

## Medicaid Expansion and Entitlements

### Tom McGillvray

#### **What are the basic facts about Medicaid Expansion in Montana?**

1. Approximately 96,000 people have gained access to free or nearly free healthcare benefits and services in Montana. The plan has no deductibles and covers dental, vision, prescriptions and in and out-patient medical costs. [Medicaid expansion services provided Medicaid Expansion enrollment](#)
2. Work is not a requirement to access these services. There are attempts with legislation being drafted to require work or community engagements to qualify. However, engagement requirements include volunteering, work training, taking care of children or disabled adults, receiving unemployment benefits, 80 hours of work/ month, etc. Self-verification of work is likely to be instituted.
3. Income below 138% of the federal poverty level qualifies one for the program (\$35,500 for family of four or \$17,200 for an individual) [poverty-level.html](#)
4. Montana's annual cost to the federal and state taxpayer is approximately \$750 million. [2021 biennium report](#) page 13.
5. The average annual cost per person receiving Montana Medicaid Expansion is approximately \$7,800 per person (\$750 million/96,000). Nationally spending on Expansion is about \$6,400 per person. [UM BBER](#)

#### **What is the basic difference between traditional Medicaid and Medicaid Expansion?**

1. Traditional Medicaid was enacted in 1965 and serves vulnerable populations such as pregnant women, blind, disabled, mentally ill, children, and the elderly. Income and asset tests are required to qualify. There are 149,000 Montanans receiving traditional Medicaid benefits per the Montana legislative Fiscal Division as of July 2018. Annual cost is about \$650 million per year. [Medicaid costs 2018-2021](#)
2. Medicaid Expansion expands traditional Medicaid to cover eligible individuals and families regardless of disability (the able-bodied) or employment for those under 138% of the federal poverty level. No asset test is required.
3. **Nearly 25% of the population of Montana** accesses Medicaid or Medicaid Expansion.

#### **What is the federal current and projected costs for Medicaid and Medicaid Expansion?**

1. The cost of Medicaid for 2018 is expected to be approximately \$590 billion, reaching \$1 Trillion in 2026 [Medicaid Actuarial report 2017](#)
2. Medicaid Expansion costs for 2017 was \$71 billion
3. Federal costs between 2017 and 2026 for Expansion is expected to be \$855 Billion, reaching \$120 billion per year in 2026. (page 19 same link as 1 above).

## Fiscal concerns:

1. Current Federal spending is \$4.4 Trillion with deficits approaching \$1 trillion per year. National debt is \$22 Trillion <http://www.usdebtclock.org/>. This is approximately 106% of GDP ranking the US 12<sup>th</sup> in the world for debt to GDP. China owns approximately 33% of US Debt. [2017 Debt to GDP Top 10 countries](#)
2. Medicaid Expansion is projected to add nearly \$1 Trillion to debt over the next 10 years.
3. Federal dollars make up 43% of Montana's budget. [2021 Biennium report](#)
4. Medicaid and Medicaid Expansion will approach 41% of total budgeted expenses in the 2021 biennium. Education and Medicaid are now consuming over 60% of the state budget.
5. **Fraud waste and abuse:** As much as \$78 billion [federalsafetynet.com/welfare-fraud.html](http://federalsafetynet.com/welfare-fraud.html) to \$140 billion per year by some estimates is lost in entitlement and Medicaid fraud waste and abuse. This is staggering considering that Medicaid spending was \$590 billion in 2017. [nationalreview.com/medicaid-fraud-140-billion/](http://nationalreview.com/medicaid-fraud-140-billion/).  
A recent Louisiana audit found the state misspent \$85 million between 2016-2018 on Expansion participants that did not qualify for benefits under their Expansion program. In the private sector, someone would be fired, and the business fails. In the public sector, this is business as usual. [Louisiana-Medicaid-misspending-sparks-probe](#)  
Kalispell Regional Hospital was caught with their hands in the cookie jar and settled for \$24 million this year. Bozeman Deaconess \$10 million and on it goes. How much goes undetected? Kalispell Regional received \$116 million in state Medicaid payments over 2 years and yet they sought to scam the system. Did anyone individual who participated in the scheme lose their license, go to jail, get a fine? No. Yet the legislature is considering reupping the anti for \$1.5 Billion in the 21 biennia.
6. The total all funds budget for the Department of Health and Human Services for Montana is \$6.1 billion dollars or 44% of all state spending.
7. **Perverse Incentives:** Medicaid Expansion matches \$9.00 federal for every \$1.00 (in 2020) the state chips in. The original match was \$10 to \$0. States have therefore (craftily) shifted previous matched dollars at approximately 66% (Traditional Medicaid, Hospital Utilization Payments) to Expansion, thereby taking advantage of the higher Federal match rates. Proponents say this is "free" money. It is not free, and it is not without cost to Montana taxpayers. This is like saying we are going to save Montana taxpayers money at the expense of American taxpayers. Disingenuous logic.

