

## HEALTH POLICY CORNER: PART II

**Refusing to Expand Medicaid: Truth and Consequences**

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The Accountable Care Act (ACA) established several strategies for reducing the number of uninsured in the United States, including the expansion of eligibility for Medicaid. In contrast to Medicare, Medicaid is a federal-state partnership with individual states having the flexibility to vary eligibility and benefits beyond a core set of required federal minimums. When the Supreme Court upheld the individual mandate, it did not allow the federal government to penalize states if they refused to expand Medicaid. Several state governors have now indicated that they will not expand Medicaid benefits as initially required by the ACA, and the consequences of these decisions are monumental.

The ACA sets new minimum eligibility standards for Medicaid nationally, mandating coverage of adults with annual family income up to 133% of federal poverty level (FPL) effective in 2014. Currently, states vary widely in the percentage of FPL up to which citizens are eligible for Medicaid, averaging 72% but ranging from 11% (LA, AL) to 200% (MN, WI, ME, DC). Nationally, 22.3 million uninsured, or 47% of uninsured Americans, will become eligible for Medicaid under the ACA.<sup>1</sup> The cost of this expansion is significant. The ACA requires the federal government to pay 100% of costs for newly eligible Medicaid beneficiaries for the first three years (2014-2016), decreasing to 90% in 2017 and thereafter. In 2011, the federal share of states' Medicaid costs averaged 59% and ranged from 50% (\$1 federal:\$1 state) to 75% (\$3 federal:\$1 state) among states.<sup>2</sup> Thus, this expansion has massive economic consequences for states with large uninsured populations newly eligible for Medicaid.

Florida, for example, will receive almost \$47 billion in new federal Medicaid funds over the first five

years of expansion while its own Medicaid spending will increase by less than \$5 billion—if the governor decides to allow expansion.<sup>3</sup> Five state governors (FL, TX, MS, LA, and SC), each representing states with uninsured populations of more than 20%, have announced they will not expand Medicaid. (Find your state at <http://dl.ebmcdn.net/~advisoryboard/infographics/Where-the-States-Stand7/story.html>.) Many states, especially those with large numbers of uninsured individuals, remain concerned that their costs beyond 2016 will further strain state budgets already decimated by recession. Yet because of the resulting increase in employment in health care, Medicaid expansion may have an overall positive economic impact.<sup>4</sup>

While the economic consequences of Medicaid expansion to the states are murky, it is crystal clear that states' refusal to expand Medicaid will dramatically limit the ACA reduction in the uninsured. Also alarming are the severe economic consequences for hospitals who serve the uninsured, including academic health centers. Starting in 2014, the ACA will significantly decrease the disproportionate share hospital (DSH) payments, which are supplementary payments to facilities who serve large numbers of uninsured patients, due to Medicaid expansion and premium subsidies for state exchanges that will reduce the number of uninsured.<sup>5</sup> Loss of DSH payments will exacerbate the financial problems faced by safety net hospitals and providers and will be felt by many SGIM members' training programs. (More than 65% of medicine resident clinic patients have Medicaid or are uninsured.)<sup>6</sup> Insurers, promised dramatic reductions of uninsured, may doggedly resist efforts to indirectly subsidize care for the uninsured. Hospitals are fighting back in

states resisting Medicaid expansion since they agreed to DSH and Medicare pay cuts to help pay for the expansion with the expectation of having more insured patients.

The decision to refuse to expand Medicaid may lead to a perfect storm for academic health centers—continued large numbers of uninsured, loss of DSH payments, and no new cost-shifting to the insured to make up the difference. Those are dire consequences, indeed.

**References**

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