

Why the MIRC Should be Allowed to Complete It's Tasks

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Preface

The MIRC, Medicaid Innovation and Reform Commission, was formed by the Virginia General Assembly during the 2013 Session, by both political parties, as part of mutual agreement to facilitate other legislative agendas, such as the Virginia Transportation bill of the same session.

The purpose of the MIRC is to review, recommend, and approve innovation and reform proposals affecting the Virginia Medicaid and Family Access to Medical Insurance Security (FAMIS) programs, including eligibility and financing for proposals set out in Item 307 in the Department of Medical Assistance Services. Specifically, the Commission shall review (i) the development of reform proposals; (ii) progress in obtaining federal approval for reforms such as benefit design, service delivery, payment reform, and quality and cost containment outcomes; and (iii) implementation of reform measures, click [HERE](#).

The progress-to-date made by the MIRC may be found in a recent report, click [HERE](#). As of the date of the report, the Commission has found approximately \$242 Million dollars in savings for a one-year period. This is approximately one half of 1 percent of the two-year \$95 Billion budget, which is currently stalled in the General Assembly because of the Senate's and Governor's call for Medicaid Expansion to be included in the budget. (It is also 11 % of the \$2.2 Billion in federal money State Senator Hanger requested for Medicaid Expansion.) If the current Virginia Secretary of Health and Human Resources, Dr. William A. Hazel, is correct in his estimate that approximately 30 % of the money spent by the current Medicaid Program is due to waste, fraud, and incorrect regulation applications then there is more work to be done by the MIRC. (Note this 30 % is approximately \$3.135 Billion, annually.)

There are 5 members of the General Assembly's Senate, 2 Democrats and 3 Republicans, and 5 members of its House, 1 Democrat and 4 Republicans, who make up the voting membership of the MIRC. Including the \$2.2 Billion federal dollars, for Medicaid Expansion, in the budget is supported by all 5 of the Senate and opposed by 4, perhaps all 5, of the House.

Arguments for and against Medicaid Expansion

Two primary arguments have been made for Medicaid Expansion and the acceptance of \$2.2 Billion each year from the Federal Government: (1) there are some 400,000 individuals in the Commonwealth of Virginia who, under the current Medicaid Program, do not have medical insurance and are neither eligible for Medicare nor able to pay for private insurance and (2) Virginia is sending money to the Federal Government and if the \$2.2 Billion is not taken then Virginia is losing that money to other States.

First , consider the second argument -

Unlike Social Security and Medicare there is no revenue received by the Federal Government that is specified for Medicaid use. So here is no distinct pot of or amount of money due back to Virginia for the purpose of Medicaid. However, Virginia annually receive money from the Federal Government the amount of which is significantly more than that which the Commonwealth provides to the Federal Government. In 2012 the money each State sent to the Federal Government (federal revenue received) and the amount the Federal Government spent in the respective State are shown in Figure 1. The arrow in the figure points to Virginia.

