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Policy Analysis

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Obamacare Medicaid Expansion: Still a Bad Idea - Summary*

Under the federal Affordable Care Act (Obamacare), Medicaid coverage can be expanded by a state to most adults living in households at or below 138 percent of the federal poverty level (FPL) ($17,236 for one person; $35,535 for a family of four). After 2020, 90 percent of the expansion cost is to be covered by the federal government.

Given current Medicaid and assistance eligibility, the supposed need is greatly exaggerated while the risks of expansion for Oklahoma's state fiscal health is understated. Obamacare Medicaid expansion will make the problem of spiraling health care prices worse. Instead of implementing the Oklahoma Standard by imagining and implementing Oklahoma-based solutions, Medicaid expansion is a top-down approach that mainly benefits the already-rich in a very rich health care industry.

Some Tough Questions for Medicaid Expansionists

- Given that Oklahoma's legislature would never spend just our own money to do the Obamacare Medicaid expansion, how does spending federal money make the benefits outweigh the costs? Aren't we just acting as enablers for bad federal policy?
- We know that the third-party payment system (health insurance, Medicare, and Medicaid) is the primary cause of medical inflation being higher than general inflation. How is expanding Medicaid, whether through Sooner Care or Insure Oklahoma, NOT going to contribute to this even more?
- Overall, health care constitutes about 1/7th of the U.S. economy now. How much more of the economy do we need to devote to health care?
- What assurance do we have that an increasingly bankrupt federal government will keep up its side of a Medicaid-expansion financial "bargain?"
- If hospitals statewide need Medicaid expansion for their financial survival, why are so many of them expanding and building new facilities right now?
- Even if Medicaid expansion is implemented through Insure Oklahoma and partly administered by private insurance companies, how does this make Medicaid expansion market-oriented when real markets see consumers paying for goods and services themselves?

Why the Push to Expand Medicaid Coverage?

Except to participate in the Children's Health Insurance Program (CHIP), Oklahoma has not expanded Medicaid beyond federal minimums, though allowed to do so with federal matching funds, so why now?

Expansionists' Rationale #1: Federal Money (or, We're Already Paying the Taxes)

- Oklahoma would see an infusion of federal funds amounting to around $1.2 billion per year with Obamacare Medicaid expansion.
- This amounts to about 0.6 percent, or a little more than one-half of one percent, of Oklahoma's GDP – even less with economic growth.
- Given that the health industry is arguably the richest industry in the nation (10 of the top 10 highest-paid professions are in health care), there is no guarantee that the money, once laundered through the health industry, will remain in the state.
- The idea that Oklahomans are paying the taxes to fund Medicaid expansions in other states is belied by the fact that federal deficit spending has arguably funded Obamacare.
- Federal Medicaid funding is dispersed by formula, independent of federal tax revenues.
- The federal crisis is deepened as more states take advantage of the system.

Expansionists' Rationale #2: Hospitals Need the Money

- Some small and/or rural hospitals in the state are arguably in financial straits, but most of the state's hospitals are figuratively swimming in money.
- 1889's sample of Oklahoma's nonprofit hospitals showed they held at least $1 billion in cash alone, a quarter of total declared assets; top-paid executive salaries averaged $347 per hour.

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- *The dollar numbers reported by hospitals as bad debt and charity care (uncompensated care) are greatly exaggerated*; hospitals' "chargemaster" (or list) prices for services are generally much higher than could be justified in a truly competitive market.
- Patients using the cash-only Surgery Center of Oklahoma pay one-eighth to one-sixth of what is charged by Mercy and OU Medical.
- In 2011, according Steven Brill of *Time*, Mercy in Oklahoma City claimed charity care worth 3.2 percent of its total revenue, based on chargemaster prices, likely 10 times greater than actual costs, meaning the cost of charity actually amounted to about one-third of one percent of revenues.
- Highly-exaggerated list prices are used to value the services written off as bad debt and charity care, artificially reducing hospitals' bottom line and overstating uncompensated care.
- To the extent that rural hospitals need help to stay open, funds should be targeted for that purpose, not sprinkled over every hospital in the whole state, rich and poor alike.

