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Medicaid: The Snag in Obamacare Repeal

Jon N. Hall

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One of the big concerns of Republican holdouts in Senate legislation to repeal and replace Obamacare is Medicaid. Many rural and low-income Americans depend on the program. But Medicaid is a huge expense; it's the feds' fourth largest outlay, behind only Defense, Social Security, and Medicare. But more than that, Medicaid's growth rate is also cause for concern.

At the Centers for Medicare & Medicaid Services (CMS), the [fact sheet](#) for national health expenditure (NHE) lists data for 2015 that helps us put Medicaid costs into context. The first fact is that total national healthcare spending was \$3.2T in 2015, about the same as all federal revenue. The second fun fact is that Medicaid spending was \$545.1B, and its rate of growth was 9.7 percent, which was significantly faster than the other major components of national healthcare.

Medicaid, however, is a federal-state program. Another report from the CMS, the "[2016 Actuarial Report on the Financial Outlook for Medicaid](#)," breaks down spending between the feds and the states in its Executive Summary on page iii (page 9 of the pdf): "Federal Medicaid outlays in 2015 were \$349.8 billion and grew 16.0 percent over the previous year, in large part due to the Medicaid eligibility expansion." An annual growth rate of 16 percent seems particularly unsustainable in a welfare program like Medicaid.

For 2015, total federal receipts were \$3.249T (see [Table 1.1](#), page 26). That means that Medicaid spending was equal to more than 10.7 percent of all federal revenue. Since the total federal deficit in 2015 was \$438 billion, if Congress enacted a new tax that fully paid for Medicaid, they'd still be \$88 billion shy of a balanced budget. However, Congress couldn't hike all tax rates by 10.7 percent just to fund Medicaid because some taxes are "dedicated," like the payroll tax, and the programs they fund, like Social Security, are already cash-flow negative.

Inasmuch as individual income taxes contributed \$1.54T to federal revenue in 2015 ([Table 2.1](#), page 34), we would have needed a tax rate hike on all individual income of more than 22.7 percent just to pay for Medicaid. And we'd have needed to take that cut right off the top, as we do with the payroll tax, because our new "Medicaid Tax" could not be subject to any exemptions. And with our hypothetical Medicaid Tax back in 2015, we'd still have been \$88 billion shy of budget balance. Of course, we can't put all of blame for the federal deficit at the feet of Medicaid, but it's a huge part of it.

Many Americans don't seem to care about deficits, even as our Day of Reckoning draws nigh. But they should care, because the CBO recently revised its projection for 2017's deficit upward, to \$693 billion. That uptick in the deficit, if it proves accurate, would be deeply disappointing to conservatives. On page 10 of the actuarial report above, CMS projects: "Over the next 10 years, expenditures [for Medicaid] are projected to increase at an average annual rate of 5.7 percent and to reach \$957.5 billion by 2025."

Oh, by the way, the several States spent \$204B on Medicaid in 2015, which constituted 37 percent of Medicaid's total. So, one wonders how much larger Medicaid spending (and the federal budget deficit) would have been had all the states opted to expand the program. In "The Uninspiring Medicaid Debate" in July, Cato Institute's Michael Tanner wrote that the Medicaid expansion didn't apply to pregnant women and children, and:

It's also worth noting that nearly two-thirds of Medicaid spending actually goes to the elderly and disabled in nursing homes. In fact, an entire industry of eldercare lawyers and accountants exists to help the middle-class elderly shield their assets so that Medicaid can pick up the tab for their long-term care. Medicaid reform might actually force states to consider whether all Medicaid recipients are equally in need of taxpayer-funded support.

One tends to think of medical insurance as being for hospitals, surgeries, drugs, MRIs, lithotripters, and stuff like that. Medicaid's original mission, however, seems to have "mission crept" into shielding the estates of the middle class, leaving the taxpayer to pick up the bills for those who have assets. But one doesn't need a financial advisor; one can shield the family fortune simply by giving it to one's heirs while still alive. The federal gift tax allows one to make an unlimited number of tax-free \$14,000 gifts each year, (although no individual recipient can receive more than \$14K in a year without incurring gift taxes). So if one has two children, one can reduce one's assets by \$112,000 in just four years; with four children, it would take two years.

But should the taxpayer be required to pay for those who can pay for themselves? And should such gaming of the system be allowed to continue? If middle class heirs don't want to see their parents' estates (their inheritance) eaten up by nursing homes, then they might consider taking in their aging parents themselves.

Republicans have created a problem for themselves with their rhetoric: they've been calling for repeal and "replace." But replace what? Replace the mandates? That would still be some kind of mandate, no? When a screw in your glasses falls out and is lost, you need a replacement; i.e. an exact clone of the tiny item that kept your spectacles on your face. A near relative of the screw, one that doesn't exactly fit, won't suffice, (although I've found a paperclip will work for a while if one doesn't mind being thought nerdy). What the GOP really should be trying for is not to "replace" Obamacare, but to "supplant" it with something quite different, something sustainable.

"Replace" has become too much. Republicans should shoot for a simple repeal, and deal with the thorny issues of Medicaid reform in a later bill. But if the price of the holdouts is to retain the Medicaid expansion, then retain the expansion. And if the holdouts are concerned about the uninsurable enrollees in the subsidy program, then throw the truly desperate with pre-existing

conditions into Medicaid. But that's it; the rest of Obamacare must go, because it's rotten to the core.

If Republicans can't get something done on Obamacare this year, their leadership in Congress should be replaced, and repeal holdouts should be "primaried" with challengers who will clean their clocks in the primaries of 2018.

Medicaid seems to be the snag, the sticking point, in repealing Obamacare. As for those who depend on Medicaid, we should empathize with the plight of America's middle and working classes; they've been getting the shaft for forty-some years. But Congress cannot continue to borrow and spend like it has been; not even in the name of compassion, because Congress will eventually hit a wall and destroy the currency. On that fine day, talk about how much we're going to spend on the needy (or anybody else) will be absurd.