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OPINION | COMMENTARY

The Next Medicaid Blowout

Democrats plan a federal program to cover childless adults. Insurers will win big but health won't.

By Brian Blase
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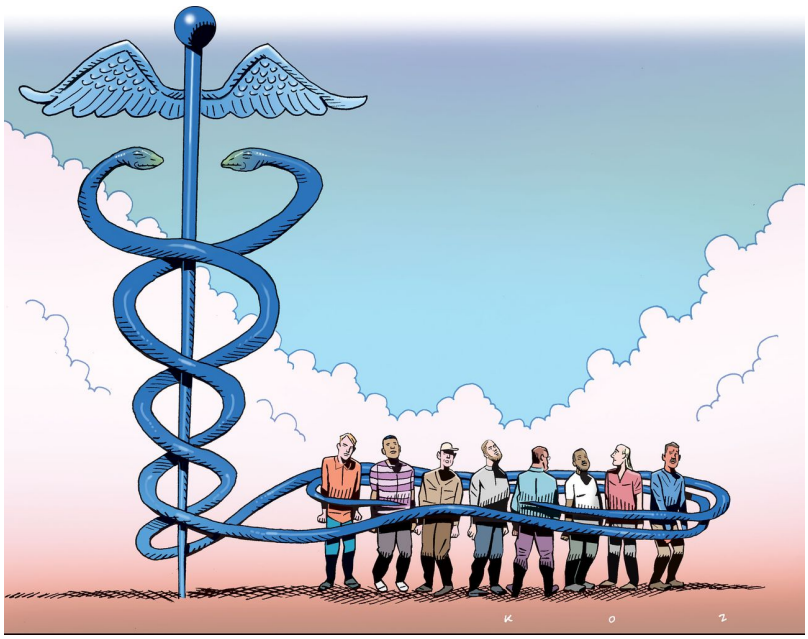

ILLUSTRATION: MARTIN KOZLOWSKI

Among the many parts of the $3.5 trillion bill Democrats are moving through Congress is a federal Medicaid program to cover mainly childless adults. Medicaid now covers 1 in 4 Americans, but Congress may soon lock even more into an expensive program with inadequate access to doctors and poor health outcomes.

Democrats are frustrated that 12 states haven't accepted the Affordable Care Act's cash enticements to cover able-bodied childless adults in Medicaid. Progressives have tried to go around state legislators by passing Medicaid expansion through ballot initiatives, including in Missouri. Among the holdouts are Texas and Florida, where legislators have considered and rejected Medicaid expansion.

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Democrats now think they have a solution: The reconciliation bill would give the health and human services secretary the ability to run a federal Medicaid expansion over state objections, starting in 2025. Before then, the feds would send subsidies directly to health insurers to cover this population in Affordable Care Act exchange plans. The new federal Medicaid program would require the secretary to contract with at least two insurers to administer the program.

This is a huge transfer of taxpayer dollars to the health insurers Democrats claim to dislike. Medicaid expansion has already fueled insurer profits: A 2018 White House Council of Economic Advisers report showed insurer stock doubling the growth of the S&P 500 from 2014 through 2018. Improper Medicaid payments have grown to $100 billion annually.

The federal government will ostensibly pay 100% of the costs of the new federal Medicaid program. Yet states that have accepted Medicaid expansion have to pay 10% of the cost, which means higher taxes or less spending on education or infrastructure. Although Congress will include a provision requiring states to maintain their expansions, it's likely unenforceable. Some states will consider dropping their expansions and try to switch to the new model, unloading more costs onto federal taxpayers.

But more important, this won't be good health coverage for the Americans who rely on it. Low Medicaid payment rates—about half of what private insurers pay for primary-care services—discourage doctors from participating. A 2019 government report found that only 70% of providers accept new Medicaid patients, versus 90% for private coverage. The disparity is more pronounced for family-practice doctors and psychiatrists.

Perhaps most notably, obstetrician-gynecologists are 20% less likely to accept Medicaid in expansion states than in non-expansion states. This statistic is especially worrisome since Medicaid pays for more than 40% of all U.S. births.

Medicaid expansion increases demand for healthcare but does nothing to increase the number of doctors or nurses who treat patients. Expansion has led to a surge in unnecessary emergency-room use, delays in care from longer appointment wait times, and longer waits for ambulances. In California, emergency room visits by Medicaid recipients surged 75% from 2012 to 2016, according to a study from a state government health-planning office. States that expanded Medicaid also suffered larger increases in opioid deaths from 2013 to 2015, according to data compiled by HHS.

A gold-standard study on Medicaid's health outcomes came out of Oregon. It randomly assigned Medicaid enrollment to presumably lucky winners. But the winners didn't experience a statistically significant improvement on any measure of physical health assessed.

Massachusetts Institute of Technology economist Amy Finkelstein has noted that 60% of spending to expand Medicaid to new recipients "ends up paying for care that the nominally uninsured already receive, courtesy of taxpayer dollars and hospital resources."

Thus, it should not be surprising that a study conducted by Ms. Finkelstein and others found that Medicaid recipients value the program at only between 20 to 40 cents on the dollar. With a per enrollee Medicaid expansion cost of about $7,000, at least half of enrollees would prefer $2,800 in cash to $7,000 of government spending through Medicaid on their behalf.

There are better ways to help people in need. Medicaid should be targeted to help vulnerable patients, such as low-income pregnant women, children and those with disabilities. Other low-income individuals could be allowed to opt out and use the subsidies to buy the care or coverage of their choice.

This would be far better than lavishing insurers with hundreds of billions of dollars of subsidies on a new federal program that increases Washington's dominance over the American healthcare system.

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