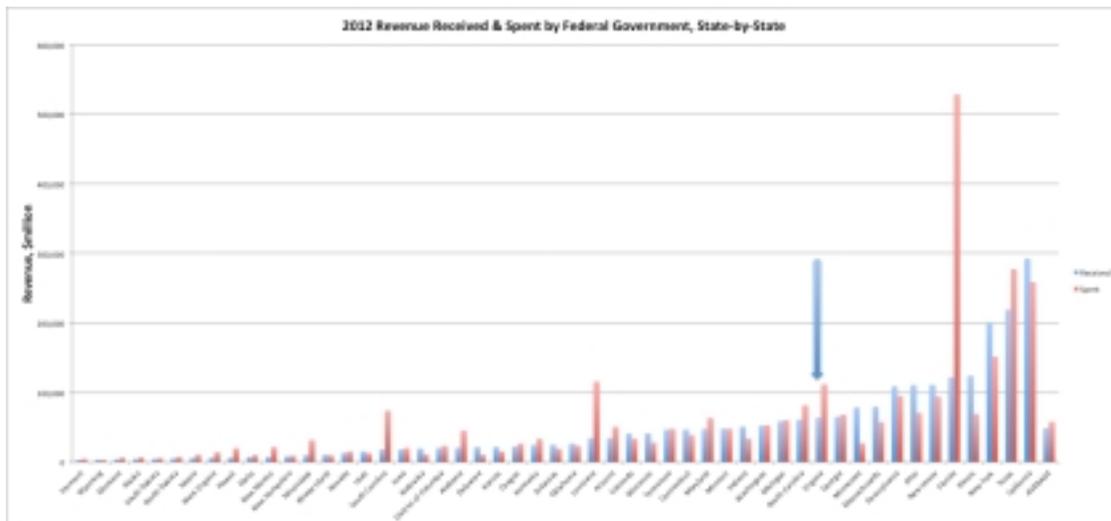


Figure 1 – 2012 revenue received and spent by the Federal Government, for each State.

The blue bars are the revenue, taxes and other sources, provided to the Federal Government by the respective State. The red bars are the spending by the Federal Government in the respective State. Virginia is one of the few States that received significantly more revenue from the Federal Government than it provided: Provided \$64.297 billion and received \$112.114 billion, a ratio of 174 %. (Other data sources indicate that the amount received is as large as \$135 billion.) So clearly Virginia received a significant amount of federal dollars that was provided by other States.)

On the far right of the graph in Figure 1 graph is the 2012 average for all of the States. The average amount spent by the Federal Government in the States exceeded that received by 135 %. That is to say that on the whole the States received 35 % more from the Federal Government than they provided. The total the Federal Government received from the States (revenue) was \$2.512 Trillion. The amount the Federal Government spent in those States was \$2.969 Trillion. The difference or excess spending, \$458 Billion, was money borrowed from other countries, such as China, and domestic bonds. In other words, \$458 Billion of debt which is now part of the total notional debt of some \$17 Trillion.

That the States received more money from the Federal Government than they provided is not unique to 2012. Figure 2 is historical data for Virginia for the period from 2003 to 2012. For the 2003 – 2012 period Virginia received, on the average, 55 % more money from the Federal Government than it provided. For the more recent years, 2009 -2012, the amount has been significantly larger, 81%.

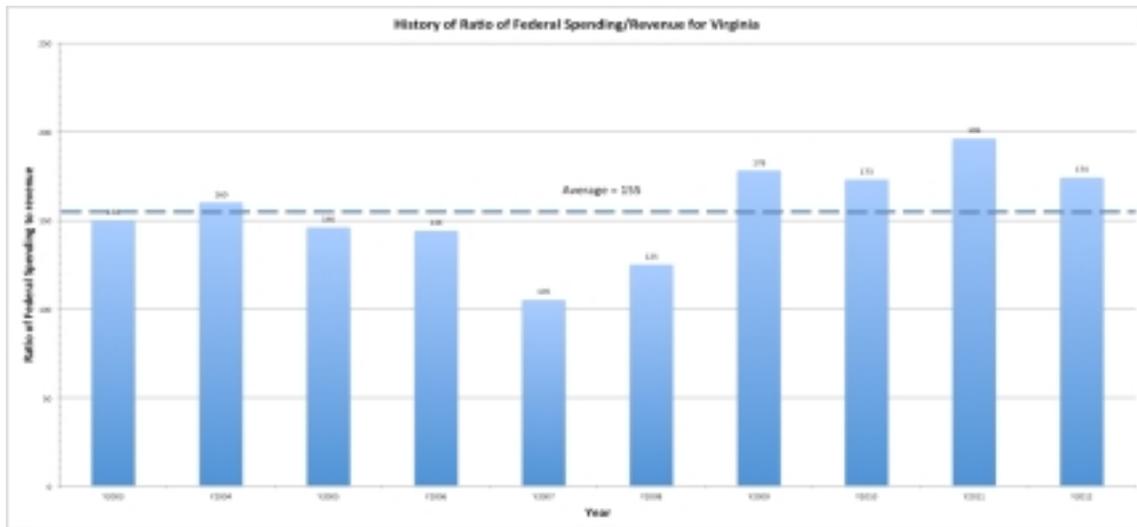


Figure 2 – Ratio of money received by Virginia from the Federal Government to that provided by Virginia to the Federal Government for the period of 2003 – 2012.

