

MEMO

Unwinding ObamaCare's Medicaid Expansion

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ObamaCare's Medicaid Expansion is Taking Resources from the Truly Needy

ObamaCare's Medicaid expansion is unfolding as a fiscal nightmare – not just for the federal government, but for states as well, now that state matching funds have come due.

States that opted to expand ObamaCare have witnessed an enrollment explosion. In fact, more than twice as many able-bodied adults have enrolled in the expansion than states expected would ever sign up at any point in the future. In some states, enrollment has already greatly exceeded what states believed to be the entire eligible population.

This enrollment explosion has led to significant cost overruns in the states. Below are just a few examples:

- **Alaska:** \$61 million
(42%) over-budget in the first year
- **California:** \$14.7 billion
(222%) over-budget in the first 1.5 years
- **Colorado:** \$550 million
(45%) over-budget in the first 1.5 years
- **Illinois:** \$2 billion
(70%) over-budget in the first 2 years
- **Iowa:** \$338 million
(56%) over-budget in the first 1.5 years
- **Kentucky:** \$3 billion
(107%) over-budget in the first 2.5 years
- **New Mexico:** \$600 million
(45%) over-budget in the first 1.5 years
- **North Dakota:** \$67 million
(114%) over-budget in the first year
- **Ohio:** \$4.7 billion
(87%) over-budget in the first 2.75 years
- **Oregon:** \$2 billion
(128%) over-budget in the first 1.5 years
- **West Virginia:** \$198 million
(46%) over-budget in the first full fiscal year

This enrollment and budget explosion means fewer resources available for other priorities, including education and public safety. But worse than that, it means even less funding for services to seniors, poor children, and individuals with disabilities.

ObamaCare is already making welfare for able-bodied adults a higher priority than funding for the truly needy. For example, since Illinois expanded Medicaid under ObamaCare, more than 750 individuals with developmental disabilities have died while on waiting lists for needed Medicaid services. Every dollar spent on ObamaCare expansion is a dollar that cannot be used to fund services for the most vulnerable and ObamaCare's enrollment explosion makes this problem even worse.

Congress Must Stop New Medicaid Expansion Enrollment

When Congress put H.R. 3762 on President Obama's desk last year, it rightfully called for eliminating funding for ObamaCare's Medicaid expansion altogether. That bill – vetoed by President Obama – would have ended expansion funding after a two-year transition period. While a temporary transition period may be politically necessary or expedient, there is a danger in allowing enrollment to continue to grow during the transition period. Higher enrollment at the end of the transition may actually make it more difficult to eliminate than an immediate repeal.

One simple strategy Congress should consider to combat that danger is an immediate enrollment freeze. Under this approach, no new applications for ObamaCare's Medicaid expansion would be approved, but those already enrolled would be allowed to stay in the program until their situations improved and they became ineligible or until the end of the transition period, whichever came first. This would also mean no new states could expand eligibility under ObamaCare during the transition period.

Freezing enrollment would allow Congress and the states to gradually roll back ObamaCare's Medicaid expansion. It would also do so in a way that is perhaps more politically palatable than ending the program overnight and, most importantly, it would immediately begin to free up resources for the truly needy.

An Enrollment Freeze is an Effective Tool To Roll Back ObamaCare Expansion

States have successfully used enrollment freezes in the past to unwind pre-ObamaCare expansions to able-bodied childless adults.

Facing massive annual cost overruns in the Medicaid expansion that Arizona voters approved in 2000, policymakers froze enrollment at 230,000 able-bodied adults in 2011. Over the next year, nearly half of those enrolled in the expansion transitioned out of Medicaid. By the end of the second year, enrollment had dropped by two-thirds.

Maine's pre-ObamaCare Medicaid expansion faced similar overruns and the state froze the program at various times in order to keep budget overruns from skyrocketing further. During three sustained freeze periods, between one-third and one-half of expansion enrollees cycled off the program, with enrollment continuing to decline thereafter.

