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# Why Perry made the right call on Medicaid

**By: John C. Goodman & Devon Herrick** **July 25, 2012**

When Gov. Rick Perry announced his opposition to expanding Medicaid, the negative reaction was almost immediate. Our response to the naysayers: Stop, take a deep breath and take a closer look at the issues.

The Affordable Care Act tries to force the states to expand Medicaid to cover most people with incomes up to 138 percent of the federal poverty level. Currently, Texas covers children (and some parents) in families up to the poverty level. However, of all the Texans currently eligible for Medicaid, more than half a million individuals are not enrolled.

Originally, the law threatened to end federal Medicaid funding altogether for states that failed to comply with the expansion. The Supreme Court, however, ruled that this threat is unreasonably coercive. As a result, the states have several choices.

Let's begin with nearly 900,000 uninsured Texans who are expected to have incomes between 100 and 138 percent of the federal poverty level in 2014. If Texas doesn't make them eligible for Medicaid, the federal law will give them another option: private insurance in a health insurance exchange.

For this group, Perry's decision was a no-brainer. Texas could pay the enrollees' share of the premium to encourage their enrollment (it cannot exceed 2 percent of their annual income) and still spend less money than it would under Medicaid expansion.

There's more. Currently, private insurance pays health care providers about 50 percent higher fees than what Medicaid pays, and a recent Congressional Budget Office report expects that difference will continue nationwide for the next decade. That's one reason why fewer than one-third of Texas doctors are willing to see new Medicaid patients. The federal government will reimburse states for boosting Medicaid payments to Medicare levels for the next two years. But after that, Medicaid payments are likely to return to their original level.

Let's assume that 70 percent of the newly eligible population enrolls. If Texas does not expand Medicaid, the state will forgo about $45 billion in federal Medicaid money over the next 10 years. To offset that loss, however, Texas families will gain generous federal subsidies for private insurance — resulting in approximately $65 billion in additional health care spending. This $20 billion difference represents an additional infusion of $2 billion per year, including extra money for the state's doctors and hospitals. (See the accompanying box.)

In addition, if low-wage workers had decent private coverage available through a health insurance exchange, employers would not have to offer health insurance in competition for labor. Instead, they could pay higher wages, resulting in higher take-home pay. Even if employers have to pay a fine of $2,000 per worker, that is preferable, especially for small- and medium-size businesses.

What about Texans with incomes below 100 percent of poverty who are not now eligible for Medicaid? Strangely, the health reform law doesn't permit poorer Texans to enroll in a health insurance exchange. If Texas declines to expand Medicaid to cover them, these folks will be left in a no-man's land, unable to obtain either private or public insurance!

Still, there may be a way out. Texas should join five other states in a proposal to offer coverage to this population in return for a block grant from the federal government — something Perry has endorsed in the past and that has proven successful in Rhode Island. Following a precedent set by welfare reform, the federal government would give the additional Medicaid funds to the states without any further matching requirements and fewer regulations.

Finally, the governor should reconsider his decision to allow the federal government rather than the state to set up and manage the health insurance exchange. Because eligibility for Medicaid can shift several times in one year — a national study estimates more than one-third of adults with family incomes below 200 percent of the federal poverty level will experience a shift in eligibility within six months — the gatekeeper to the exchange will have to make countless decisions about whom to admit and whom to reject. It's better for Texas if that decision-maker answers to the state.

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A better deal

Potential additional medical care Texans could expect with private coverage compared with Medicaid (cumulative total, 2014-23):

2014$1.9 billion

2015$3.8 billion

2016$5.9 billion

2017$7.7 billion

2018$9.6 billion

2019$11.5 billion

2020$13.2 billion

2021$15.1 billion

2022$17.1 billion

2023$19.1 billion

SOURCE: National Center for Policy Analysis