## **Do the economic arguments for Expansion make sense?**

1. Economic growth: Proponents point to significant positive economic benefits as a result of Medicaid Expansion. [UM BBER Medicaid Expansion](#)
  - a. \$500 million per year in healthcare spending
  - b. 5,000 new jobs 280 million in personal income

- c. Reduced crime (not in cities like Billings)
- d. Self-reported better health
- e. Increased participation in the labor force (yet this is a booming economy too).

The study only looked at 15 to 16 change. Expansion started in 2016.

2. This study was **funded** by the Montana Healthcare Foundation and the Headwater Health Foundation of Western Montana. If two oil companies funded a study on the benefits of fossil fuel subsidies would someone cry foul?
3. The study suggests a net fiscal impact of +\$16 million to the state. Of course, the cost of \$750 million per year to stimulate this is ignored, by choosing to only factor in state costs of \$60 million.

**Give any industry** \$750 million per year in subsidy and you should see positive fiscal impacts in jobs and benefits. To suggest that we continue to borrow and spend to subsidize any industry is debatable. Ultimately, subsidies and government programs engender waste, inefficiency, and abuse. Medicaid has been fraught with abuse for decades, and it grows worse. If you believe you help people in the long run by giving them everything, you have never raised children, or perhaps you don't believe your kids are like everyone else. My daughter, after she was grown and had her own house told me to "turn out the lights when you come upstairs". I forgot. She asked me, "did you turn out the lights"? I replied "no, but that is for the 1,000 times I told you to turn out the lights when you were a kid and you never did." Until you are paying the bills you tend to waste, have little appreciation for the cost and the benefits are often taken for granted.

We must also ask if the US can continue to spend at its current pace and not face fiscal consequences? We have been fortunate that we have had no financial shocks to our country in the last 10 years. However, we are long in the growth cycle and a recession is only a matter of time. Our world is a turbulent place. We have not faced a war with a major power in 75 years, but what if? Before WW II debt stood at 45% of GDP, after at 119% of GDP. The US is in a precarious fiscal position with debt at 10% of GDP. US Debt grows at approximately \$100 million dollars per hour! There is little margin to fight a major war or withstand economic shock without substantially cutting entitlements. Then what?

### **Will "community engagement" requirement added to Medicaid Expansion control costs?**

Attempts to make Expansion more palatable by adding work requirements, income standards, asset tests or other "community engagement" requirements such as taking care of kids, elderly, picking up trash etc. may do little to control costs and won't change the fundamental fiscal problems in the long term. Adding these requirements may make one feel better but will not significantly add to the work force or cut costs. People choose to work because they want to, not because a government bureaucrat preaches, shames or offers an incentive bribe in the

form of healthcare. In fact, programs such as Medicaid Expansion are a disincentive to work, so work requirements are in tension with the incentives in the bill itself to not work (see below).

Community engagement requirements as is being proposed in current legislation may defray costs, but ultimately this simply cedes ground to a single payer system. The result of the single payer system is rationing. This means the government will decide the value of life based on cost.

### **Are we really helping those in poverty by adding another entitlement?**

Will adding Medicaid expansion to the multitude of anti-poverty programs in America reduce poverty? What has been the history? The US spends over \$18,000 per person in poverty on a plethora of anti-poverty program up from \$1,437 in 1967. Yet the percentage of folks in poverty since the creation of the “Great Society” programs of 1965 has hovered between 12- and 15% for the entire time. <http://federalsafetynet.com/poverty-and-spending-over-the-years.html>. Let’s do the math:  $\$18,000 \times 4 = \$72,000$  for a family of 4. Poverty level for a family of four in 2018 is \$25,100. Does this make any sense? The tangled hairball of entitlements put together piecemeal through the years is burdened by fraud and waste, has spent trillions of dollars and has not changed the percentage in poverty. In fact, the US has spent nearly 3 and a half times the combined cost of all military wars in US history on anti-poverty programs without moving the needle on the percentage of Americans in poverty. We should think again before adding another program.

