How The New Congress Can Thoughtfully Repeal ObamaCare's Expansion

By Jonathan Ingram, Josh Archambault, and Nic Horton
January 5, 2015

Tomorrow, a new Congress convenes, with the largest Republican majorities in nearly a century. These Republicans, elected on the promise of rolling back Obamacare, are ready to start chipping away at the law. One of their first targets? Obamacare's immoral funding scheme that prioritizes able-bodied adults over the truly needy.

ObamaCare Values The Able-Bodied Over The Truly Needy

The Federal Medical Assistance Percentage (FMAP) rates determine how the cost of Medicaid will be divvied up between the federal government and the states. FMAP rates vary by state, depending on states' per capita personal income. Under the traditional Medicaid rules, federal taxpayers reimburse states an average of 57 percent of the cost of providing Medicaid to poor children, pregnant women, seniors and individuals with disabilities. The match rates for these populations don't change under Obamacare.

However, Obamacare introduced a new "enhanced" funding formula for its expansion population. If states expand Medicaid to working-age, able-bodied adults, federal taxpayers will pay for 90 percent of the cost of covering those adults. (The matching rate starts at 100 percent for most states and gradually declines to 90 percent by 2020.)

But the vast majority of the able-bodied adults covered under Obamacare expansion have never been considered among the most vulnerable, have no disabilities keeping them from work, have no dependent children and don't typically qualify for other types of welfare, including cash assistance and long-term food stamps. Why should federal taxpayers pay states nearly twice as much to cover able-bodied adults as they pay to cover the truly needy?
This Funding Scheme Puts The Needy In The Crosshairs

It’s not enough that Obamacare treats this new class of able-bodied adults as more valuable than the truly needy – this funding scheme actually introduces new, perverse incentives that reward states for stealing resources from the most vulnerable.

In order to save a single state dollar, states need to cut an average of $2.32 from the “traditional” Medicaid budget for children, seniors and individuals with disabilities. On the other hand, if states wanted to protect the truly needy and extract savings from only this new group of able-bodied adults, policymakers would need to cut a whopping $10 (or more) for every state dollar saved.

Medicaid is already the largest and often fastest-growing line item in state budgets, crowding out resources for other priorities, such as education, infrastructure and public safety. Thanks to Obamacare’s perverse incentives, the most vulnerable will be among the first victims when the time for belt-tightening arrives in state legislatures around the country.

We’ve already seen states prioritize coverage for able-bodied adults over life-saving care for the truly needy. Obamacare’s immoral funding formula makes this reality even worse.

ObamaCare’s Funding Scheme - On The Chopping Block?

As the national debt continues to skyrocket, cutting this immoral funding is a prime target for the new congress that’s been sent to Washington with a mandate to stop Obamacare. In fact, Capitol Hill insiders – including Politico – report that reversing this funding scheme is one of the first items on the agenda.

Congressman Paul Ryan, chairman of the House Budget Committee, has already warned governors and state legislators that Obamacare’s enhanced funding for Medicaid expansion wouldn’t last forever.

“The fastest thing that’s going to go when we’re cutting spending in Washington is a 100 or 90 percent match rate for Medicaid. There’s no way.”

- U.S. Representative Paul Ryan, Chairman of the House Budget Committee

U.S. Senators Tom Coburn (R-OK) and Richard Burr (R-NC), joined by several of their colleagues, introduced legislation in the last Congress to repeal the enhanced matching rates for Obamacare expansion. Congressman Matt Salmon (R-AZ) and his colleagues have proposed similar legislation. In addition,
Congressmen Tom Price (R-GA) and Michael Burgess (R-TX) have proposed increasing the state share of Medicaid expansion by at least 10 percentage points. Congressman Burgess and others have also proposed eliminating the expansion funding altogether.  

And these are just the stand-alone bills; similar proposals have been floated as part of a larger budget deal. But Washington insiders seem to agree: Obamacare's perverse funding scheme is a primary target.

Could Republicans Find An Unlikely Ally?

On this issue, Republicans may even find an unexpected ally at 1600 Pennsylvania Ave. – President Barack Obama.

The President has actually proposed reductions in the enhanced matching rate on numerous occasions. In his 2013 budget, for example, President Obama proposed shifting more Medicaid costs to the states with a "blended" rate that would ultimately reduce federal support for Medicaid expansion. (Incidentally, the proposed blended rate would have more than tripled states' share of Medicaid expansion costs.)

President Obama also made similar proposals during the recent debt ceiling negotiations. The President has also offered other plans to shift more Medicaid costs onto states, including limits on states' use of provider taxes to pay for their share of Medicaid spending.

With the federal government now sitting on more than $18 trillion in debt, the only question left is when the Obamacare funds go away.

How Will Congress Repeal The Funding?

Although many lawmakers have proposed eliminating Medicaid expansion eligibility entirely, one idea that's gaining steam is a simple repeal of the "enhanced" matching funds. This would allow states to continue expansion under the traditional matching rates, but eliminate most of the perverse incentives in Obamacare’s funding scheme.

According to sources on Capitol Hill, one proposal would gradually wind down the enhanced matching funds. Under this plan, expansion states could continue receiving the enhanced matching funds for individuals enrolled in the program by a certain date (e.g., July 1, 2015), at least temporarily. However, states would only receive the traditional Medicaid matching funds for new enrollees.
As enrollees gradually roll off the program, the enhanced matching rates would decline and eventually go away altogether. Under these new rules, states would also be able to repeal or freeze enrollment in their Medicaid expansions if they wish.

**Winding Down ObamaCare Is A Policy and Political Win**

States provide excellent examples to Congress, having successfully rolled back welfare expansions in the past. Arizona and Maine, for example, have repealed previous Medicaid expansions to able-bodied adults by freezing enrollment at existing levels and allowing individuals to cycle off of the program as their incomes rise. Enrollment began dropping immediately, with more than 5 percent of individuals rolling out of the Medicaid expansion each month.  

Congress should use these examples to craft its own thoughtful Obamacare exit strategy, which would completely deflate President Obama’s argument that repealing Medicaid expansion would mean kicking millions of Americans out in the cold. Successfully phasing out the Medicaid expansion could also serve as a foundation for ultimately repealing the Obamacare exchange subsidies.

Obamacare repeal may not take place all at once, but one thing’s for sure: the new Congress is serious about rolling back the law. Now it’s time to get to work.

**SOURCES:**


4. “H.R. 1404 - To amend title XIX of the Social Security Act to eliminate the increased Federal medical assistance percentage under the State plan with respect to newly eligible mandatory individuals under Medicaid, to provide States with greater flexibility under Medicaid, and for other purposes,” Congress.gov (2013), https://www.congress.gov/113/bills/hr1404/BILLS-113hr1404ih.pdf.
5. “H.R. 3667 - To amend title XIX of the Social Security Act to increase by 10 percentage points the required State match for certain newly eligible individuals under the Medicaid program and to apply savings against sequestration reductions otherwise required, and for other purposes,” Congress.gov (2013), https://www.congress.gov/113/bills/hr3667/BILLS-113hr3667ih.pdf.


