



# Arkansas's Private Option Model Is Costing More Than Twice As Much As Conventional Medicaid Expansion

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## Overview

Arkansas, like many states, took the bait in 2013 and expanded ObamaCare to a new class of able-bodied adults. Medicaid has typically been preserved for the truly needy among us, such as the elderly, pregnant women, and those with disabilities.

Under conventional Medicaid expansion, the state provides qualified enrollees with coverage, and Medicaid pays physicians and other health care professionals for these services. Under the “private option” model that Arkansas employs, enrollees are able to choose individual market plans through the ObamaCare exchange.

Not only does this model give able-bodied adults much better coverage than the truly needy covered by traditional Medicaid, but it is also bleeding taxpayers dry.<sup>1</sup> A few states tried this private option-style expansion, but thankfully lawmakers in those states quickly realized it was much more costly and detrimental to other priorities and abandoned it. Sadly, Arkansas is the only state still clinging to the “conservative” approach to expansion.

## The Private Option Model is Costing Arkansas Dearly Compared to Conventional Expansion

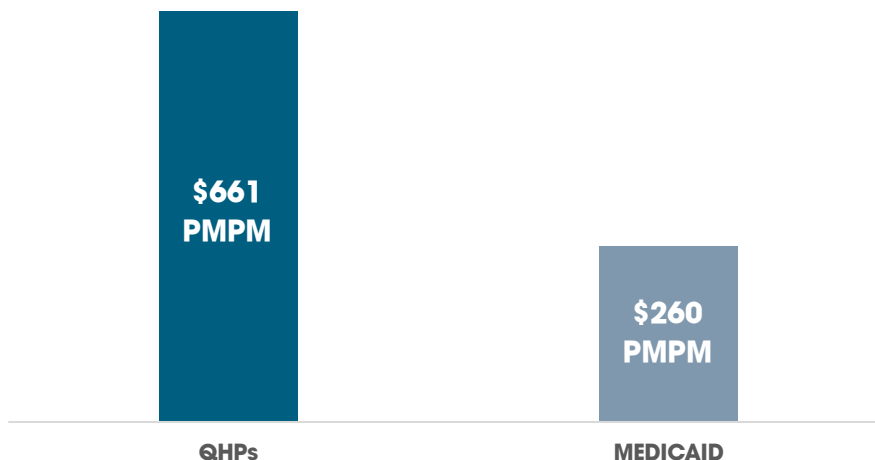
The private option model was originally billed as a conservative approach to expansion that would actually *reduce* Medicaid costs and save taxpayers money. These promises have failed to materialize, to put it mildly.

An analysis by the Arkansas Department of Human Services (DHS) found that **private option enrollees cost \$661 per member per month (PMPM), compared to just \$260 for these exact same enrollees before they are transferred into private plans**—indicating conventional, fee-for-service Medicaid is less than half the cost.<sup>2</sup>

In fact, it costs more to put able-bodied adults into the private option model than to serve even “medically frail” enrollees in conventional fee-for-service Medicaid, despite medically frail enrollees’ much higher utilization of services.<sup>3</sup>

Of course, none of this should come as a surprise: In 2014, the Government Accountability Office (GAO) conducted an analysis of Arkansas’s private option waiver and concluded that “questionable methods” were used to ensure that the proposal seemed budget neutral, despite the fact that it could cost the state nearly \$1 billion more than a conventional expansion model.<sup>4</sup>

### PRIVATE OPTION PLANS ARE MORE THAN TWICE AS EXPENSIVE FOR THE EXACT SAME ENROLLEES



Source: Arkansas Department of Human Services

And just a few years into the program, an interim evaluation of the program led by the former state surgeon general—and one of the private option model architects—confirmed this, finding that the private option model is nearly twice as expensive as conventional expansion.<sup>5</sup>

But now, Arkansas policymakers have a chance to finally course correct.

### Letting the Private Option Model Expire Could Save Arkansas Taxpayers Nearly \$100 Million Per Year

If Arkansas allows the private option model to expire, taxpayers would realize monthly savings of \$301 per enrollee, using a realistic estimate that assumes the private option is twice as expensive as conventional expansion.<sup>6</sup> This is a conservative estimate, given DHS’s own data suggests a cost difference of nearly 60 percent.<sup>7</sup>

These savings would translate into \$75 million per month, and a total savings of \$903 million over a period of 12 months.<sup>8</sup> Arkansas’s share of that burden is currently 10 percent, meaning **state taxpayers could save more than \$90 million per year by transitioning to conventional ObamaCare expansion.**<sup>9</sup> This does not even account for the billions of dollars in savings for federal taxpayers, all of which would contribute to reducing the federal deficit.<sup>10</sup>