These excesses and the resulting debt the Federal Government has accumulated for the period was approximately \$4.5 Trillion. This is a significant portion of the current \$17 Trillion in Federal Government debt. As long as this trend continues the national debt will continue to increase with no remedy in sight. If these excesses continue, and note this does not include Medicaid Expansion, then in 10 years at least another \$4.5 Trillion will be added to the Federal Government debt for a total debt of approximately \$22 Trillion, and this does not include debt incurred for other excessive Federal Government spending. This trend is the basis of the concern for increasing debt and the consequence for either economic failure, and this is with no additional spending such as Medicaid Expansion.

Second , consider the first argument -

The assessment that there are an additional 400,000 individuals in Virginia who need Medicaid but are not eligible for coverage under the existing Medicaid program was an initial one for Medicaid Expansion. The \$2.2 Billion in Federal Dollars, requested by State Senator Hanger, was the amount believed needed for this Medicaid Expansion. Since that initial time assessment of the number of individuals has been reduced to 190,000 – 230,000. Yet the dollar value, \$2.2 Billion, has not been reduced accordingly. This means that instead of the original \$5,500 of annual coverage per an individual (= \$2.2 Billion/400,000) the amount increased from \$9565 (= \$2.2 Billion/230,000) to \$11579 (= \$2.2 Billion/190,000). However, the Kaiser Foundation has determined, for Virginia, that the annual per capita cost of health care expenditures is \$6286, click [HERE](#). But this is for private coverage as well as Medicaid and Medicare coverage. The Federal Government estimates a much smaller cost per Medicaid enrollee, \$2851 for children and \$4362 for adults, click [HERE](#). So based on

Census Bureau estimates of family size, click [HERE](#), the cost of Medicare Expansion in Virginia should be \$3770 per capita. Thus the cost of Medicaid Expansion, whether 230,000 or 190,000 individuals, should be from \$717 Million to \$867 Million per annum.

These two values bring us back to Dr. Hazel's estimate that a 30 % savings in the existing Virginia Medicaid Program could be saved by eliminating waste, fraud, and incorrect regulation applications. As noted above those eliminations could reduce Medicaid cost some \$3.135 Billion. This amount is 3.6 to 4.4 times the Federal Government's estimate of what the cost should be for the envisioned Medicaid Expansion. Thus the savings is more than ample to cover the Medicaid Expansion the Virginia Senate and the Governor insisted having. As stated at the beginning of this paper, the MIRC has already found approximately \$242 Million in savings. This amount is, according to Federal Government data, 28 % of what Medicaid Expansion should actually cost. Thus the MIRC has demonstrated it can solve the expense associated with Medicaid Expansion without any additional cost to either the Federal or State governments. Thus the MIRC should be allowed to complete its tasks because it is well within its means to solve Medicaid funding problems.

Why Medicaid is Unlike Transportation

The question has been asked why the General Assembly is willing to take Federal dollars for Transportation but not for Medicaid Expansion. Before answering this question it is necessary to realize that Virginia does take Federal dollars for its existing Medicaid Program, which serves approximately 1 million of the 8 million Virginia residents. The Federal Dollars are half of the program cost. Virginia provides the other half.

Unlike Medicaid, which has no dedicated portion of the Federal Budget, Transportation does. It is called the Highway Trust Fund (HTF) from which the States receive Federal dollars for federal roads, such as interstate highways. For this reason Virginia takes these federal dollars for transportation. But this Fund is in financial trouble, as the data in Figure 3 demonstrates. The amount in the HTF has decreased from approximately \$21 Billion at the end of FY2010 to about \$4 Billion at the end of FY2013. The March 2014 data suggest the amount at the end of FY2014 will be no more than \$2 Billion. This amount is entirely inadequate for highway maintenance. This trend is why a recent article indicated the Federal Government is not capable of providing funding and that States will have to institute tolls on federal highways, click [HERE](#). This is clear example of the Federal Government being unable to provide funding and why there are rational reservations for the Federal Government being able to provide funding for Medicaid, as it exists or as expanded.

