



Memorandum

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By 2023, Oklahoma Medicaid costs could be nearly equivalent to the entire current state-appropriated budget

In the debate over expected growth in Oklahoma's Medicaid costs as a result of President Obama's health care law, it's important to get the numbers right. If Oklahoma's Medicaid population grows as a result of the law, Oklahoma taxpayers will be left to pay the bill. It's nice to know how much something will cost before you buy it.

As originally passed, the federal health care law (the Patient Protection and Affordable Care Act, or PPACA) required states to expand their Medicaid populations to include all citizens under 133 percent of the federal poverty level. For the first three years of the law's implementation (2014-2016), the federal government would pay 100 percent of the expansion costs. However, beginning in 2017, the federal portion would begin to phase down, all the way to 90 percent by 2020, with the state's portion of the costs phasing up to 10 percent.

After last summer's U.S. Supreme Court ruling on the PPACA, states now have the option whether to adopt the law's prescribed Medicaid expansion or not.¹ Independent of the wide unpopularity of the PPACA among the Oklahoma public, it's a good idea for state policymakers to understand the price tag of the Medicaid expansion before deciding how to proceed.

Those who say Oklahoma should accept the PPACA Medicaid expansion claim it will relieve pressure on hospitals in the state. Most hospitals are required by federal law to provide treatment to any individual who shows up at their door, regardless of whether that person has private health insurance, federally subsidized coverage (like Medicaid or Medicare) or no coverage at all.

Advocates say this puts a burden on hospitals to provide "uncompensated care" to individuals who don't have private health insurance and who aren't eligible for Medicaid or old enough for Medicare. The Medicaid expansion would allow hospitals to receive government reimbursement when they treat these uninsured individuals. (It should be noted that many hospitals are allowed to write off much of their uncompensated care services as charitable activity, for tax purposes, which eases some of the pressure on their bottom line.)

But how much will the Medicaid expansion cost Oklahoma taxpayers? That question must be answered.

To do so, a typical approach by forecasters, such as those at the Urban Institute and the Congressional Budget Office is to take Medicaid enrollment data from a single year or a narrow window of time and "flat-line" the data to project future Medicaid expenditures.

¹ The Heritage Foundation, "The Supreme Court's Medicaid Decision: The Obamacare Mess Just Got Messier" (July 11, 2012) <http://www.heritage.org/research/reports/2012/07/obamacare-fallout-from-the-supreme-court-and-medicaid-expansion>

This approach is not satisfactory, especially considering past growth in Oklahoma's Medicaid population.² Oklahoma's Medicaid enrollment has increased by 50 percent in just the past 12 years, and the cost to state taxpayers has jumped by more than 161 percent. Total Medicaid spending in Oklahoma is above \$4.4 billion, and state taxpayers pick up more than \$1.29 billion of that tab.

But even forecasters who apply some expectation of growth to the state's Medicaid population as a whole often do not provide a full picture of how Oklahoma's Medicaid expenditures could balloon if the state were to expand its Medicaid population as prescribed in the President's health care law.

In May 2011, OCPA released a study, in collaboration with the Cato Institute, projecting Oklahoma's Medicaid expenditure growth under the PPACA.³ The study projected that, during the first full decade of the law's implementation (2014-2023), Oklahoma's Medicaid costs would increase by a 10-year total of \$11.4 billion. This is only what state taxpayers would be on the hook for, and does not include the federal government's matching funds.

The study explained that the expected cost increases would come primarily from two areas: (1) persons previously eligible, though not registered, for Medicaid who decide to sign up to comply with the PPACA's "individual mandate" for all citizens to have a certain level of health coverage, and (2) from the law's expansion of Medicaid to all citizens under 133 percent of the federal poverty level.

The approach OCPA and Cato took in their study to answer the question of how Medicaid costs would increase as a result of the Medicaid expansion is considerably different from the methods described earlier.

The projections in the OCPA study were estimated using historical trends from micro-data sources, pulling from apolitical databases such as the U.S. Census Bureau, the Medicaid Statistical Information System State Datamart, the Oklahoma Health Care Authority and the Bureau of Labor Statistics.