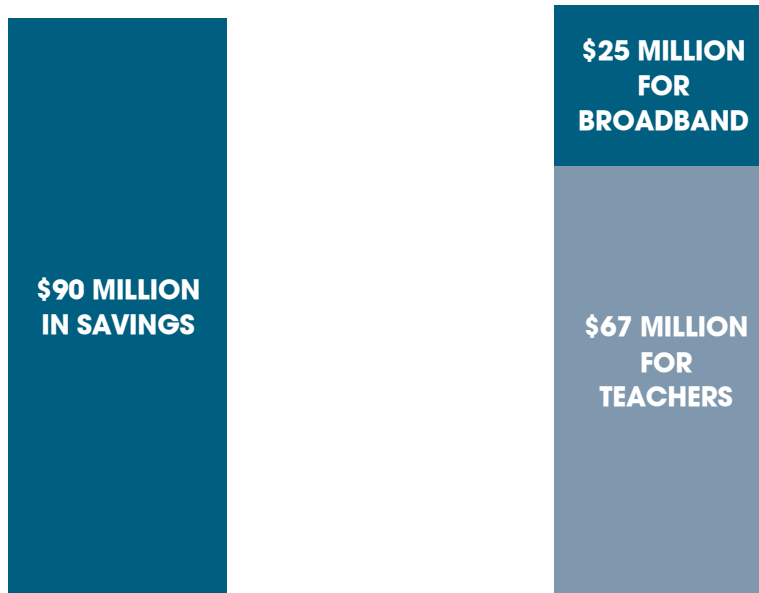
These savings are not trivial in the slightest and could completely transform the landscape for thousands of Arkansans—including teachers.

Governor Asa Hutchinson has set forth a proposal to provide all public school teachers in the state a \$2,000 pay increase.<sup>11</sup> Letting the private option model expire could provide more than enough revenue to make this a reality. **In fact, by letting the private option expire, every public school teacher in Arkansas could receive a pay raise of \$2,686—without costing taxpayers one additional penny.**<sup>12</sup>

Policymakers have also been working to expand broadband access across the state. Arkansas currently ranks 41<sup>st</sup> in terms of access to broadband, with nearly a quarter of residents unable to access speeds at 25MBPS or higher. More than one-third of residents do not have access to speeds of 100MBPS or higher. One plan put forth would address these discrepancies in rural areas for just \$25 million.<sup>13</sup> By letting the private option expire, the savings in one year alone could fund this project nearly four times over.

Even better, if Arkansas lawmakers choose to let the private option model finally fall to the wayside, they could almost fully fund the \$2,000 teacher pay increase *and* fund the broadband plan.<sup>14</sup>

### ARKANSAS COULD ALMOST FULLY FUND TEACHER PAY RAISES & BROADBAND WITH PRIVATE OPTION SAVINGS



Source: Author's calculations

### Bottom line: Arkansas should ditch the private option model and transition to conventional Medicaid expansion

The private option model has been a disaster for the state of Arkansas. More able-bodied adults enrolled after a few years than state officials ever thought was possible, costs have been exorbitant, and the truly needy have been pushed to the back of the line to make way for this new class of able-bodied adults.<sup>15</sup>

Not only have the truly needy in Arkansas gotten the short end of the stick, but so have state taxpayers. By letting the private option expire, the legislature could free up nearly \$100 million to be used for other important priorities like broadband, teacher pay raises, or even paying down the state's Medicaid

waiting list for individuals with disabilities.<sup>16</sup> And, if nothing else, state taxpayers would finally be off-the-hook for a “conservative” expansion model that has failed to deliver on its promises time and time again.

<sup>1</sup> Jonathan Ingram, “Arkansas’s So-Called Conservative Approach to ObamaCare Expansion Has Failed,” Foundation for Government Accountability (2020), <https://thefga.org/research/arkansas-conservative-obamacare-expansion-has-failed/>.

<sup>2</sup> Based on data obtained from Arkansas Works 4 Success presentation provided by the Arkansas Department of Human Services in January of 2021. The presentation may be subject to state public records request laws.

<sup>3</sup> Jonathan Ingram, “Arkansas’s So-Called Conservative Approach to ObamaCare Expansion Has Failed,” Foundation for Government Accountability (2020), <https://thefga.org/research/arkansas-conservative-obamacare-expansion-has-failed/>.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> Based on data obtained from Arkansas Works 4 Success presentation provided by the Arkansas Department of Human Services in January of 2021. The presentation may be subject to state public records request laws. Relies on enrollment figures of 250,000 enrollees at a cost of \$602 per member per month (PMPM).

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

<sup>10</sup> Josh Archambault, “Congressional Research Service: There’s no magic pot of ObamaCare Medicaid expansion money,” Forbes (2015), <https://www.forbes.com/sites/theapothecary/2015/03/12/congressional-research-service-theres-no-magic-pot-of-obamacare-medicaid-expansion-money/?sh=1b1c1e1d23f1>.

<sup>11</sup> Region 8 Newsdesk, “Hutchinson talks budget, taxes, teacher pay raises, in State of the State Address,” KSLA (2021), <https://www.ksla.com/2021/01/12/hutchinson-deliver-state-state-address/>.

<sup>12</sup> Authors’ calculations based upon data provided by DHS and total number of teachers in Arkansas.

<sup>13</sup> Michael R. Wickline, “State program created to lift rural broadband,” Arkansas Democrat Gazette (2020), <https://www.arkansasonline.com/news/2020/apr/26/state-program-created-to-lift-rural-bro-1/?latest>.

<sup>14</sup> Authors’ calculations based on estimated savings from switching to conventional Medicaid expansion compared with the estimated cost of public teacher pay raises and broadband expansion.

<sup>15</sup> Jonathan Ingram and Nicholas Horton, “How the ObamaCare dependency crisis could get even worse – and how to stop it,” Foundation for Government Accountability (2018), <https://thefga.org/research/obamacare-dependency-crisis-get-even-worse-stop/>.

<sup>16</sup> Kaiser Family Foundation, “Waiting list enrollment for Medicaid section 1915(c) home and community-based waivers,” Kaiser Family Foundation (2018), <https://www.kff.org/health-reform/state-indicator/waiting-lists-for-hcbs-waivers/?currentTimeframe=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D>.