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Health Care Bills' Medicaid Expansion: How States Can Lose the Battle Behind Closed Doors

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Congressional leaders are finalizing the details of the massive health care legislation behind closed doors. Its fate may well depend on state officials willingness to accept the future cost of a massive expansion of the Medicaid program.

Congress and the Obama Administration are relying on Medicaid to cover at least half of those who would become insured. The President and the congressional negotiators seem to understand that opposition from the states could sink health care legislation, so they have proposed various means of having the federal taxpayers pick up a greater share of the cost of the Medicaid expansion.

One of the most important but little discussed issues of adding at least 14 million people to Medicaid is "Who will see them?" It is widely acknowledged that lower Medicaid reimbursement is one of the reasons people on Medicaid have less access to care than other Americans. Earlier this year, researchers at the Urban Institute conducted a study of Medicaid physician fees and acknowledged that "physicians have typically been less willing to take on new Medicaid patients than patients covered by other types of health insurance."[1]

The House Bill. In developing its part of H.R. 3200 (the health care legislation now being reworked behind closed doors), the House Committee on Energy and Commerce implicitly recognized this access problem and therefore proposed to increase payments to primary care practitioners. Section 1721 would raise Medicaid rates to not less than 80 percent of Medicare rates in 2010, 90 percent in 2011, and 100 percent in 2012 and thereafter.

Realizing the states would object to this provision as an unfunded mandate, the committee provided a 100 percent federal matching rate for the increase between a state's current reimbursement level and the new required levels.

State Impacts. Currently, Medicaid reimbursement to physicians is set by the states, which has resulted in wide variation among the states. In presenting budget estimates of the health care legislation, the Congressional Budget Office (CBO) provides Congress with averages and national data. CBO does not produce state-by-state results, which obscures the massive cost shift from state taxpayers to federal taxpayers that the bill proposes.

Insight into the state-by-state impact is found in the Urban study on Medicaid physician fees published in April. On a national basis, the Urban researchers estimate that Medicaid rates to primary care physicians is 66 percent that of Medicare. But on a state-by-state basis, primary care reimbursement varies from 36 percent in New York and Rhode Island to 140 percent in Alaska.

This paper, in its entirety, can be found at:
www.heritage.org/Research/HealthCare/wm2661.cfm

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Who Benefits? The impact of increased Medicaid match rates under Section 1721 may be surprising. Wealthier states such as New York, Rhode Island, and New Jersey currently pay their primary care physicians the least, so they will benefit the most from this provision.

It is unclear whether Congressmen from states that already pay their Medicaid primary care physicians above or near Medicare rates realize that the taxpayers in their states will receive no benefit from this provision while they subsidize the cost of increasing reimbursement in other states.

Reimbursement Roller Coaster. States that already pay their physicians more than Medicare are likely to freeze physician reimbursement for a few years, waiting for the enhanced federal match rate to then pick up the difference. After rates fall below Medicare, they would increase rates again—but this time with 100 percent federal funding.

The Medicaid match rate switch raises another important question: How much of the $1 trillion in new spending simply goes to buying out state budgets or substituting taxpayer funding for private spending? Thus far, CBO has not released that data.

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Winners and Losers of Medicaid Match Rate Provision in H.R. 3200

When Medicaid rates are to be increased to 100 percent of Medicare with 100 percent federal dollars, the top 10 states that will benefit the most from this provision are:

State	2008 State Level for Primary Care as a Percentage of Medicare
New York	36%
Rhode Island	36%
New Jersey	41%
California	47%
DC	47%
Maine	53%
Florida	55%
Illinois	57%
Minnesota	58%
Michigan	59%

States that are already at or above 90 percent of Medicare and thereby receive little or no benefit from this provision are:

State	2008 State Level for Primary Care as a Percentage of Medicare
Alaska	140%
Wyoming	117%
Idaho	103%
North Dakota	101%
Delaware	100%
Oklahoma	100%
New Mexico	98%
Arizona	97%
Montana	96%
North Carolina	95%
Kansas	94%
Nevada	93%
Washington	92%
Vermont	91%
Louisiana	90%

Source: Stephen Zuckerman, Aimee F. Williams, and Karen E. Stockley, "Trends in Medicaid Physician Fees, 2003–2008," *Health Affairs* Vol. 28, No. 3 (2009), w510–w519, at *http://content.healthaffairs.org/cgi/reprint/hlthaff.28.3.w510v1?ijkey=FtFdm/8MJTtuk&keytype=ref&siteid=healthaff* (October 21, 2009).

Table 1 • WM 2661 heritage.org

1. Stephen Zuckerman, Aimee F. Williams, and Karen E. Stockley, "Trends in Medicaid Physician Fees, 2003–2008," *Health Affairs* Vol. 28, No. 3 (2009), w510–w519, at *http://content.healthaffairs.org/cgi/reprint/hlthaff.28.3.w510v1?ijkey=FtFdm/8MJTtuk&keytype=ref&siteid=healthaff* (October 21, 2009).

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