Enrollment freezes implemented in blue, purple, and red states' SCHIP programs have produced similar results.

The most recently available data indicates that at least 12.3 million able-bodied adults are currently enrolled in ObamaCare’s Medicaid expansion. Based on the enrollment pause experiences in these states, Congress could expect enrollment to drop to somewhere around 6.9 million – a decline of 5.4 million able-bodied adults – within a year of stopping enrollment. By the end of the second year of the transition period, enrollment would likely drop to around 4.9 million – a decline of 7.5 million. Enrollment would continue to decline thereafter until the end of transition period.

For context, about 40 percent of the impacted enrollees reside in Medicaid expansion states with Republican governors. However, there are only five Republican governors who expanded Medicaid still in office – all of whom are term-limited and will leave office in 2018 or 2019. The remainder of the governors in these states inherited their Medicaid expansions, usually from a Democratic predecessor.

State	Most Recent Enrollment	Remaining Enrollees Until Incomes Increase		
		1 year after	2 years after	5 years after
Alaska	25,695	14,430	10,117	7,098
Arizona	397,879	223,442	156,659	109,907
Arkansas	324,318	182,131	127,695	89,587
California	3,842,200	2,157,711	1,512,810	1,061,338
Colorado	446,135	250,541	175,659	123,237
Connecticut	193,773	108,819	76,295	53,526
Delaware	10,752	6,038	4,233	2,970
Hawaii	31,486	17,682	12,397	8,697
Illinois	650,653	365,395	256,185	179,731
Indiana	381,631	214,317	150,262	105,419
Iowa	139,119	78,127	54,776	38,429
Kentucky	443,200	248,893	174,504	122,426
Louisiana	359,911	202,120	141,710	99,419
Maryland	248,237	139,405	97,740	68,571
Michigan	630,609	354,139	248,293	174,194
Minnesota	186,132	104,528	73,287	51,416
Montana	61,233	34,387	24,110	16,915
Nevada	203,929	114,523	80,294	56,332
New Hampshire	50,150	28,163	19,746	13,853
New Jersey	532,917	299,277	209,828	147,209
New Mexico	243,110	136,526	95,721	67,155
New York	259,461	145,709	102,159	71,671
North Dakota	19,389	10,889	7,634	5,356
Ohio	714,595	401,304	281,361	197,394
Oregon	478,568	268,755	188,429	132,196
Pennsylvania	625,970	351,534	246,467	172,913
Rhode Island	60,455	33,950	23,803	16,700
Washington	596,873	335,193	235,010	164,875
West Virginia	179,972	101,069	70,861	49,714
TOTAL	12,338,352	6,928,997	4,858,045	3,408,248

An Enrollment Freeze is Politically Popular

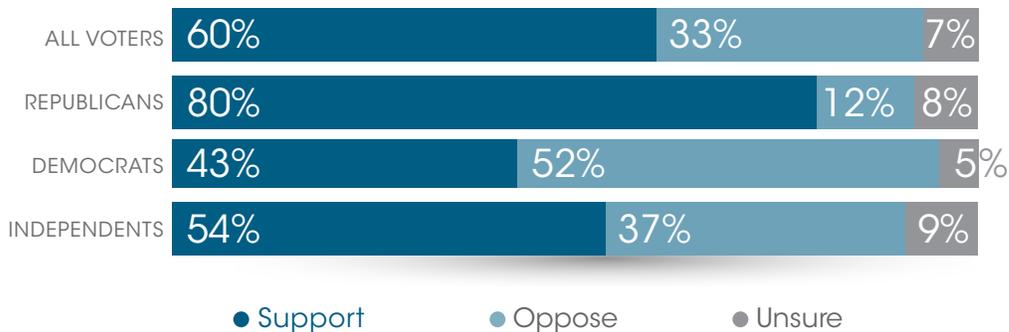
In December 2015, the Opportunity Solutions Project commissioned a survey of more than 500 Kentucky voters, after Gov. Matt Bevin won election campaigning on a platform of ObamaCare expansion repeal. Their published results indicate that voters favored freezing enrollment by nearly a two-to-one margin.

