

NEED TO KNOW



Medicaid's Expansion under the Patient Protection and Affordable Care Act

In June of 2012, the Supreme Court released its opinion regarding the constitutionality of the President's health care law known as the Patient Protection and Affordable Care Act (PPACA). The Court found the unpopular individual mandate provision to be constitutional under Congress' taxing power, disappointing many conservatives. But at the same time, the Court rejected the Obama Administration's plan to expand Medicaid as crafted within PPACA and instead gave States an option to expand for the first time.

What is Medicaid?

Medicaid was created in 1965 as a health insurance program for low-income individuals, but now is a broken, costly program. Its eligibility has expanded over the years to include the disabled, children and pregnant women. It's a joint state-federal program with the federal government picking up an average of 57 cents of every dollar spent. Medicaid is the single largest item in states' budgets at 22% of spending, even greater than K-12 education. In exchange for federal funding, the states must abide by Washington rules and mandates. States function as the bureaucratic arm of the federal government by implementing their policies with little or no control. Any states that tries to innovate must ask the federal government for permission which is rarely granted.

[For more information on the flaws in Medicaid's design, see American for Prosperity Foundation's Need to Know titled "Medicaid Financing and Block Grants."]

Medicaid Expansion in PPACA

Medicaid under PPACA is expected to expand greatly in 2014, adding an estimated 17 million more individuals to its rolls. All individuals below 133% of the federal poverty level—approximately \$30,000 for a family of four—will be eligible for Medicaid. This expansion puts even greater pressure on already strapped state budgets. So, to encourage participation in the expansion, the federal government offered states a carrot. It will pick up 100% of the cost of "newly-eligible" Medicaid participants for 3 years and up to 90% of the costs after 2020. However, the federal government tied their carrot to a giant stick. Any state that refused to expand would not only be ineligible for the new Medicaid funding, but would lose *all* Medicaid funding.

QUICK FACTS

- 17 million people will be added to the Medicaid system starting in 2014, costing taxpayers an estimated \$465 millionⁱ.
- States must now decide whether or not to expand Medicaid and participate in an increasingly unworkable system.

NOTABLE & QUOTABLE

"In this case, the financial 'inducement' Congress has chosen is much more than 'relatively mild encouragement'—it is a gun to the head."

- Opinion of Chief Justice Robertsⁱⁱ

The Supreme Court's Ruling

Twenty-six states challenged this threat. Previously and most famously in the case *South Dakota v. Dole*, the Supreme Court ruled that a point existed where Congress' funding threats would become so large as to be coercive. With the PPACA ruling, the Court found a spending program from Congress to be coercive for the first time in modern American jurisprudence. Under the original act, the states had no functional choice but to follow the federal government's wishes. Losing billions in federal funding would force any state to participate, and thus the Chief Justice's opinion described the situation as a "gun to the head" of states forcing compliance. The federal government, according to the Court, cannot condition previous Medicaid funding on expansion. As a result, states now have an option whether to expand.

Conclusion

The Supreme Court's ruling on the constitutionality of PPACA recognizes that a limit to Congress' spending power does exist. The ruling gives states the option to expand their Medicaid population in 2014 without being punished by losing *all* Medicaid funding. States must now decide whether to cooperate with the federal government in expanding a broken, costly system.

Spotlight on Illinois' Choice

Medicaid in Illinois provides health insurance to more than 2.7 million residents and costs taxpayers more than \$15 billion a year. Medicaid breaks the bank in Illinois, consuming 25% of the state's total budget. In trying to control the rapid increase in Medicaid spending, Illinois raised taxes multiple times. In 2012, the state government raised cigarette taxes by \$1 a pack to help cover the Medicaid short fall. Additionally, Illinois keeps cutting reimbursements to providers. In fact, it has one of the lowest reimbursements rates of any state. As a result, doctors and hospitals are rejecting new Medicaid patients. Nationally, more than 28% of doctors admit that their practice does not accept new Medicaid patients. In Illinois, this problem is worsened by the fact that the state has almost \$3 billion in unpaid bills to providers.

If Illinois chooses to expand, almost 600,000 individuals are expected to join the Medicaid rolls in 2014. This will cost an additional \$2.5 billion to Illinois taxpayers after the large federal grants by 2019.

How can Illinois afford to expand?

Endnotes:

- i. Holahan, John and Irene Headen, "Medicaid Coverage and Spending in Health Reform: National and State-by-State Results for Adults at or below 133% FPL," Kaiser Commission on Medicaid and the Uninsured, <http://www.kff.org/healthreform/upload/medicaid-coverage-and-spending-in-health-reform-national-and-state-by-state-results-for-adults-at-or-below-133-fpl.pdf>, Accessed July 16, 2012.
- ii. *NFIB v. Sebelius*, 567 U.S. ____ (2012)

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