

# WebMemo



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## The Baucus Medicaid Provisions: The Senate's Massive Welfare Expansion

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One issue in the Baucus health care bill has not received the attention it deserves: Half of the reduction in the uninsured will result from the enrollment of millions of Americans in Medicaid.

Expanding Medicaid is not reform. Americans across the political spectrum who are being promised health reform will, if Congress gets its way, be stunned to find themselves in a welfare office applying for Medicaid and then searching desperately for doctors who will accept their Medicaid card.

Congress is proposing the single largest expansion of an entitlement program since Medicare and Medicaid were created in 1965. Medicaid does not have enough providers in the existing program; adding more people to a flawed system would only compound the problem.

**90 Million People on Medicaid/SCHIP.** Under the current baselines for Medicaid and the State Children's Health Insurance Program (SCHIP), there will be 76 million individuals served by these programs for at least some part of the year in 2019. Under the Senate Finance Committee proposal, the number on Medicaid/SCHIP will top 90 million.

The majority of these individuals will be young and healthy. Keeping them on welfare rolls will shift even more costs to individuals and families buying health insurance, as doctors and hospitals recoup their losses from Medicare/SCHIP by charging more to the privately insured. In effect, the congressional policy seems to be to expand dependency by discriminating against individuals based on their income.

Congress will also create new inequities among working families. Individuals covered through Medicaid, the new exchanges, and current employer coverage would be paying significantly different amounts for their health coverage.

**Senate Finance Reverses Course.** Under Senator Max Baucus's (D-MT) original proposal, the Congressional Budget Office (CBO) estimated that 11 million individuals would be added to Medicaid/SCHIP by 2019 at a federal cost of \$287 billion.<sup>1</sup> After the Baucus plan was amended, CBO estimated that 14 million individuals would be added to Medicaid/SCHIP at a federal cost of \$345 billion.<sup>2</sup>

CBO has not released its assumptions about the impact on Medicaid enrollment due to other factors such as "crowd out" (the substitution of public funds for private expenditures and loss of private coverage) and how employers will treat dependents in reaction to the employer provisions in the legislation. Thus, the increased Medicaid/SCHIP enrollment is likely understated, as has historically been the case.

Under the original Baucus plan, Medicaid eligibility was expanded to non-disabled adults (childless adults as well as parents of children on

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Medicaid) with income up to 133 percent of the federal poverty level (FPL).<sup>3</sup> However, individuals with income between 100 percent and 133 percent of the FPL would have also been eligible for the new subsidies and, beginning in 2014, could have chosen to receive coverage through the exchange rather than Medicaid. In effect, the maintenance-of-effort requirement on states would drop back to 100 percent of the FPL.<sup>4</sup>

SCHIP eligibility would have been increased to 250 percent FPL, but subsidies would have been provided through the exchange. States were given additional federal funding through enhanced match rates. But even with the additional federal funding, Medicaid expansion would cost states an estimated \$37 billion.

In the committee's markup, states would be allowed to raise Medicaid eligibility above 133 percent FPL, and SCHIP is continued to 2019.<sup>5</sup> States could expand SCHIP eligibility to higher income levels and would receive new enhanced match rates. Current law benefits and cost-sharing limits would be continued. Until actual legislative language is available, it is unclear whether use of the exchange is a state choice or an individual choice or how SCHIP financing through 2019 will be provided.

Most disturbing, however, is why the Finance Committee reversed course and put more people into Medicaid and SCHIP rather than covering them through tax credits and allowing them to get private health insurance if they want it. In truth, the committee probably elected to expand Medicaid not because it is better but because it is cheaper—at least on paper.

Medicaid pays providers 20–25 percent less than does the private sector, forcing doctors and hospitals to subsidize Medicaid through lower rates. This deters providers from participating in the program, creating a lack of access that itself is a form of rationing. Of course, putting more people into Medicaid will ultimately make the access problem even worse.

In addition, the pharmaceutical manufacturers who thought they had cut a deal with the White House will find themselves paying additional rebates to Medicaid.

**Even More Expansion?** As the Obama Administration negotiates the final legislative package behind closed doors with the House and Senate leadership, taxpayers can rest assured that final decisions on Medicaid will not be resolved until the last minute. If Congress needs to find additional “savings” for the overall legislative package, it may do so by expanding Medicaid even more, perhaps for persons with incomes up to 150 percent of FPL (\$16,245 annually).

Although final decisions have not been made, states have already been warned by congressional staff of the potential to put millions more onto Medicaid beyond the current estimates. How much federal support will be available through enhanced match rates is also up in the air. The cynical exercise of pitting state against state in a formula fight should be a wake-up call to the governors. It is yet another indication that, as a matter of policy, the legislation is headed in the wrong direction.