In addition to considering the possibility of growth in Medicaid with or without the expansion, the key difference in the projections in the OCPA study, as opposed to those described earlier, is that the OCPA projections were based not on growth in Oklahoma's Medicaid population as a whole, but on a dis-aggregated approach, projecting growth for individual, distinct population groups within the larger Medicaid population. Looking at the equation from this perspective, some groups, based on historical trends, are likely to see positive growth, while some may see negative growth. This makes a difference when considering the impacts of expansion.

The OCPA study took things a step further, though, and used historical data to project rates of change in consumption of health care services by these different population groups. All these components together provide a more complete and realistic picture of what Oklahoma taxpayers should expect if President Obama's Medicaid expansion is adopted by Oklahoma policymakers.⁴

Using these methods, OCPA and Cato projected that, of the expected \$11.4 billion increase in Oklahoma's Medicaid spending during the first decade after the PPACA takes effect (2014-2023), \$1.6 billion would be attributable to the adoption of the law's Medicaid expansion.

However, this \$1.6 billion would not be spread over 10 years, but over seven, as the feds pay the full tab of the expansion for the first three years. And because the federal government will phase down its contribution over

² Jonathan Small, "Medicaid Expansion is the new SQ 744," *Oklahoma Gazette* (November 7, 2012) <http://www.okgazette.com/oklahoma/article-16774-medicaid-expansion-is-the-new-sq-744.html>

³ Oklahoma Council of Public Affairs, "Projecting Oklahoma's Medicaid Expenditure Growth Under the Patient Protection and Affordable Care Act" (May 18, 2011) <http://www.ocpathink.org/articles/1179>

⁴ Oklahoma Council of Public Affairs, "OPI report on Medicaid growth projections under Obamacare less than enlightening" (October 26, 2011) <http://www.ocpathink.org/articles/1561>

those seven years, just looking at the average cost increase per year is not enough.

According to the projections by OCPA and Cato, the increase to Oklahoma taxpayers as a result of the Medicaid expansion would be \$143 million in 2017, the first year in which the state would pick up a portion of the expansion costs. By 2023, when Oklahoma is paying a full 10 percent, the additional burden would be \$323 million.

Here are the projections from OCPA and Cato for the progression in Oklahoma's Medicaid costs, attributable to expanding the program, over the seven years in question:

- 2017 - \$143 million in new state Medicaid spending
- 2018 - \$164 million in new state Medicaid spending
- 2019 - \$187 million in new state Medicaid spending
- 2020 - \$214 million in new state Medicaid spending
- 2021 - \$245 million in new state Medicaid spending
- 2022 - \$282 million in new state Medicaid spending
- 2023 - \$323 million in new state Medicaid spending
- Total: \$1.6 billion over seven years

This is growth in state Medicaid costs above and beyond the cost increases Oklahoma's Medicaid system is expected to see anyway, regardless of the effects of the PPACA. When you combine Oklahoma's current level of Medicaid spending, expected natural growth in state Medicaid costs, additional costs attributable to the effects of the PPACA individual mandate, and the costs associated with Medicaid expansion, the total costs of Oklahoma's Medicaid program incurred by state taxpayers in 2023 will be roughly \$6.5 billion -- almost the exact amount of Oklahoma's most recent entire state appropriated budget.

Clearly, in the midst of a sputtering national economy,⁵ spending increases of this magnitude would likely make it impossible for Oklahoma policymakers to consider increasing funding to commonly-accepted "core" state service areas such as transportation infrastructure, education and public safety, or reducing the tax burden on Oklahoma job creators and families.

Oklahoma policymakers -- and Oklahoma citizens -- have a choice: (1) accept President Obama's prescribed Medicaid expansion and incur significant new costs to dump more of your fellow Oklahomans into a failed and unsustainable entitlement program, or (2) reject the Medicaid expansion and pursue solutions at the state level for reforming Medicaid⁶ that would allow Oklahoma to work around the roadblocks set up by the Obama administration and begin to bring our entitlement issues under control ourselves. ✪

⁵ *The Wall Street Journal*, "Investment Falls Off a Cliff," (November 19, 2012) http://online.wsj.com/article/SB10001424127887324595904578123593211825394.html?mod=WSJ_hpp_LEFTTopStories

⁶ Foundation for Government Accountability, "A Medicaid Cure: Florida's Medicaid Reform Pilot" (November 10, 2011) <http://www.floridafga.org/2011/11/a-medicaid-cure-floridas-medicaid-reform-pilot/>