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Response to Upton-Hatch Report, "Medicaid Expansion in the New Health Law: Costs to the States"

Committee on Energy and Commerce, Democratic Staff
Henry A. Waxman, Ranking Member

Chairman Fred Upton (R-MI) and Ranking Member Orrin Hatch (R-UT) today issued a report that estimates that the Affordable Care Act (ACA) will cost state taxpayers at least \$118 billion over the next 12 years (2012 through 2023).

Analyses by CBO and the Urban Institute both are significantly less than this figure. CBO recently reestimated the impact of the Medicaid expansions in the ACA. According to CBO, states will pay \$60 billion, or 8 % of the total cost of Medicaid and CHIP coverage in the ACA for 18 million Americans over the period 2012 through 2021. The federal government will pay 92% of the \$734 billion total cost for coverage expansions. The Urban Institute concluded that state spending would be \$43 billion over the period 2014 through 2019.

The Upton-Hatch report has five major flaws:

- **ONLY COUNTS COSTS AND DOES NOT COUNT SAVINGS**

All of these estimates overstate state costs because they do not include savings from reductions in states' payments for uncompensated care. For hospitals alone, the spending for uncompensated care in 2009 was estimated to be \$40 billion.

- **MISSTATES LAW**

It misstates the law. The report states that "by 2020, the states will shoulder these new costs [for expanded Medicaid populations] fully." This is incorrect. The federal government pays 100% for the newly eligible population for the first three years stepping down to 90% in 2020 and each year beyond then.

- **CHERRY-PICKS ESTIMATES**

It cherry-picks estimates. Nineteen of the 50 state estimates come from the May 2010 Urban Institute report. The remaining estimates come from various other sources. As noted, had the report consistently used the Urban Institute estimates, which use a common methodology from state to state, the estimate for total state spending through 2019 would be \$43 billion, or 7.5% of the total costs.

- **USES ESTIMATES THAT ARE UNREALISTIC**

Many of the sources had unrealistic assumptions in their methodology. For example, the estimates for Florida, Indiana, and Texas assumed all or almost all eligible individuals will be enrolled immediately in the first year. According to researchers, there is no evidence to support an assumption of 100% enrollment, even with an individual mandate and robust enrollment efforts.

- **ARTIFICIALLY EXTENDS TIME FRAME**

The Upton-Hatch report extends the time frame for the estimate by two years. This misleads the reader by providing an apples to oranges comparison because the standard estimation time frame used by CBO is 10 years, from 2012 through 2021. This report uses a 12-year time frame, from 2012 through 2023, artificially raising the estimate.