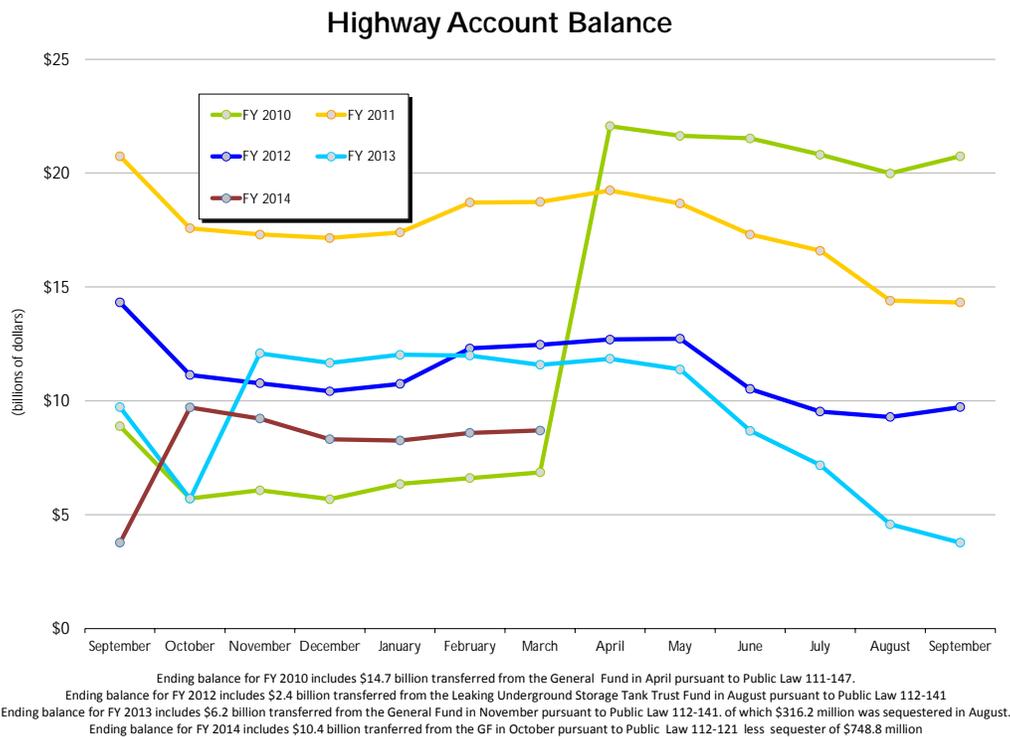


Figure 3 – Balance of federal money on hand in the Highway Trust Fund

The Future Cost of the Existing Medicaid Program

The existing Virginia Medicaid Program is 22 % of the budget. Its cost is growing approximately 7 % per annum. Thus next year it will be 23.5 %. Without any consideration of compounding the cost in 10 years will be 37.5 % of the budget. In another 10 years, 20 years from now or 2034, it will be 53 % of the budget unless something is done to solve the increased cost. There are 3 alternative solutions: (1) raise taxes to cover the cost, (2) reduce the funding in areas such as schools, police and emergency, transportation, and other social programs, and/or (3) reduce the per capita Medicaid coverage or the number/category of people covered by Medicaid. This too is part of the task of the MIRC. If the MIRC can find the 30 % Dr. Hazel believes exist then the current Medicaid portion of the budget can be reduced to approximately 15 %, thus reducing the future costs and the implementing one or more of the three alternative solutions. But even with this Virginia has not solved the problem, but rather has only put the problem off further into future.

Summary

The Virginia General Assembly formed the MIRC, Medicaid Innovation and Reform Commission, during the 2013 Session, by both political parties. The purpose of the MIRC is to review, recommend, and approve innovation and reform proposals affecting the Virginia Medicaid and Family Access to Medical Insurance Security (FAMIS) programs, including eligibility and financing for proposals set out in Item 307 in the Department of Medical Assistance Services. Dr. William A. Hazel, Virginia's Secretary of Health and Human Services, has estimated that approximately 30 % of the cost of the existing Virginia Medicaid Program is due to waste, fraud, and improper implementing of regulation. The estimate of the number of individuals who would be eligible under Medicaid Expansion has been reduced to as much as half of the original 400,000. Moreover, Federal Government estimates of the per capita cost of Medicaid is far less than has been estimated for the Virginia Medicaid Expansion. These considerations make it essential for the MIRC to be allowed to complete its tasks if realistic effective costs are to be found. Without this both the both existing Medicaid Program and any Medicaid Expansion will not be sustainable.