with Washington still facing a debt crisis, Medicaid will almost certainly be on the table.

Indeed, in budget negotiations, the Obama administration reportedly offered to cut the 90 percent funding promise for Medicaid expansion to a lower "blended rate formula." While the administration has backed off that offer, it shows how tenuous federal funding promises really are.

Finally, Medicaid expansion wouldn't necessarily provide poor Virginians with better access to health care. The Oregon Health Insurance Exchange study, the first randomized controlled study of Medicaid outcomes, recently concluded that "Medicaid coverage generated no significant improvements in measured physical-health outcomes."

Other studies show that, in some cases, Medicaid patients actually wait longer and receive worse care than the uninsured.

While Medicaid costs taxpayers a lot of money, it pays doctors little. On average, Medicaid reimburses doctors only 72 cents out of each dollar of costs. As a result, many doctors limit the number of Medicaid patients they serve or refuse to take them at all.

An analysis published in Health Affairs found that only 69 percent of physicians accept Medicaid patients. Another study in the New England Journal of Medicine found that Medicaid recipients were six times more likely to be denied an appointment than people with private insurance. And according to a third study, when they do get an appointment, they wait an average of 42 days to see a doctor, twice as long as the privately insured.

That's one reason why so many Medicaid patients show up at the emergency room for treatment. They can't find a doctor to treat them otherwise.

McAuliffe is also wrong on his expectation that increased enrollment will keep people out of ERs and reduce the cost of uncompensated care. The Oregon study found that increased Medicaid enrollment actually increased ER use by as much as 40 percent. The result was an increase in annual emergency room spending by roughly \$120 per covered individual. In Virginia, that would mean almost \$100 million in additional ER costs per year.

In reality, expanding Medicaid would cost Virginia taxpayers a substantial amount while providing the poor with substandard coverage. It would encourage some recipients to drop private coverage and could make ER crowding and costs worse. That's not quite the miracle that McAuliffe is counting on.

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