

SEP 2018

POLICY BRIEF



Summary

- In July 2018, the consulting firm Milliman reported that Medicaid expansion would cost taxpayers billions of dollars less than it originally predicted.
- Milliman has routinely underestimated how many people would enroll in Medicaid and how much the program would cost.
- Milliman's colossal miscalculations have saddled taxpayers with billions of dollars in additional Medicaid costs, diverted funding away from essential public services, and discouraged individuals from working their way out of poverty.

Don't Buy the Hype: Medicaid Expansion Would Be a Disaster for Idaho

By Charlie Katebi & Lindsay Atkinson

Introduction

On July 24, 2018, liberal activists announced they collected enough signatures to place Medicaid expansion on Idaho's November 2018 ballot. If voters approve this initiative, Idaho will expand the program to able-bodied adults that earn up to 138 percent of the federal poverty line.

Supporters of Medicaid expansion claim the program will generate millions of dollars in new revenue and save money, citing a recent report from the consulting firm Milliman. However, an earlier 2016 report from Milliman determined Medicaid expansion would cost Idaho almost \$3 billion more than its new estimates. The firm argues its 2018 estimates are more accurate because Medicaid expansion has cost other states less than previously thought, but this claim is completely without merit.

The best-available evidence shows Medicaid expansion has cost taxpayers far more than the predictions made by numerous analysts, including Milliman. In fact, states have enrolled nearly twice as many individuals as forecasters initially predicted. In response to these increasing costs, states have been forced to divert funding away from essential public services, including schools, law enforcement, and transportation.

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The cost of Medicaid expansion has imposed crushing burdens on taxpayers and residents, and it often harms the program's newly eligible able-bodied recipients, because Medicaid's benefits phase out as an individual's income rises. That means the program incentivizes recipients to stay in poverty or even drop out of the labor force entirely.

At a time when Idaho's growing economy is generating increasingly more revenue and creating a record number of jobs, many of which provide employer-sponsored health insurance, lawmakers shouldn't squander these gains by gambling on Medicaid expansion.

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In 2019, it will cover 93 percent. In 2020 and beyond, the federal government's funding of Medicaid expansion levels off at 90 percent.

In response to this seemingly generous funding promise, 33 states and the District of Columbia expanded Medicaid, providing the rest of the country with important insights about the potential benefits and dangers of expansion.

The consulting firm Milliman claims expansion has cost significantly less than its analysts previously thought. In a July 2018 report to the Idaho Department of Health and Welfare, the firm estimated Medicaid expansion would enroll 22 percent fewer individuals and cost taxpayers

38 percent less than Milliman initially predicted. Milliman's latest study claims Medicaid would enroll only 91,000 individuals, with a net cost of \$4.8 billion over the next 10 years.¹ An earlier report by Milliman, published in 2016, projected expansion would enroll 117,644 Idahoans and have a net cost of \$7.7 billion in the expansion program's first decade.²

The Idaho Department of Health and Welfare claimed on its blog Milliman's new, lower estimates are more accurate than those appearing in its 2016 report because they incorporate data that show Medicaid expansion costs less than states initially thought.³ However, this claim is not supported by the available data, which show Medicaid expansion costs billions more than analysts and government officials promised the public.

Background

In 2010, President Barack Obama signed into law the Patient Protection and Affordable Care Act, better known as "Obamacare," as part of his administration's efforts to expand health insurance to lower-income Americans and those with pre-existing conditions. ACA offers to states generous financing to help them expand their Medicaid programs to able-bodied adults who earn less than 138 percent of the federal poverty line—which in 2018 is \$16,753 for an individual and \$34,638 for a family of four.

Under the provisions in the ACA, the federal government reimbursed 100 percent of the cost of Medicaid expansion from 2014 to 2016 and 95 percent in 2017. In 2018, the national government will pay for 94 percent of costs.

Obamacare's Exploding Costs

In 2014, the Congressional Budget Office estimated Medicaid expansion would cost just \$42 billion in 2015,⁴ but the real cost of Medicaid expansion in 2015 settled at \$68 billion, 62 percent higher than the initial estimate.⁵ CBO now predicts Medicaid expansion will cost \$232 billion more over the next several years than it projected in 2014.⁶

Some states have been hit particularly hard by erroneous Medicaid expansion estimates. For instance, when Illinois first expanded its Medicaid program in early 2014, then-Gov. Pat

Quinn said the program would only cost \$4.6 billion.⁷ Yet by 2016, the state's Department of Health Care and Family Services reported Medicaid expansion expenses were more than double Quinn's estimates.⁸

A major driver of Medicaid's increasing expenditures is that millions more able-bodied people have signed up for Medicaid coverage than what policymakers predicted when the Affordable Care Act was passed into law. A 2016 report by the Foundation for Government Accountability discovered states that had expanded Medicaid had enrolled 110 percent more individuals than anticipated.⁹

When Idaho's neighbor Montana expanded Medicaid in 2015, it expected approximately 45,000 individuals would enroll by 2020, but by June 2018, 96,209 newly eligible residents had enrolled in Medicaid, 114 percent more than Montana's initial estimate.^{10,11}

Milliman's Massive Medicaid Miscalculations

One analyst that repeatedly underestimates how much Medicaid expansion is going to cost states is Milliman. For years, the company has published fiscal analyses for states interested in expanding Medicaid, and it often has provided forecasts that show Medicaid expansion would cost relatively little. In some cases, Mil-

liman has even projected taxpayers would save money. Unfortunately, states that have expanded Medicaid based on these estimates have wound up paying hundreds of millions more than Milliman predict-

ed. Two states that mistakenly relied on Milliman's forecasts are Indiana and Iowa.

