

The Powers Report Podcast

Episode 6

Pros and Cons of Medicaid Expansion

Welcome to The Powers Report Podcast. I am your host, Janis Powers. The show brings you candid, unique and data-driven perspectives on the health care industry. I believe that any solution that is going to positively impact the American health care system has to satisfy two major criteria: financial viability and behavioral incentive alignment. In other words, access to high quality care can only be achieved if we can afford it, and if we behave in ways that optimize our health. These are major themes that will be discussed in each podcast. Please subscribe to our show on iTunes or on your preferred podcasting platform and connect with us on social media. Again, this is Janis Powers, and welcome to The Powers Report Podcast.

One of the things I'd like to do on this show is talk about current events. There's always something breaking in the health care industry, so there's always a lot to talk about. For this episode, I want to discuss the Medicaid expansion. The majority of states have expanded Medicaid as was intended when the Affordable Care Act or ACA was passed. Some states, like Utah, and where I live, in Texas, have not.

The genesis for this discussion is the Utah state legislature's response to the state's recent referendum approving an expansion of Medicaid (1). Voters supported an expansion, but some Utahn legislators don't like the idea and are putting up roadblocks to stymie it. I want to dig into this a little more because both sides need to be heard. I'll also give an opinion as to whether I think Texas should consider expanding Medicaid. It is important for us to discuss the pros and cons of Medicaid so we can work towards improving this important program.

Here's some background. Medicaid is generally known as the health insurance program for the poor. About one in five Americans is covered by Medicaid (2). In 2017, the program spent \$582 billion. In comparison, Medicare, the public program for the elderly, spent \$706 billion (3). Both programs are administered by CMS, the Centers for Medicare & Medicaid Services.

When the ACA was designed, its intent was that all Americans would have affordable health insurance coverage. Sidestepping a discussion of the affordable part, one way the legislation was expected to achieve universal coverage was an expansion of the Medicaid program. Eligibility requirements were changed so that more people could qualify for the program.

Medicaid and Medicare are the two main public insurance programs in America. Medicare is funded at the federal level. Medicaid is funded jointly between the federal and state governments. Overall, the federal government pays almost two-thirds of the program's costs – about 62% (4). That's an overall average which varies by state. The states pick up the remaining funding requirement.

In the case of the ACA Medicaid expansion, the federal government is funding the majority of the costs for the new enrollees. Initially the feds paid 100% of the bill and that contribution has ratcheted down

over the years. By 2020, the ACA outlined that the feds would contribute 90% of the costs to cover expansion enrollees and the figure is supposed to stabilize there.

Given that the feds were going to cover the majority of the costs for the expansion, ACA designers and supporters believed that the states would be inclined to support the move. Some states, for reasons I will get to momentarily, decided not to expand the program. The argument was settled by the Supreme Court in 2012 in *National Federation of Independent Business v. Sebelius* (5). As a result of the ruling, it was determined that states didn't have to expand Medicaid. As of this recording, all but 14 states have approved expanding Medicaid (6). But for a number of them, including Utah, the expansion has not been implemented.

There are a number of reasons that some states rejected the expansion. Some of the rationale is political. Folks who didn't like the ACA, many of whom are Republicans, refused to embrace the law. This is the "sore loser" rationale, which really bothers me. I don't like how the ACA is structured. But it's the law. And until there's something better that is proposed and approved, we should respect what is in place. But that's me and I'm not a politician.

Some folks don't think the Medicaid program runs well, so they don't want to expand it. I don't think it runs all that well either. One of the biggest problems with it is that it underpays providers. The American Hospital Association noted that in 2017, hospitals were underpaid by \$23 billion (7) for treating Medicaid patients. Medicaid underpays doctors too, paying them even less than what Medicare does. Now there's a really cool chart on the Kaiser Family Foundation's site that shows what's called the Medicaid-to-Medicare Fee Index (8). It shows how much less (usually) different types of doctors get paid when you compare reimbursement between Medicaid to Medicare. Overall, primary care doctors are paid 66 cents by Medicaid for a dollar paid by Medicare. And it's not like Medicare's reimbursement is all that generous, so you can see why this is a problem.

Nonetheless, right now, Medicaid is what we've got and nothing's perfect. Either fix it or deal with it, so the "Medicaid is programmatically defective" argument for not expanding Medicaid is weak. Although I like it better than the political "sore loser" rationale.

The argument against the Medicaid expansion that resonates the most for me is a budgetary one. If you've listened to at least one of these podcasts, this should come as no surprise. Some states argue that the expansion is federal overreach because it adds costs to state budgets that states have a hard time controlling. There are a couple of reasons why this is a legitimate claim.

First is the fact that the majority of state governments have laws or statutes or agreements of some nature that expect them to balance their budgets. By expanding Medicaid, they have to cut something else or raise taxes (or find revenue some other mythical way). Republican-led states are allergic to raising taxes. Funding for other major areas, like education, pensions or infrastructure, will have to get trimmed if Medicaid is expanded. That alienates a whole other gaggle of people.