Expansionists' Rationale #3: More People Will Have Health Coverage

- "Health coverage" is part of the third-party payer problem that has caused the decades-long upward spiral in health care prices relative to other prices in the first place.
- Studies promoting Medicaid expansion say essentially nothing about the costs beyond the dollars involved, and nothing about important secondary effects; thus, these studies are not valid.
- "Health coverage" is not the same thing as actual "health care."
- The indigent and others with low incomes currently tend to get care that they truly need.
- "Lack of coverage" is blamed for the health care cost spiral, but if uncompensated care were covered by taxpayers in general instead of insurance companies and hapless cash payers, we all still pay for uncompensated care.
- A claimed cost driver is an "obligation to treat everyone," arising from EMTALA (Emergency Medical Treatment and Active Labor Act). *There is no requirement that minor ailments like colds be treated in an emergency room.* Hospital lobbyists purposely grossly exaggerate EMTALA's requirements.

Medicaid Expansion's Actual Effects

Making Oklahomans Needlessly Dependent

- It is not uncommon to hear anecdotes in Oklahoma like one known to be true where one spouse stays home with three children and turns down offered income in order to keep the children eligible for CHIP since their income is near the five-person household CHIP income limit of $61,849.
- A family of four in New York with $25,000 in income is truly destitute. The same family in Oklahoma lives decently due to Oklahoma's low cost of living.
- Federal statistics using the federal poverty level (FPL) overstate how poor we are.
- At 138 percent of the FPL, a family of four's income amounts to $34,638. To achieve the same standard of living in New York income would have to be $53,353.
- A family of five with a $60,000 income in Oklahoma, whose children qualify for CHIP, must make over $92,000 in New York to achieve the same standard of living and would not qualify for CHIP.
- Proportionately many more Oklahomans will be eligible under the Obamacare Medicaid expansion than New Yorkers, needlessly when cost of living is taken into account.

Adding to the Medical Price Spiral

- Oklahoma's overall cost of living ranks second lowest in the nation, but its relative cost of health care ranks only 11th lowest.
- Public policies have either restricted health care supply, which increases price, or they have expanded health care demand, which also increases price.
- Oklahoma's occupational licenses tend to be relatively restrictive.
- The lack of proper policing for Medicaid eligibility has also had an impact.
- A further expansion of Medicaid will expand demand all the more, increasing prices in medical care.
- While those with incomes up to 138 percent of poverty will find the higher prices relatively easy to contend with, those with incomes above 138 percent of poverty will find themselves squeezed.

State Spending

Medicaid Advocates Claim:

- Because the federal government covers so much of the cost of Obamacare Medicaid expansion, the impact on Oklahoma's state budget per federal dollar will be relatively low.
- To get over $1 billion in federal money per year, the state need merely put up $120 million per year.
- Compared to recent increases in public education spending, this seems a light burden.

But then, questions occur:

- One reason public education took a fiscal hit during and following the last recession is the lack of wiggle room when it comes to states' share of federal entitlement spending.
- Demand for federal entitlements increases during economic downturns, thereby increasing state and federal fiscal burdens.
- Policy makers should consider if an additional $120 million future hole in funding education, transportation, and other priorities is worthwhile during future fiscal shortfalls.
- One must wonder just how much longer the federal government can sustain current spending and debt accumulation without raising taxes.
- Total federal debt exceeds U.S. GDP by $2 trillion, a level without precedent in peacetime.
- At some point, something will have to give, and it could well be federal spending on Medicaid.
- The bottom line is that in the here-and-now, Medicaid expansion represents an expanded burden for Oklahoma's taxpayers, whether one considers it modest or not.

Failure to Solve Our Own Problems

- Federal policy has increasingly directed health care into a third-party payer model that sacrifices market discipline toward efficiency.
- Our chasing federal dollars, and state government bowing to the health industry, have prevented imaginative home-grown solutions from being devised.