There is a premise that no matter the cost, a prosperous nation has a moral obligation to relieve poverty. It is suggested that those at the top or the bottom are there by circumstance not of their making and not by industry or indolence. Even if you grant these premises we must ask, has the welfare state to this point been successful in its endeavor to alleviate poverty?

For those ambitious enough to track the historical and statistical narratives on the white poor in England, the black, white and indigenous poor in American, or wherever the welfare state has redistributed wealth created by free market prosperity we find that the state has not delivered on its promises of “social justice”. On the contrary, it has delivered unemployment, crime, intergenerational poverty, a single parent family and cultural ruin. (Suggested reading: “Life at the Bottom” by Theodore Dalrymple and “Wealth, Poverty and Politics” by Thomas Sowell).

The success formula suggests that if you get an education (degree or trade skill) marry and then have children you will most likely avoid poverty. If you go in the opposite order, you will most likely be in poverty. What we have seen since the 60s is that poverty programs tend to create disincentives for marriage. Rather than marry and face a marriage penalty, couples will choose not to marry. Or, put another way, who needs a wife or husband when you have the state providing? There is a clear correlation between poverty and single parent families. The number of couples who never marry and who have had babies out of wedlock, has increased nearly every year since the great society of 1965. This creates and even greater strain on

entitlement programs as families in single parent households struggle. Review the following links for source material and more information:

<https://yaleglobal.yale.edu/content/out-wedlock-births-rise-worldwide>

<http://www.aei.org/publication/do-welfare-programs-discourage-marriage/marriage-americas-greatest-weapon-against-poverty>

### **Anti-poverty programs discourage work and moving up to higher income levels**

Assume we have a hypothetical family of 4 at 138% of poverty in Montana (\$35,500 in annual family income). Two married adults with two pre-school age children would be eligible in Montana for the following programs (and other federal programs) in addition to Medicaid Expansion:

- a. **LIEHAP:** energy assistance programs if under 150% of poverty (\$38,625 for a family of 4). The benefit available is \$107.00 to \$3,345 per year. [LIEAP benefits](#)
- b. **Childcare:** Childcare assistance for under 150% of poverty or \$38,625 for a family of 4. Assistance at 138% of poverty would be about \$6,300 per year for a 2-child family assuming childcare costs were a Billings average of \$14,880 year for 2 children or \$620/month per child. [Childcare Scholarships](#)
- c. **WIC:** Women, Infants and Children, food assistance for under 185% of poverty (\$47,637 for a family of four) [WIC benefits](#)
- d. **SNAP:** (food stamps) for under 200% of poverty or \$51,500 for a family of 4. The average cost in MT is \$5,600 for a family of 4 per year) [HMK benefits](#)
- e. **CHIP:** Average cost per child in MT is \$3,500.00. CHIP is available for families under 250% of poverty or \$64,375 for a family of 4. [CHIP benefits](#)

Therefore, this hypothetical family would be eligible to receive either directly or indirectly approximately \$34,560 in benefits from the state. Because of the way these benefits “cliff” out, there is a clear disincentive to move up in family income. A family who increases their income just \$1,000.00 moving them above 138% would become ineligible for Medicaid Expansion. Consider the lost benefits at the following income increases:

- f. Increase household income \$1,000: Lost benefit is Medicaid Expansion or \$15,600 for the two adults.
- g. Increase household income by another \$2,100: Lost benefit is Child care assistance or \$6,360 per year and LEIHAP or another potential \$2,000 per year.

Our family by increasing income by \$3,100 per year has now lost approximately \$23,960 in benefits. They would need a raise in income of nearly \$24,000 to \$59,500 to make up for lost state benefits. However, if they did receive this raise this would make them illegible for SNAP

- h. The average per person SNAP benefit in Montana is \$1,400 per person. Assuming they are receiving the average, this would be \$5,600 in household benefits. By

increasing income by \$24,000, they have now lost SNAP costing a total of \$29,560 in lost benefits.