**Who “Belongs” on Medicaid?** Medicaid was originally created to provide access to health care for families on welfare. Its mission was expanded

1. Congressional Budget Office, “Preliminary Analysis of the Insurance Coverage Specifications Provided by the Senate Finance Committee,” September 15, 2009, at [http://www.cbo.gov/ftpdocs/105xx/doc10572/09-16-Proposal\\_SFC\\_Chairman.pdf](http://www.cbo.gov/ftpdocs/105xx/doc10572/09-16-Proposal_SFC_Chairman.pdf) (October 15, 2009).
2. Congressional Budget Office, “Preliminary Analysis of the Insurance Coverage Provisions Contained in the Amended Chairman's Mark,” October 7, 2009, at [http://www.cbo.gov/ftpdocs/106xx/doc10642/10-7-Baucus\\_letter.pdf](http://www.cbo.gov/ftpdocs/106xx/doc10642/10-7-Baucus_letter.pdf) (October 15, 2009).
3. The FPL is adjusted annually and is based on income and family size. In 2009, 133 percent FPL is \$14,404 for an individual and \$29,327 for a family of four.
4. See Committee on Finance, U.S. Senate, “Chairman's Mark: America's Healthy Future Act of 2009,” September 22, 2009, p. 42, at [http://finance.senate.gov/sitepages/leg/LEG%202009/091609%20Americas\\_Healthy\\_Future\\_Act.pdf](http://finance.senate.gov/sitepages/leg/LEG%202009/091609%20Americas_Healthy_Future_Act.pdf) (October 15, 2009).
5. See Committee on Finance, U.S. Senate, “Chairman's Mark: America's Healthy Future Act of 2009,” (amended version) at [http://www.finance.senate.gov/sitepages/leg/LEG%202009/100209\\_Americas\\_Healthy\\_Future\\_Act\\_AMENDED.pdf](http://www.finance.senate.gov/sitepages/leg/LEG%202009/100209_Americas_Healthy_Future_Act_AMENDED.pdf) (October 15, 2009), pp. 50–52 and 54–58.

over time through federal mandates and state options. An expansion to all individuals below 150 percent FPL would introduce a new group of young, healthy individuals onto government dependency.

Individuals at 150 percent FPL includes millions who have never been considered “poor” or in need of government assistance. According to the Census Bureau, there are 6.4 million individuals age 18–24 years old living on their own. More than half have income below 150 percent FPL.<sup>6</sup> But the percentage of individuals age 25–34 below 150 percent FPL drops to 24.3 percent.

Do college students and part-time workers really belong on Medicaid? Putting them into Medicaid erodes the sound policy objective of stabilizing the insurance market that would have occurred if these young, healthy lives had been added into the private insurance pool. The health insurers who thought the young, healthy population would help stabilize costs for them will instead lose many of them to Medicaid.

**Lost State Flexibility.** The burden of expanding Medicaid will also fall on the states. The CBO estimates that the Finance Committee plan will cost states \$33 billion over 10 years. Governor Phil Bredesen (D–TN) warns that costs are likely underestimated and could cost his state \$3 billion.<sup>7</sup>

States also face an erosion of their authority to manage their Medicaid programs, as Congress is adding new federal mandates to cover certain bene-

fits and conform their programs to federal standards. The true cost to taxpayers in the states will become apparent only over time.

Many state officials cannot afford their current Medicaid programs; they certainly cannot afford to add 14 million more individuals. Medicaid is already crowding out resources for other state and local priorities such as education, child welfare, public health, and investment in transportation systems and infrastructure. More money for Medicaid means less money for these other priorities.

**Expanding Medicaid Is Not Reform.** The Baucus bill will not lower the cost of health care as the American people were led to believe it would. Budget constraints are forcing more people into Medicaid, with the final number still unknown. Simply forcing more people into Medicaid is not reform. Expanding Medicaid will ultimately shift even more costs to providers and the private sector. It is a giant step backward from what was promised, and it comes at the cost of everything else.

In June, President Obama told Senate Democrats, “As we move forward on health care reform, it is not sufficient for us simply to add more people to Medicare or Medicaid.”<sup>8</sup> Unfortunately, that is precisely what Congress is going to do with the Baucus bill.

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6. U.S. Department of Commerce, U.S. Census Bureau, “Current Population Survey: POV01: Age and Sex of All People, Family Members and Unrelated Individuals Iterated by Income-to-Poverty Ratio and Race: 2008,” at [http://www.census.gov/hhes/www/cpstables/032009/pov/new01\\_150\\_01.htm](http://www.census.gov/hhes/www/cpstables/032009/pov/new01_150_01.htm) (October 15, 2009).

7. Andy Sher, “Bredesen Warns Cost to State Could Exceed \$3 Billion,” *Chattanooga Times Free Press*, October 14, 2009, at <http://www.timesfreepress.com/news/2009/oct/14/bredesen-warns-cost-state-could-exceed-3-billion/?local> (October 15, 2009).

8. Press release, “Remarks by the President before Meeting with Senate Democrats to Discuss Health Care,” the White House, June 2, 2009, at [http://www.whitehouse.gov/the\\_press\\_office/Remarks-by-the-President-before-meeting-with-Senate-Democrats-to-discuss-health-care](http://www.whitehouse.gov/the_press_office/Remarks-by-the-President-before-meeting-with-Senate-Democrats-to-discuss-health-care) (October 15, 2009).