Dispelling four myths about ObamaCare expansion funding

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KEY FINDINGS

1

Myth #1:
States that expand ObamaCare are "bringing their dollars home."

REALITY:
STATES ALREADY RECEIVE MORE FEDERAL FUNDING THAN THEY SEND TO WASHINGTON D.C.

2

Myth #2:
States that decline to expand ObamaCare are "sending their money to other states."

REALITY:
THERE IS NO MAGIC POT OF OBAMACARE EXPANSION MONEY.

3

Myth #3:
States can do nothing to reduce the national deficit and debt.

REALITY:
OBAMACARE EXPANSION IS FUNDED ENTIRELY WITH NEW NATIONAL DEBT.

4

Myth #4:
ObamaCare expansion is fully funded with "free" federal money.

REALITY:
STATES ARE ON THE HOOK FOR MASSIVE PORTIONS OF OBAMACARE COSTS.

BOTTOM LINE:

THERE'S NO SUCH THING AS FREE OBAMACARE MONEY.

Background

The debate about whether or not states should accept ObamaCare's expansion of Medicaid to a new class of able-bodied adults rages on. More than a dozen states have continued to hold the line against it, instead protecting their Medicaid program for the truly needy. Due to massive enrollment and cost overruns, many current expansion states have also been pushing forward with policies to rein in expansion, such as commonsense work requirements and enrollment freezes.[1]

But across the map, in these conversations about rejecting or reducing expansion's disastrous impact, welfare expansion proponents continue to misrepresent how the program is funded in a concerted effort to expand ObamaCare.

Namely, proponents assert that expansion is good for their state because it "brings back" money their taxpayers have sent to Washington D.C., implying that they have a right to it. They also argue that, if they reject or roll back expansion, they will be sending "their money" to other states instead. They argue states can do nothing to reduce the national debt. And finally, they lead policymakers to believe that expansion is fully funded by the federal government.

But in reality, all of these arguments grossly misrepresent how ObamaCare's expansion is actually funded and the threat it poses to state budgets.

WELFARE EXPANSION PROPONENTS CONTINUE TO MISREPRESENT HOW THE PROGRAM IS FUNDED IN A CONCERTED EFFORT TO EXPAND OBAMACARE

In reality, states receive more federal spending in their state than they send to the federal government.

MYTH #1: States that expand ObamaCare are "bringing their dollars home."

REALITY: States already receive more federal funding than they send to Washington D.C.

For years, expansion advocates have argued that states would be silly not to accept ObamaCare's expansion wholeheartedly because expansion means "bringing home" their state taxpayers' dollars that they send to Washington D.C. in the form of federal taxes. The implication is that states are entitled to these federal dollars because they are sending more to D.C. than they get in return and it would be an injustice not to take this money and spend it on welfare expansion.

But in reality, states receive more federal spending in their state than they send to the federal government—which explains how the national debt ballooned to more than $23 trillion.[2-3]

Indeed, every single non-expansion state gets back more federal spending than their residents pay in federal taxes.[4] In some cases, the return is more than two to one.

Mississippi, for example, a non-ObamaCare expansion state, enjoys $2.19 in federal spending for every dollar they send to the federal government, meaning Mississippi receives more than $20 billion more from the federal government than they send to it.[5] Likewise, their neighbors in Alabama receive nearly two dollars back for every dollar they send. Alabamans get $32 billion more from the federal government than they pay in federal taxes.[6]

In total, across all non-expansion states, states receive $1.29 in federal funding for every dollar they pay in federal taxes—or $265 billion more than they send.[7]

