Medicaid expansion worth the risk

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This article appeared in azcentral.com on Tuesday, January 29, 2013

The debate over Gov. Jan Brewer’s proposed Medicaid expansion suffers from the lack of a full understanding of the status quo.

The status quo is assumed to be a state freeze on new enrollments for childless adults up to 100 percent of the federal poverty level. But that’s far from all the status quo. The freeze has a considerable leak in it.

The Legislature, while putting the clamp on state general fund costs for the program, permitted other political subdivisions, including universities, to come up with the necessary local match to pull down federal funds for Medicaid eligible patients. Some have done so, the largest being Phoenix’s bed tax. The additional federal matching funds are used primarily to reimburse hospitals for uncompensated care.

All told, from state and local sources, Arizona public funds of around $350 million are being expended to provide health care to low-income childless adults up to 100 percent of the poverty level.

These Arizona public funds pull down a 2-1 federal match. So, they are generating in the vicinity of $700 million in federal dollars.

Brewer proposes replacing all these current Arizona public funding sources with a statewide provider assessment of roughly $230 million a year, when fully implemented. This replacement local funding source would be eligible for the enhanced federal match under Obamacare, which is 9-1 once all the dust settles. So, it would attract in excess of $2 billion in annual federal funds.

In making the pitch to legislators, Brewer urged them to do the math. There’s not much in higher level math skills required. The state would be spending less, considering all sources, than it is spending today. That lower local contribution would bring in around $1.3 billion more a year in federal funds. Low-income childless adults would be covered up to 133 percent of the poverty level rather than partially covered up to 100 percent.

State general fund finances would also be improved. Brewer has cleverly, and appropriately, proposed that the provider assessment cover not just the cost of restoring and expanding the childless adult population, but also the state’s cost of continuing coverage for those still on
the frozen program. The general fund savings for the first year of full implementation, Fiscal Year 2015, is estimated at $136 million.

So, relief for the state’s general fund, less overall state and local cost, considerably more in federal funds, broader coverage for low-income childless adults. What’s not to like?

There are risks to the state from participating in the Medicaid expansion which should not be lightly dismissed. Simply put, the federal government cannot afford to keep its Medicaid promises. Those who worry about the state being left holding the bag are not being paranoid.

But it is mostly Republicans who are arguing for reductions in Medicaid spending. And they are also arguing to give states more flexibility in the use of the money. The state is unlikely to be stuck with the reduction without the flexibility.

Moreover, there is also a considerable risk to not participating in the federal Medicaid expansion. Arizona voters mandated coverage of childless adults up to 100 percent of the poverty level in 2000. The initiative also requires the Legislature to supplement tobacco settlement monies to cover the cost from “available sources.”

So far, the courts have upheld the enrollment freeze, saying that whether there are “available sources” is up to the Legislature to decide. That’s an easier conclusion to reach when the state’s obviously in financial trouble. In better times, a court might not look so kindly on the Legislature ignoring the mandate. The state might find itself having to fulfill it without access to the generous federal match currently being offered.

The governor proposes to protect the state with what she is calling a circuit breaker. If the federal reimbursement rate drops below 80 percent, the expansion between 100 percent and 133 percent of the poverty level and the provider assessment would go poof.

That leaves the pregnant question of what to do about the mandate to cover childless adults up to 100 percent of the poverty level.

A better protection for the state’s general fund would be for the Legislature to just declare that any state costs of covering childless adults under Medicaid will be paid through a provider assessment.

The hospitals will tell us when Medicaid has become a bad deal. Instead of lobbying for a provider assessment, they will begin lobbying for relief from it.