How Medicaid Expansion (and the "Private Option") Will Lock Its Clients into Poverty

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By Dan Greenberg *4/15/13*

Several Arkansas lawmakers have spent a substantial amount of time this session creating and designing their preferred version of Medicaid expansion: they call it the "private option," because it would funnel Medicaid payments through private insurance companies. Legislators who must choose whether to fund Medicaid expansion (whether it is labeled the "private option" or not) should understand the economic catastrophe that such expansion will trigger: namely, *the retarding of economic growth and the trapping of clients into low-wage jobs.*

The Private Option: Old Wine in New Bottles

The "private option" will not create client outcomes that are distinct from Medicaid expansion, and its advocates are mistaken to claim otherwise. Although some lawmakers argue that the private option will have fundamentally different outcomes on clients than Medicaid, these hopes were dashed by a March 29 memo from the Centers for Medicare and Medicaid Services. That "Good Friday" memo made it clear that any Medicaid expansion, whether its benefits flow through private insurance companies or not, would still have to conform to standard Medicaid benefit requirements and cost-sharing limitations:

> *Beneficiaries remain Medicaid beneficiaries and continue to be entitled to all benefits and cost-sharing protections. States must have mechanisms in place to "wrap-around" private coverage to the extent that benefits are less and cost sharing requirements are greater than those in Medicaid.*

In plain English, this means that states which direct Medicaid funds through private insurers will not be able to resort to any more flexibility or experimentation than Medicaid already provides. This means, among other things, that the virtues of competition in coverage that the advocates of the private option had depended on will not be permitted by the federal government. *In other words, any expansion – whether you call it the private option or not – simply gets you a bigger version of the same old dysfunctional Medicaid program.*

The Medicaid budget reforms that Republican lawmakers are advancing are, by and large, worthwhile. Those reforms, however, have little or nothing to do with Medicaid expansion.

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How Medicaid Expansion Traps the Poor

Employers create jobs, and employers hire employees. The expansion of Medicaid will create large incentives for businesses both to reduce the work hours of their employees and to split full-time jobs into part-time jobs. As a general matter, low-wage employees under Medicaid expansion will lose coverage as their wages rise. For instance, a $7.50/hour wage-earner can stay on Medicaid if he or she works less than 42 hours a week; however, any material salary increase will disqualify that worker from Medicaid eligibility rapidly, as the following informal table demonstrates.

Hourly wage:	*Medicaid disqualification threshold: hrs/week*
$7.50	42
$8.00	39
$9.00	35
$10.00	31

Under Medicaid expansion, employees who earn too much money – or who work too many hours – face a set of unpleasant choices. They can quit. They can work fewer hours. They can decline raises. Realistically, a large number of employees who face such choices will opt to preserve Medicaid coverage by reducing the hours they legally work.

Similarly, under Medicaid expansion, employers will face a corresponding set of unpleasant choices. They can split a full-time job between several part-time workers in order to ensure that Medicaid coverage continues. *They will have strong incentives to create entry-level jobs, but not career jobs that reward well-trained or high-performing employees.* Realistically, a large number of employers will structure their workforce so as to shift health-care costs onto Medicaid.

The more detailed table at the end of this paper demonstrates how employers will pay an Obamacare fine – about a 9 to 14 percent increase in labor costs, per employee – if they do not provide health-care coverage. Yesterday, columnist Jason Tolbert announced that he supports Medicaid expansion, in part because he wants Arkansas employers to avoid about $35 million in penalties that they would have to pay for uninsured workers who would otherwise qualify for Medicaid. *Supporters of Medicaid expansion who rely on this argument have made a remarkable admission: namely, that whether we call this the private option or not,*

supporters of Medicaid expansion advocate changes to the Arkansas economy which will lock large numbers of poor people into part-time, low-wage jobs.

Employer avoidance of Obamacare penalties under Medicaid expansion will create a two-tier economy in Arkansas; to put it another way, there will be a "hole in the ground" between low-wage jobs and high-wage jobs that workers will only be able to cross with great difficulty. It will be highly unusual for low-wage employees to leave Medicaid coverage and, instead, receive coverage from their employers. What employer wants to shoulder an additional 9 to 14 percent increase in labor costs, while getting nothing in return?

In short, under Medicaid expansion, Arkansas's economy would begin to resemble the struggling economies of Europe. Europeans face high structural unemployment as a given, because it has grown extraordinarily expensive for employers there to create jobs and hire new employees. (Compare the young-adult unemployment figures in the USA to those of the five largest countries in Europe; the European unemployment figures, pre-recession, were more than 50% higher on average.) This is an inexact comparison, of course, because in fact Medicaid expansion makes it relatively easy for employers to create low-wage, low-skill, part-time jobs. *The creation of jobs that we think of as needed to build a life on and raise a family with, however, will be endangered by Medicaid expansion.*

Notably, Medicaid expansion raises just the same issues as poorly designed "workfare" programs, in which earning too much money disqualifies welfare recipients from receiving benefits. *It is no exaggeration to say that Medicaid expansion (whether you call it the private option or not) presents one of the largest welfare expansions in Arkansas's history, and that it threatens to create its own version of the "welfare trap."*

Why Medicaid Expansion Is a One-Way Street

The advocates of Medicaid expansion argue that Arkansas can try it out for a couple of years, and then discard it if it does not work. The notion that health care benefits can be granted to 250,000 Arkansans and then removed without gigantic political frictions is startlingly naïve. *On average, each member of the Arkansas House of Representatives will be creating 2,500 more clients in his or her own district if the private option is enacted.* Lawmakers who consider Medicaid expansion should remember that it is not only a damaging blow to economic growth, but a one-way ticket to much bigger government.

Last week, the federal government announced that it was delaying the implementation of small business exchanges for one year. Yesterday, the federal government announced that it was increasing uncompensated-care hospital payments for a year by half a billion dollars. These are indisputable signs of recognition by the Obama Administration that the establishment of Obamacare is a difficult and burdensome task that is proceeding much more slowly than planned. It would be a pity for Arkansas lawmakers to race past the federal government with a gigantic expansion of the federal government's role in health care. Regrettably, some advocates of Medicaid expansion are apparently under the impression that enlarging the role of government in our health care system somehow constitutes a vote against Obamacare. They could not be more mistaken.

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	With Medicaid Expansion - Single Adult Without Dependents		
	Maximum Hours to Stay Below 138% FPL		Employer fine for not providing coverage as effective percentage increase in base pay.*
Hourly Rate	Annual	Weekly (50 wks/yr)	
$7.25	2,126	43	13.8%
$7.50	2,055	41	13.3%
$7.75	1,989	40	12.9%
$8.00	1,927	39	12.5%
$8.25	1,868	37	12.1%
$8.50	1,813	36	11.8%
$8.75	1,762	35	11.4%
$9.00	1,713	34	11.1%
$9.25	1,666	33	10.8%
$9.50	1,623	32	10.5%
$9.75	1,581	32	10.3%
$10.00	1,541	31	10.0%
$10.25	1,504	30	9.8%
$10.50	1,468	29	9.5%
$10.75	1,434	29	9.3%
$11.00	1,401	28	9.1%

*If the employer does not provide coverage and the worker is above 138% FPL the $2,000 per worker fine equals a $1/hr increase in labor costs.