Insight

Despite Federal Funding, Medicaid Expansion is not One-Size-Fits-All

DECEMBER 18, 2013

A recent Commonwealth Fund study analyzed the impact of the optional Medicaid expansion — in which a state could increase Medicaid eligibility to all state residents under 138 percent of the Federal Poverty Level (FPL) — on overall federal transfers to the states. The report concludes that expanding Medicaid is a net positive for all states. At the heart of the conclusion is the argument that the states' budgetary contribution, which will eventually hit 10 percent of the costs for the newly eligible, is a "cheap" way to improve the state budget.

That is, it argues that the Medicaid spending is minor compared to what states spend to bring in other revenue (such as federal contracts and attracting businesses). However, the report misses some very important differences between receiving federals funding for Medicaid beneficiaries' health care costs and bringing in other sources of revenue and job creation. It also glosses over the fact that many states cannot afford any additional spending, even if it comes with federal matches.

First, states spend money to attract new businesses via tax incentives and to lobby the federal government for contracts in order to improve their economy and create jobs; activities that should positively impact the state as a whole. Does Medicaid create new jobs? It might, as there are providers in some areas seeing mostly Medicaid patients, but Medicaid pays such low reimbursements compared to private insurance and even Medicare, that Medicaid patients receive care at a loss to providers. Skilled medical professionals and hospitals would make more money if those Medicaid patients were enrolled on private insurance plans, as is allowed for those with incomes over 100 percent of FPL in states that chose not to expand Medicaid. The job creation argument is weak when compared with giving state-based tax incentives for a major company or manufacturer to relocate.

Second, most other sources of federal transfers come from a discretionary spending budget line. It is negotiated in every budget (when the Congress actually passes a budget) and allocated accordingly. In principle, the federal government is not spending more on transportation and road repair programs than it can afford to. Such is not the case with Medicaid. These mandatory funds are spent regardless of how well the Medicaid program is run, how high the costs are, or how much debt is accumulated as a result. The health care costs for the newly eligible will be covered by the federal government at 100 percent initially—eventually scaling down to 90 percent—regardless of how much this totals. Of course, as has been often noted, future budget constraints may drive the federal government to ratchet down the federal match below the 90 percent floor in later years, leaving states to choose between kicking people out of the program, or increasing their own spending.
An imperfect but similar analogy would be a middle income family without substantial savings offering to pay for college for all of their children. The children would each be better off financially if they accept the college tuition money, but they know it will ruin their parent's retirement savings and they will have to support their

parents later on. As a side concern, the parents may run out of money after paying for a few semesters, leaving the student wishing she had chosen a more affordable school. If one son turns down the college money, he may still have to help support his parents in their old age, but he made the decision with the family's finances in mind and not just his own.

No one can argue against the fact that expanding Medicaid will bring in a large amount of federal revenue into a state's economy. However, that does not, in and of itself, mean the costly decision to expand Medicaid is right for all states. Just as how state policymakers go about seeking new employers and boosting their economy with federal contract in ways that meet the specific needs and resources in that state, they have designed Medicaid programs that cater to their populations. The federal government-directed Medicaid changes are one-size fits all and will not be the optimal choice for all 50 state populations, budgets and health care systems.