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Government Report Finds That Obamacare Medicaid Enrollees Much More Expensive Than Expected

The Department of Health and Human Services' (HHS) annual report on Medicaid's finances contains a stunning update: the average cost of the Affordable Care Act's Medicaid expansion enrollees was nearly 50% higher in fiscal year (FY) 2015 than HHS had projected just one year prior. Specifically, HHS found that the ACA's Medicaid expansion enrollees cost an average of \$6,366 in FY 2015—49% higher than the \$4,281 amount that the agency projected in last year's report.

The government's chief financial experts appear not to have anticipated how states would respond to the federal government's 100% financing of the cost of people made eligible for Medicaid by the ACA. It appears that the enhanced federal funding for the ACA expansion population has led states to set outrageously high capitation rates—the amount government pays insurers—for the ACA Medicaid expansion population. The rates are much higher than the amounts for previously eligible Medicaid adult enrollees and suggest that states are inappropriately funneling federal taxpayer money to insurers, hospitals, and other health care interests through the ACA Medicaid expansion.

The magnitude of HHS' error reveals a major flaw in the government's ability to estimate the ACA's costs, and worse, that the actual costs of the ACA's Medicaid expansion appear much higher than expected. Both problems require the immediate attention of policymakers.

Medicaid Expansion Enrollees Are Much More Expensive Than Expected

Most experts, particularly proponents of the ACA, projected that newly eligible adult enrollees would be less expensive than previously eligible adult enrollees. For example, HHS' financial and actuarial experts projected that adult Medicaid enrollees made eligible by the ACA would be 30% less costly than previously eligible adults enrolled in Medicaid. Apparently, their models did not account for states responding to the incentive of the elevated reimbursement rate to spend freely.

In last year's Medicaid report, HHS estimated that newly eligible adults had an average cost 19% higher (\$5,517) in FY 2014 than the average cost for previously eligible adults (\$4,650). In projecting future per enrollee costs, HHS' experts assumed "that the effects of pent-up demand and adverse selection" would substantially diminish after 2014. HHS projected that the per enrollee cost of the newly eligible adults would decline by 22% in FY 2015 and would be about 11% less than those for other previously eligible adults.

It turns out that those projections were way off. Instead of a decline in per enrollee costs from FY 2014 to FY 2015, the newly eligible adult per enrollee cost increased significantly, reaching an estimated \$6,366. HHS now projects that the newly eligible adult Medicaid enrollees will cost about 23% more than the previously eligible Medicaid enrollees in FY 2015. It is worth noting that pregnant women are included in the previously eligible Medicaid enrollment category; without them, the differences would be even more pronounced.

According to the 2015 report, HHS' actuaries and financial experts expected much lower managed care capitation rates for the ACA expansion population than occurred. But, the higher payment rates should not be too surprising given the incentives created for states by the elevated federal reimbursement rate for the expansion population.

The elevated rate presents states with an incentive to create high fees for services commonly used by expansion enrollees, as well as high capitated payment rates for the insurers participating in Medicaid managed care. The health care interest groups within the states, particularly hospitals and insurers, benefit from the higher rates while federal taxpayers are left footing the bill. Although HHS expects that a risk sharing program will return money to the government (HHS expects the federal government will receive 9% of the payments back to lower the per enrollee costs of newly eligible enrollees to \$5,001 and \$5,796 respectively for FY 2014 and FY 2015), risk sharing creates an incentive for insurers to spend freely since unspent funds generally have to be returned. Moreover, the elevated federal reimbursement rate removes the incentives for states to make sure that insurers are not overspending on providers since overpayments come at the expense of federal, not state, taxpayers.

ACA's Medicaid Expansion Costs Are Increasing

In the 2015 report, HHS indicated that Medicaid spending reached \$554.3 billion in FY 2015—5% higher than its projection (\$529.0 billion) for FY 2015 from the previous year's report and 12.1% above FY 2014 spending. In March, before the release of this new data, the Congressional Budget Office (CBO) increased its projection of federal spending for Medicaid by \$146 billion over the 2016-2025 period—a substantial escalation from its projection just one year earlier. According to CBO, “the number of people estimated to have been enrolled in Medicaid in 2015 who were made eligible for the program by the ACA was significantly higher than ... previously projected.” As CBO digests the much higher per expansion enrollee costs, its future estimates of Medicaid's costs will undoubtedly increase.

Congress Needs to Act

Recent evidence that new Medicaid enrollees only receive about 20 to 40 cents of benefit for each dollar of spending on their behalf and that Medicaid expansion in Oregon was not related to significant health improvements have already prompted major concerns about the ACA Medicaid expansion. The much higher than expected costs of ACA Medicaid expansion enrollees should increase concern about the ACA Medicaid expansion and should prompt robust oversight from federal policymakers. There is much work to be done after these troubling findings. As a start, HHS should make all the data available, including the average costs of expansion enrollees by state. In addition, Congress should closely scrutinize managed care contracts that states are making with insurers as well as any actions that HHS is taking to guard against outrageously high federal payments for the expansion population.