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Expanding Medicaid Is the Best Financial Option for States

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In a study we recently published in the June edition of the journal Health Affairs, Christine Eibner – an economist at RAND – and I used the RAND COMPARE microsimulation model to estimate the likely effects if 14 states choose not to expand Medicaid under federal health care reform. Among the measures studied were the impacts of Medicaid expansion on insurance coverage, federal payments into the states and state spending on care for the uninsured.

The states studied were Alabama, Georgia, Idaho, Iowa, Louisiana, Maine, Mississippi, North Carolina, Oklahoma, Pennsylvania, South Carolina, South Dakota, Texas and Wisconsin. Although governors in additional states oppose expanding Medicaid, the 14 states in the study were the first whose governors said they would not expand Medicaid. At the time of the analysis, these were seen as the least likely to expand Medicaid.

We found that states that choose not to expand Medicaid under federal health care reform will leave millions of their residents without health insurance and increase spending, at least in the short term, on the cost of treating uninsured residents.

If 14 states decide not to expand Medicaid under the Affordable Care Act as intended by their governors, our analysis found that those state governments collectively will spend $1 billion more on uncompensated care in 2016 than they would if Medicaid is expanded.

In addition, those 14 state governments would forgo $8.4 billion annually in federal payments and an additional 3.6 million people will be left uninsured.

Our analysis showed it is in the best economic interests of states to expand Medicaid under the

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[2] This testimony is available for free download at http://www.rand.org/pubs/testimonies/CT393.html.

terms of the federal Affordable Care Act. States that do not expand Medicaid will not receive the full benefit of the savings that will result from providing less uncompensated care.

Furthermore, these states will still be subject to the taxes, fees and other revenue provisions of the Affordable Care Act, without reaping the benefit of the additional federal spending which will costs those states economically.

Last summer's U.S. Supreme Court ruling on the Affordable Care Act gave states the ability to block the law's expansion of Medicaid, the federal-state program that provides health insurance to low-income families. The Affordable Care Act provides support to expand Medicaid to include families that earn up to 138 percent of the federal poverty level.

The federal government will pay a much larger share of costs for the Medicaid expansion than it does for current Medicaid enrollees. It will cover 100 percent of the costs for expanding Medicaid beginning in 2014 through 2016, and then gradually decrease support to 90 percent of costs beginning in 2020. The federal government currently pays an average of 57 percent of the cost of Medicaid.

Our study found that the cost to states for expanding Medicaid generally would be lower than the expense state and local governments will face for providing uncompensated care to uninsured residents after implementation of the Affordable Care Act.

We estimate that increased insurance coverage triggered by health reform will reduce state and local spending on uncompensated medical care by as much as $18.1 billion annually across all states. Those savings may continue beyond 2020, when the states' share of Medicaid costs plateaus.

Our study suggests that changes could be made to the Affordable Care Act to help some people targeted by the Medicaid expansion to get health insurance coverage through other means. Those options include a smaller expansion of Medicaid or changes in the new state insurance exchanges to allow more poor people to purchase private health insurance.

The study shows the alternatives could help provide health insurance to some people targeted by the Medicaid expansion. But none of the options examined would provide health coverage to as many people as full Medicaid expansion.

We also outlined how failing to expand Medicaid could have more than financial consequences.

Based on a 2012 study in the New England Journal of Medicine showing that past expansions of Medicaid have led to decreases in deaths, we estimate that an additional 19,000 deaths could occur annually if the 14 states studied do not expand Medicaid.

Support for our study was provided by RAND's Investment in People and Ideas program, which combines philanthropic contributions from individuals, foundations, and private-sector firms with earnings from RAND's endowment and operations to support research on issues that reach beyond the scope of traditional client sponsorship.

RAND Health is the nation's largest independent health policy research program, with a broad research portfolio that focuses on health care costs, quality and public health preparedness, among other topics.