EVERY NON-EXPANSION STATE RECEIVES MORE FEDERAL FUNDING THAN THEY PAY IN FEDERAL TAXES

STATE	FEDERAL TAXES	FEDERAL SPENDING	NET BALANCE OF SPENDING	SPENDING TO TAX RATIO
Alabama	$33.1 billion	$65.8 billion	$32.6 billion	$1.99
Florida	$191.8 billion	$237.7 billion	$45.9 billion	$1.24
Georgia	$81.0 billion	$104.5 billion	$23.5 billion	$1.29
Kansas	$25.5 billion	$31.3 billion	$5.8 billion	$1.23
Mississippi	$17.2 billion	$37.8 billion	$20.5 billion	$2.19
Missouri	$48.1 billion	$72.3 billion	$24.1 billion	$1.50
North Carolina	$78.6 billion	$113.1 billion	$34.5 billion	$1.44
Oklahoma	$29.4 billion	$45.1 billion	$15.7 billion	$1.53
South Carolina	$34.6 billion	$59.7 billion	$25.2 billion	$1.73
South Dakota	$8.0 billion	$9.3 billion	$1.2 billion	$1.15
Tennessee	$52.2 billion	$76.3 billion	$24.1 billion	$1.46
Texas	$260.4 billion	$269.0 billion	$8.6 billion	$1.03
Wisconsin	$52.3 billion	$55.4 billion	$3.1 billion	$1.06
Wyoming	$6.7 billion	$7.1 billion	$0.4 billion	$1.06
COMBINED	**$919.0 billion**	**$1.2 trillion**	**$265.2 billion**	**$1.29**

Source: Rockefeller Institute of Government

What this means in the context of the ObamaCare expansion debate is quite simple: **not a single one of these states would be "bringing back" their state dollars if they choose to expand.**

They all already get back more money than they send on net; there is no money left to "bring back."

Non-expansion states like Florida and Texas are not 'sending their money' to New York and California by rejecting ObamaCare—that money is simply never spent.

MYTH #2: States that decline to expand ObamaCare are "sending their money to other states."

REALITY: There is no magic pot of ObamaCare expansion money.

Expansion proponents have also long argued that, if states reject ObamaCare welfare dollars, those welfare dollars will instead go to other states. But this argument fundamentally misrepresents how ObamaCare expansion—and Medicaid generally—is funded.

Medicaid is administered by states and a percentage of Medicaid costs are reimbursed by federal taxpayers. But states are only reimbursed based on actual expenditures that enrollees accrue.

Further, as the Congressional Research Service articulated nearly five years ago, there is no fixed pot of ObamaCare money reserved for expansion specifically that can even be sent to other states.[8-9] According to CRS:

> **"If a state doesn't implement the ACA Medicaid expansion, the federal funds that would have been used for that state's expansion are not being sent to another state."[10]**

This means, quite clearly, that non-expansion states like Florida and Texas are not "sending their money" to New York and California by rejecting ObamaCare—that money is simply never spent. Federal Medicaid reimbursements to New York and California are, and will continue to be, based on actual Medicaid expenditures, as will Florida's and Texas's. But expansion states do not get more money or higher reimbursements just because some states have made better fiscal decisions to reject expansion.

There is no magic pot of ObamaCare expansion money.

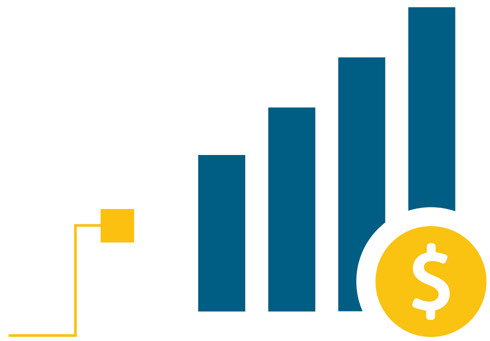
MYTH #3: States can do nothing to reduce the national deficit and debt.

REALITY: Expanding ObamaCare means expanding the national debt.

ObamaCare proponents have argued that expanding ObamaCare does not contribute to the national deficit or debt; at times, proponents have even suggested to policymakers that, if they want to influence the national debt, they should run for U.S. Congress, with the implication being that nothing can be done at the state level to affect federal spending. But the decision to expand, reject, or roll back ObamaCare expansion has a direct effect on the national deficit and debt.

Quite simply, all federal funding spent on ObamaCare expansion is deficit spending, which directly increases the national debt.

In 2019, the federal government spent $4.6 trillion, about $984 billion more than it collected from taxpayers.[11] The Congressional Budget Office (CBO) projects trillion dollar deficits every year over the next decade and beyond, even as federal revenues reach record-breaking levels year after year.[12] The national debt is expected to nearly double over the next decade alone.[13] Every dollar in new ObamaCare spending is a dollar added to the deficit and debt. There is no dedicated funding stream to pay for the federal share of expansion; it is all added to the deficit.