Indiana

In June 2014, Milliman released a report on behalf of the Indiana Family and Social Services Administration claiming Medicaid expansion would enroll just under 317,000 able-bodied adults within the program's first 11 months.¹² However, Medicaid's actual enrollment and costs quickly grew well beyond Milliman's estimates. Within its first 11 months, nearly 362,000 individuals, 14 percent more than expected, enrolled in the expansion program. As a result, the cost of Indiana's program exceeded Milliman's forecasts by \$285 million.^{13,14}

Since then, costs have only continued to increase. The program's spending ballooned from \$8.7 billion in 2015 to \$11.2 billion in

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2016, nearly a 30 percent increase. Medicaid now comprises a whopping 35 percent of Indiana's total budget.^{15,16}

Iowa

In 2012, Iowa approached Milliman seeking an actuarial forecast of the future cost of expanding Medicaid in the state. Later that year, the firm projected 80,700 new individuals would enroll in the state's expansion program by 2014, at a cost of \$1.37 billion through 2020.¹⁷ After seeing these estimates, then-Gov. Terry Branstad decided to expand Medicaid to able-bodied adults.¹⁸

Six years later, it's clear Milliman dramatically underestimated how much Medicaid expansion would cost taxpayers. Data from the Iowa Department of Human Services reveal more than 121,000 new enrollees joined the program in 2014, 50 percent more than the firm's 2012 projections.¹⁹ Iowa now expects Medicaid expansion will cost \$356 million more than Milliman estimated, about \$1.73 billion by 2020.²⁰

Medicaid Crowds Out State Priorities

Once states expand Medicaid and see the program's costs escalate, lawmakers are often required to slash core public services to keep their budgets balanced. Since states started significantly expanding their Medicaid programs

under the ACA in 2010, the total share of state budgets consumed by Medicaid has increased from 22 percent to 29 percent.^{21,22} These rapidly increasing expenses have forced states to spend less on education, transportation, public safety, and other public services.²³

Medicaid's growth can be especially harmful for students enrolled in a higher-education program. A 2018 study published by the Harvard Kennedy School's *Education Next Journal* found that for every \$1 increase in public welfare spending, which is largely comprised of Medicaid, per-pupil higher-education funding decreases by \$2.44.

The study's author concluded, "Medicaid has been the single biggest contributor to the decline in higher-education support at the state and local level."²⁴

Partly thanks to Idaho's previous decisions to reject Medicaid expansion, the state can, relative to neighboring states that have expanded Medicaid, spend more of its budget on the education and transportation needs of its citizens. However, if voters and lawmakers decide to expand the program to able-bodied adults, Idaho will have significantly less funding to finance its priorities.

Medicaid Expansion Punishes People for Leaving Poverty

In addition to the damage done to states' budgets, expanding Medicaid harms many of the

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able-bodied adults who enroll in the program. Because Medicaid's benefits phase out if an individual earns more than 138 percent of the federal poverty line, the program effectively discourages enrollees from working their way out of poverty. One report published by researchers at Texas A&M University estimates expanding Medicaid's eligibility to non-disabled adults reduces their likelihood of working by up to 10 percent and annual income by up to \$1,460.²⁵

Due to these anti-work disincentives, about half of Medicaid's able-bodied recipients do not earn an income, according to the White House Council of Economic Advisors.²⁶ In some states, the share of non-working Medicaid recipients is even higher. For example, in Montana, nearly 60 percent of able-bodied Medicaid enrollees are unemployed.²⁷ In Illinois, 70 percent of able-bodied Medicaid recipients do not work.²⁸

Medicaid's perverse incentives would be disastrous for Idaho. The state's recent unprecedented economic growth has allowed more Idahoans than ever before to find good-paying jobs. The job market is so strong that many employers are unable to find the employees they need. If voters decide to expand Medicaid, the program could pull tens of thousands of hard-working Idahoans out of the labor force, dramatically increasing government dependency in the state and limiting economic growth.²⁹

Conclusion

For several years, states have relied on estimates from consulting firms such as Milliman to forecast the cost of expanding Medicaid programs. Tragically, these firms have routinely underestimated expansion costs and the number of individuals that would enroll in Medicaid. When analysts such as Milli-

man underestimate how many individuals will sign up for Medicaid, they foist massive expenses on taxpayers and divert scarce resources away from important public priorities like educating students, paving roads, and providing public safety. Addition-

ally, Medicaid expansion incentivizes a huge number of able-bodied adults to work fewer hours or stop working altogether so that they can remain eligible for the program.

Supporters of Medicaid expansion argue a new study by Milliman proves expansion will save Idaho taxpayers money, but the best evidence shows Medicaid expansion will raise costs on taxpayers, starve public services of necessary funds, and push hard-working Idahoans out of the labor force. When it comes to Medicaid expansion, Idahoans shouldn't trust consulting firms such as Milliman.

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Notes

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- We produce four monthly public policy newspapers – *Budget & Tax News*, *Environment & Climate News*, *Health Care News*, and *School Reform News* – which present free-market ideas as news rather than research or opinion.
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