



TESTIMONY

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MEDICAID EXPANSION COSTS

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Testimony Before the Missouri House Subcommittee on Health Care Reform

TO THE HONORABLE MEMBERS OF THIS COMMITTEE:

We are researchers at the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state policy. The ideas presented here are our own. This testimony is intended to provide an overview of the costs Missouri would face if Medicaid was expanded.

Since the Patient Protection and Affordable Care Act passed in 2010, the Missouri Legislature has refused Medicaid expansion, in large part due to the significant financial burden it represents for state taxpayers. Missouri's Constitution ensures that the state government does not spend more tax dollars than it takes in, and it provides each voter a say at the ballot box before their taxes can be increased.

The prospect of expanding Medicaid in Missouri raises a variety of questions for policymakers and taxpayers alike. Primary among them: How much would expansion cost Missouri taxpayers, and how would it be paid for?

COST

If Missouri expands its Medicaid program, the federal government, at the present time, says it will pay 90 percent of the cost of providing services to newly eligible Medicaid enrollees. The remaining 10 percent would be covered by Missouri taxpayers. The percentage may seem small, but in today's budgetary climate that 10 percent could translate to significant General Revenue (GR) spending. And new GR spending without accompanying revenue growth requires budget cuts from other government programs or new taxes to finance those expenditures.

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While Missouri hasn't updated its cost estimates of Medicaid expansion in a few years, there's little reason to believe the outlook has improved. Past estimates concluded that services for recipients made eligible under Medicaid expansion would cost the state \$212 million in 2020 and \$258 million in fiscal year 2021. In addition, there is no guarantee the federal government will continue funding its portion of services costs at the current 90 percent level, or that Missourians would approve any necessary tax increases if the program expansion was adopted.

Moreover, the Medicaid expansion cost estimates do not account for the growth in the current Medicaid population and the attendant costs of that growth. Nearly every state that has expanded Medicaid has underestimated the growth in enrollment that has followed. It's not completely understood why states have seen such significant enrollment growth, even from individuals who were already eligible, once expansion is adopted. But one thing is known: Underestimated enrollment growth and associated costs would be disastrous for Missouri.

HOW WOULD MISSOURI PAY FOR MEDICAID EXPANSION?

This is the multi-billion dollar question. For entitlements, the responsible thing to do from a legislative standpoint is to ensure the state has a plan to pay for the expansion, either through new tax levies or spending cuts in other programs. If an entitlement delivered today is important enough for the state to undertake, it should be funded out of today's dollars—not the dollars of future generations.

Further, federal funding for Medicaid is not “free money.” Along with the Medicaid costs that will explicitly come from the state government's budget, the fact of the matter is that even the federal contribution will be paid for out of the future salaries of Missourians through debt. The federal government has seen trillion-dollar deficits for years, and those deficits are now projected for the foreseeable future. Does Missouri really want to abet this spending binge?

Missouri taxpayers are also federal taxpayers, liable for the debts that the federal government incurs in their names, and there is no level of government cost splitting that can change the fact that Missourians, their children, and

their grandchildren will have to account for this spending. By assenting to the Medicaid expansion, Missouri policymakers would not only be committing the state to billions of dollars in new spending, but would also be committing Missouri taxpayers to billions of dollars more in new federal debt. That is not a fiscally responsible course.

FIX WHAT'S BROKEN

Medicaid is already Missouri's single largest government-run program, and it has been growing faster than the overall budget for the past decade. Last year's audit of the state's Medicaid program concluded that “without significant changes, Medicaid spending may increase from 24% of state general revenues in SFY 2018 to 30% of state general revenues by SFY 2023. Significant cost savings would be necessary to bring growth of Medicaid spending in line with the level of economic growth of the state, while preserving access to care for participants.”¹ The same audit estimated that Medicaid spending could eclipse 50 percent of the overall budget upon the next economic downturn—and this estimate doesn't even consider the potential costs of Medicaid expansion.

Let's be clear: there are numerous ways to improve Missouri's Medicaid program and health care landscape that don't include expansion. Missouri's current program struggles to contain costs² and—consistent with research into the effectiveness of Medicaid programs nationally³—to improve the health outcomes of its recipients. Steps could be taken to improve transparency and accountability for outcomes of care, or to incentivize providers to contain costs and enhance quality. It's important to note that none of these issues are addressed by growing the program through eligibility expansion. Indeed, such action will probably exacerbate the current struggles.

1 “Rapid Response Review - Assessment of Missouri Medicaid Program.” February 11, 2019. <https://dss.mo.gov/mhd/mt/docs/mhd-rapid-response-review.pdf>.

2 Elias Tsapelas, “Medicaid Is Stifling Economic Growth in Missouri,” <https://showmeinstitute.org/blog/budget/medicaid-stifling-economic-growth-missouri>

3 For example, Taubman S. et al, “Medicaid Increases Emergency-department Use: Evidence from Oregon's Health Insurance Experiment,” *Science* 17, January 2014, 263–268.

<https://science.sciencemag.org/content/343/6168/263>

CONCLUSION

The legislature should thoughtfully consider and determine the best path toward improving Missouri's Medicaid program. If that path includes expanding the program's eligibility, legislators should have a plan in place to pay for the expansion's associated costs. Missouri's Medicaid program is already the state's most costly, and there are a variety of reforms available that would help protect the state's financial future without the prospect of higher taxes.

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