EVERY DOLLAR IN NEW OBAMACARE FEDERAL SPENDING IS A DOLLAR ADDED TO THE DEFICIT AND DEBT

Indeed, shortly after the Supreme Court ruled on ObamaCare in 2012 and made expansion optional for states, the CBO revised down the projected impact of expansion on the federal deficit, based on the reality that many states would reject it.[14] This new reality reduced the projected 11-year deficit impact attributable to expansion by nearly $300 billion.[15]

BY REJECTING EXPANSION, STATES ARE SAVING TAXPAYERS UP TO $620 BILLION IN NEW SPENDING

Incidentally, this projected reduction in the deficit would not have occurred if non-expansion state dollars were flowing to expansion states instead, as ObamaCare advocates insist—because "Florida's money" would still be spent, it would just be going to California instead. But of course, that is not how any of this works.

By rejecting expansion, states are saving taxpayers up to $620 billion in new spending over ten years—virtually all of which would be ultimately added to the national debt.[16]

By continuing to hold the line, policymakers in the more than a dozen non-expansion states are saying "yes" to the truly needy and "no" to more national debt.

MYTH #4: ObamaCare expansion is fully funded with "free" federal money.

REALITY: States are on the hook for massive portions of ObamaCare costs.

ObamaCare welfare proponents have also sold ObamaCare as "free" to states because they say the federal government picks up the tab. While it is true that federal taxpayers picked up the bulk of the costs in the early years of expansion, that is far from the case today. In fact, federal funding has been waning over the last several years, shifting significant chunks of the costs onto states.

In 2014, when expansion began in most states, federal taxpayers picked up 100 percent of the benefit costs of the program—although states were left holding the bag for increases in administrative costs.[17] But in 2017, costs began to shift more directly onto state taxpayers and have continued to increase every year since, reaching 10 percent in 2020.[18]

Non-expansion states should take note: while it may have been easy in 2012 and 2013 to pretend that expansion would be "free," if these states expand now, it will have a direct and immediate impact on their budget.

This could also be just the beginning: Republicans in Congress and former President Obama have also proposed cutting the federal reimbursement rate for Medicaid expansion even further, shifting even more of the costs onto the states.[19]

And this would not be the first time the federal government has failed to uphold their end of the bargain: in 1975, Congress passed the Individuals with Disabilities Education Act (IDEA), promising to foot the bill for 40 percent of the additional costs to educate children with disabilities. Yet as federal spending obligations increased, Congress failed to make good on its commitment, and never fully funded the authorized appropriations.[20]

But at a minimum, going forward, even if the federal government holds to its commitments—and that is a big "if"—state taxpayers are on the hook for at least 10 percent of expansion costs, which is very different than "free."

"Non-expansion states should take note... if these states expand now, it will have a direct and immediate impact on their budget."

Bottom line: There's no such thing as free ObamaCare money

Ultimately, all taxpayers pay both state and federal taxes. Regardless of which level of government cuts the check, taxpayers are the ones footing the bill. There is no such thing as "free" money or even "government" money. It is all taxpayer money.

In addition, states already enjoy more federal spending than what they send to D.C. in taxes; states that reject expansion are not sending money to other states; and expanding ObamaCare means expanding the national debt.

THERE IS NO SUCH THING AS "FREE" MONEY OR EVEN "GOVERNMENT" MONEY. IT IS ALL TAXPAYER MONEY.

Expansion states are also grappling with spiraling Medicaid costs. On average, expansion states have spent two and a half times what they projected to spend on ObamaCare expansion.[21] And across the board, states now spend one out of every three dollars on Medicaid.[22]

If non-expansion state dollars were being diverted to expansion states, ObamaCare states would be flush with cash. But quite the opposite is happening.

New York is currently experiencing a mind-numbing $6 billion Medicaid shortfall.[23] Similarly, in California, ObamaCare expansion costs have been nearly quadruple what was promised.[24]

On average, expansion states are spending 157 percent more than originally expected on expansion alone, not including other increases in their total Medicaid budgets.[25]

These states could probably use some of that Florida and Texas "ObamaCare expansion money"—but they are not going to get it because that is not how Medicaid funding works.

ObamaCare expansion is anything but free; it comes at a very high price to both state and federal taxpayers. But ultimately, even if it were, it would never be worth the moral cost of transforming a critical safety net for the vulnerable into an open-ended welfare program for able-bodied adults.[26]

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