However, if they made up the loss of \$29,560 in benefits with a salary increase to \$65,060 (\$35,500 + \$29,560) they will now lose \$7,000 in CHIP benefits (\$3,500 per child). This \$29,560 raise has cost them \$34,560 in benefits. However, this does not count the cost of the taxes on the \$29,560 increase in income. Let's just say they pay ZERO in federal income taxes and pay 7% state income taxes on the increased income. The payroll taxes would be about 7.5% (double that if there was a state or teachers defined benefit plan). Therefore, they would pay a minimum of \$4,286 in taxes on the increased income, making the net increase in salary \$25,274 (\$39,560-\$4,286) and a loss of \$34,560 in total benefits.

However, this is not the entire story. The family increased \$25,274 in net income, but now needs to buy health insurance on the exchange. Using the gross new household income of \$65,060 what is the cost of health insurance on the exchange?

- i. The cost is \$19,490 per year with a \$13,869 tax credit. Net family cost is \$5,621 per year. However, there is a potential of \$7,900 of out of pocket costs for the family if the purchased a silver plan. [exchange calculator](#)

Assuming the family has a medical event that maxes their out of pocket costs, their cost including premiums is \$13,521.00. Here are the costs the family must incur to replace their lost state benefits with their increase of \$25,274 in income:

- j. \$13,521 health insurance and potential medical costs (due to deductibles and co-pays)
- k. \$5,600 in SNAP Payments
- l. CHIP Costs (under J health insurance costs)
- m. \$6,360 in childcare subsidy.
- n. \$2,000 in energy assistance
- o. WIC benefits are unknowns as well as potential section 8 housing subsidy.
- p. Marriage penalties are not taken into consideration, benefits could be increased if the couple was not married.
- q. Total costs: \$27,481.

What has happened? The effective tax rate on the increase in income for this family is over 108%. Did this family have incentive to move up in income? It is hard to see it. In addition, they are likely to forgo medical coverage even with the strong federal tax credit. This creates a situation for the non-working medical insurance costs are paid by the taxes of the working who are unable to afford health insurance for themselves.

### **What are the alternatives to Medicaid Expansion and entitlements as we know them?**

1. The federal government needs to stop the perverse incentive match scheme. To control federal cost, states should be given block grants and eliminate matches. This promotes responsibility, innovation and stops the perverse incentive to spend more to get more.
2. Legislators need to step back and review free market alternatives to reduce healthcare costs and affordability of health insurance. When there is freedom there is progress. We need faith in a system that has made America the most prosperous nation in the world over the last 240 years, even for those in “poverty”. Let’s be honest. Poverty in the US has no comparison to the poverty of countries that do not live under the banner of freedom. Visit Nepal or Venezuela both under Communist governments. The free markets can effectively supply cost effective insurance options to low income families if they are given the freedom to innovate free from federal controls which have created the excessive cost structure of insurance.
3. Realize the current mix of anti-poverty programs are not working. They have destroyed intact families and created an entitlement and victimization culture. There are better ways to help those who want to get out of poverty and promote marriage and intact families. Current programs are a clear disincentive to work. Programs should be changed from a cliff out philosophy to a phase out progression to encourage work and advancement.
4. For programs that we do have, including Medicaid Expansion, we need to expect something in return from those receiving the benefit. Those who provide the benefits work and pay taxes to provide the benefit, do they not? The able-bodied who receive the benefits should likewise work or be doing something for the substantial benefit they receive.
5. For anti-poverty programs there is help that is **not** helpful and that which is helpful. We must seek to provide help that is helpful. We all want families and individuals to move from lower to higher income levels. However, sometimes programs are developed in ways that impeded the progress of families to move to higher income levels and disincentivize intact families. We must all work to understand the inherent flaws in programs and work for change.

Why has healthcare cost risen so sharply?

<https://www.thebalance.com/causes-of-rising-healthcare-costs-4064878>

[http://www.ncsl.org/research/health/health-insurance-premiums.aspx#2019\\_rates](http://www.ncsl.org/research/health/health-insurance-premiums.aspx#2019_rates)

**\*Note from Author:** I served in the state legislature from 2005-2012. I am currently working as Aide to the President of the MT Senate and Chief of Staff. I have sought to provide links to sources and be accurate on information provided. However, entitlements are complex and different sources may contain conflicting information. Appropriated dollars come from multiple federal and state sources, and poverty levels and eligibility requirements frequently change. Anyone encountering an error, seeking clarification or wishing to ask any question may contact me at: [tvmcgillvray@gmail.com](mailto:tvmcgillvray@gmail.com). I have written in a spirit of inquiry and welcome constructive input.

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