The federal government, of course, doesn't balance its budget. It's one of the reasons we have incredible debt. As interest rates increase, our debt payments will become more expensive and then they'll eat more of the federal budget. When the expansion is funded 90% by the federal government, there's a recognition that undisciplined spending at the federal level is acceptable. Which it's not. That

philosophical argument alone should have been a compelling concern for ACA designers, which is part of my problem with the law.

Anyway, back to the states. Expanding Medicaid makes Medicaid a bigger portion of a state's budget. Another concern is that that portion will get bigger and bigger and bigger. Consider that health care spending typically increases faster than inflation. When states budget for revenues and expenses, they have to factor in inflation. If the rate that one of the line items in your budget, in this case, Medicaid, grows faster than the rate that's applied to everything else, you're going to fall short. That means that taxes will have to be raised, or more stuff will need to be cut from in the budget.

Aside from that, growth in Medicaid could come from another area: the elderly.

When we think about Medicaid, we think about the poor who are enrolled in the program. But Medicaid covers a variety of individuals (9) and each constituent group spends differing amounts of the program's funding (10). The biggest percentage of Medicaid enrollees is children. They represent 43% of all the Medicaid enrollees. But they're only responsible for 19% of expenditures. Covering children is a concept that has, thankfully, bipartisan support, so an expansion that covers kids is a good idea. And it doesn't cost, proportionately, as much money.

Then there's the disabled. Fourteen percent of Medicaid enrollees are disabled but they spend 40% of the dollars. This is almost the opposite situation from the kids. There are fewer disabled folks but they spend a lot more money. I am unclear if the expansion would capture more disabled people than it does today. Logic would say no. Seems that if you're disabled, you've already qualified for the program. A change in your income level – if you can even work – shouldn't make a whole bunch more disabled people qualify for the program. So I can't see growth in this group which spends a lot per person. From a fiscal perspective, that's good.

Poor non-elderly adults account for a third of the enrollees. This is the iconic poor single mother and recently incarcerated man. This groups spends 19% of Medicaid dollars. We would see growth in this group with an expansion. But they don't require as much funding per person as the disabled or...the final group. The elderly.

Nine percent of Medicaid enrollees are elderly and they spend 21% of Medicaid dollars. This is an area where we should expect growth in the Medicaid program. This is a valid source of concern for budgeters dealing with a Medicaid expansion.

We know the elderly population in America is increasing. Americans who are 65 and older qualify for Medicare, which covers a chunk of basic health needs. But not everything. Those who can't afford to pay the difference have Medicaid pick up the tab. Right now, about 22% of Medicare enrollees (11) use Medicaid for secondary coverage. As the number of elderly rises, the number of poor elderly should also rise, which means more elderly will use Medicaid to supplement their health care costs. And the elderly use Medicaid resources at a disproportionate rate to their enrollment.

This budgetary argument is at the heart of the conflict going on in Utah right now. In November 2018, 53% of Utahns voted in a state referendum to expand the program. The state leadership projects that the terms approved by voters in the referendum cannot cover the cost of the expansion and threaten the rest of the budget. The Utah state legislature, apparently, has more power than some other states to counteract a referendum through funky legal maneuvers. The leadership is proposing changing eligibility

requirements and capping enrollment and asking for waivers from CMS. While they can't overturn the results of the referendum, their proposals basically nullify it.

I've got a response and a reaction to this. Like, I have an idea of what should be done, response-wide, but I also have thoughts about the situation.

As far as the response...in the name of democracy, Utah has to expand Medicaid. That's what the people wanted. This same thing happened in Maine and it's happening in Idaho. Voters passed a referendum to expand Medicaid and the legislatures in the respective states are trying to basically invalidate the will of the people by putting in laws they think are in the best interest of the people. What's the point of a referendum if the leaders are going to ignore it? It sets a terrible precedent and I find the whole situation upsetting.

Now my reaction is a little different. I *do* think that these state legislatures are acting in a fiscally responsible manner. My problem is that no one seems to have explained the situation well enough to voters so that they could understand how problematic the expansion is, financially, on state budgets. And if they did explain it and people don't care...well there's something seriously wrong.

The fiscally irresponsible argument has been counter-acted by other studies that demonstrate how great a Medicaid expansion would be. As always, you really need to read the fine print in these things and take them in context. Yet these reports can be very influential and make financial case for why states *should* expand Medicaid.

For example, a great report (12) recently came out of Michigan about how Medicaid coverage improved the financial position of enrollees. As I've said in an earlier podcast, providing financial security is the main benefit of health insurance. This study backs it up. But it highlighted only one aspect of what Medicaid does. It doesn't take a holistic view of the impact.