VOTERS SUPPORT FREEZING EXPANSION ENROLLMENT

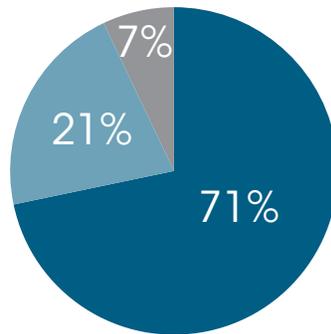
Voters overwhelmingly support the strategy of stopping enrollment in the expansion and allowing those who are currently enrolled to stay in the program until their income rises.



Kentucky can begin rolling back ObamaCare's Medicaid expansion by stopping new enrollment. Under this approach, no one would be kicked off, but new people couldn't join the program. Current enrollees would leave the program when their income goes up. Other states have successfully rolled back Medicaid expansions like this in the past. Would you support or oppose unwinding ObamaCare's Medicaid expansion by stopping future enrollment in this way?



Bevin Voters



Congress Should Phase Out ObamaCare Expansion’s Enhanced Matching Funds

ObamaCare’s enhanced funding formula creates perverse incentives for states to prioritize welfare for a new class of able-bodied adults over services for those receiving traditional Medicaid. Even under a program with frozen enrollment, these perverse incentives can negatively impact the most vulnerable.

If a transition period is extended beyond the two-year window adopted in H.R. 3762, Congress should begin to gradually phase down the matching rate during this period. Not only would this provide relief to taxpayers, but it would begin to remedy the immoral discrimination against individuals with disabilities that ObamaCare’s current funding rules create.

A reduction of enhanced funding could also encourage states to unwind their expansions more quickly. At least seven states have statutory requirements to begin rolling back expansion if federal expansion funding is reduced below a specified level.

Arizona	Terminates if expansion FMAP drops below 80%
Arkansas	Terminates within four months if expansion FMAP drops at all
Illinois	Terminates within four months if expansion FMAP drops below 90%
Indiana	Terminates within four months if expansion FMAP drops below 90%
Michigan	Terminates if expansion FMAP drops and “annual state savings” from expansion aren’t enough to cover the difference
Montana	Terminates if expansion FMAP drops at all, unless legislature appropriates additional general fund money
New Hampshire	Terminates if expansion FMAP drops at all

States Must Use More Tools to Reduce Dependency

After freezing enrollment, states should be allowed to implement policies with proven success in moving individuals off Medicaid. For example, states must check eligibility more frequently – removing ineligible individuals and fraudsters from the rolls – and impose work requirements on non-disabled, working-age adults in the program. Both policies, which would apply both in expansion states and in non-expansion states, would free up resources for the truly needy and help unwind ObamaCare’s Medicaid expansion at an accelerated pace.

Although it is likely that these tools could be granted under a waiver approved by President-elect Trump, Congress should require ones that have proven track records to reduce dependence, and grant others as state options that can be implemented simply by filing a state plan amendment.

Conclusion

When Congress put H.R. 3762 on President Obama's desk last year, it took the critical first step of committing to the repeal of ObamaCare's Medicaid expansion disaster. Under the Trump administration, repeal can finally become a reality.

But as the new repeal bill works its way through the process, it is critical to take steps that ensure repeal is implemented on schedule. One simple strategy is to close ObamaCare's front door – freeze enrollment in Medicaid expansion immediately. This would allow enrollment to gradually and naturally wind down as individuals' situations improve during the transition period, rather than allowing it to grow even larger.

These freezes have been successfully used by states in the past when rolling back pre-ObamaCare expansions to able-bodied adults. Better still, this approach to unwinding ObamaCare is politically popular.