A separate report came out in January of 2019 about the Medicaid expansion in Montana (13). It is a thorough report and one of my favorite parts is on page 17, where it says, "Medicaid expansion improves access to health care and may improve health." Thank you, authors, for not saying that access does improve health.

The report highlights the economic benefits of the creation of more jobs and the associated state tax benefits from that economic stimulus. There's commentary about the better personal financial situation people are in.

And then in the Abstract, there's this statement. "Each year, expansion brings over \$600 million into Montana that would not otherwise be here." Hmm.

Where does this addition to the Montana revenue rolls come from? The federal government. And where does the federal government get the money? Taxes. And who pays federal taxes? Montana residents and everyone else around the country. The amount of money that Montanans contribute to federal taxes that goes into the Medicaid program and then gets cycled back to Montana is not included in the report. Granted, it's an incredibly hard number to estimate. But it's misleading to simply count federal Medicaid dollars as a "net add" to the Montana revenue rolls when the citizens are basically funding it by way of federal taxes.

By the way, I am not ignoring the aforementioned overspending situation that the federal government has allowed itself to get into by funding the ACA and plenty of other things. But one must consider that tax revenues are a major component of the pot of money that the federal government can spend.

The Montana report also talks about the impact to hospitals now that there's reimbursement available through Medicaid for patients that may have previously been uninsured. Yet the Medicaid program has historically provided funding for hospitals that serve a high portion of low income patients. The funding, called Disproportionate Share Payments, is also referred to as D S H, pronounced "dish" payments (14). These payments were supposed to be phased down as part of the ACA because more people were supposed to have health insurance. But since universal health insurance coverage was never achieved, Congress has pushed back making cuts to the DSH program.

In other words, a Medicaid expansion doesn't necessarily mean that hospitals would suddenly start to get payments for delivering care when they were getting nothing for providing it before the expansion. Many were getting paid and even with the expansion, they may still be getting DSH payments.

Anyway, I think these reports can be very convincing about the benefits of expanding Medicaid, despite the impact that doing so can have on a state budget.

So what do you do? To expand or not to expand... This is a big question where I live, in Texas. Those outside of Texas may think, based on the last election, that the state is turning blue. I'd say it's deep purple red. I can assure you that the leaders of the state legislature are as Republican as they come. We have the highest rate of uninsured in the nation as well as the highest number of uninsured people (15). Despite the politics, I think we should expand Medicaid here in Texas – with caveats.

What bothers me the most about not accepting the Medicaid expansion money is that Texans (and any other states that have refused to do the expansion) are basically funding the expansions in other states. When Montana says they're getting an extra \$600 million a year...well, taxpayers across the country, including in Texas, are paying for that. So Montana, you're welcome.

Why Texans send our money to the federal government so they can give it to other states is beyond me. I don't like that we're being held hostage because of the terms of the deal, but it seems crazy to just reject it.

I think there are a couple of things that can be done to make the program better, and these types of things could be negotiated into an expansion in Texas.

First of all, I am all for work requirements. I'm not talking about asking a woman who's nine months' pregnant to do manual labor. But I do think people should be looking for work or working if they're going to get services subsidized by everyone else. CMS has allowed other states to include work requirements as part of their Medicaid expansions, although the issue is contentious.

I also think that people should have to see their primary care physician every year. I've mentioned this before in other podcasts. We have a major problem with understanding how our behaviors impact our health. Making annual primary care wellness visits mandatory can really ameliorate the education disparity in health care, especially for low income people.

The challenge is that I don't think people should get kicked out of the program if they're not working or if they don't see their doctor. Instead, I think they should just get less preferential access to non-vital

care. Like an elective surgery to address carpal tunnel syndrome. Maybe a surgery scheduled for November could be pushed off to January of the next fiscal year. Such incentives allow the government to have a little more control on spending because blanket care wouldn't be delivered on demand. We'd certainly need to make sure that patients got the care they needed, but such an incentive program could improve wellness, stimulate the economy through higher employment and importantly, make sure beneficiaries maintained coverage for catastrophic events.

We also need to do something about Medicaid spending on the elderly. Medicaid approves payment for nursing home care, but there are a lot of great options about there to help people age in place. Instead of shipping people off the nursing homes or paying for home health care, we need to explore new technologies that can keep people out of nursing homes and help them be more independent. That can cut costs significantly and improve quality of life.

More and more states are expanding Medicaid. It's critical that we, as citizens, appreciate the financial impact that the program has on state budgets. But it's also important to come up with new ideas and make sure this critical program keeps up with the times. We need to leverage technology and improve patient education so we can all be as healthy as we can be.

This is The Powers Report Podcast. Please subscribe to our show and please follow me, Janis Powers, on social media. We will be featuring listener questions, comments and suggestions on future podcasts. Please see our website at powersreportpodcast.com to submit questions and ideas on the Contact page. I look forward to hearing from you. Thanks so much for listening!

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