



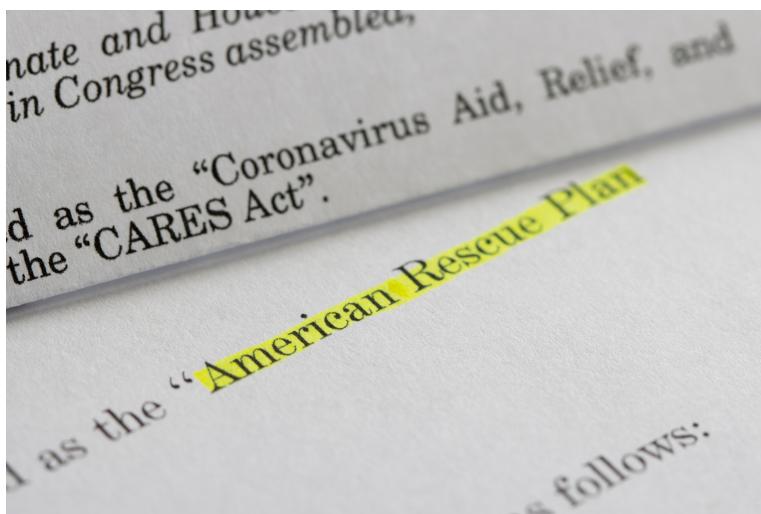
ALABAMA POLICY INSTITUTE

2023 Medicaid Expansion Report

Medicaid expansion debate goes beyond the influx of federal dollars. In regards to the mounting push by the Alabama Hospital Association and state business organizations to expand the state's Medicaid program, one Alabama lawmaker called it "crazy". During a [recent interview](#) with "The Yaffee Program", State Sen. Arthur Orr (R-Decatur) made a compelling argument against Medicaid expansion.

The theme amongst Medicaid expansion proponents is that it would expand medical coverage for Alabamians and that it would mean an influx of new federal dollars into state government and potentially increase other sources of revenue, such as income and sales tax. Having access to quality medical care should be of the utmost priority to lawmakers and citizens alike. However, the issue of Medicaid expansion is much more complicated than a question of how much money state government will receive in return. The long-term impacts to the State General Fund Budget, Alabama's lagging labor participation rate, and the state's ability to run the Alabama Medicaid program as it best sees fit must also be weighed.

The Medicaid expansion debate in Alabama goes back almost a decade, when states first became eligible to expand programs under the provisions of Obamacare. To date, 40 states (including the District of Columbia), have expanded coverage. As more states have signed on to Medicaid expansion, there has been a push amongst Alabama's proponents for the state to follow suit. The American Rescue Plan Act of 2021 (ARPA) increased the matching rate for new expansion states from 90% to 95% over the first two years, making expansion more attractive for some lawmakers.



Another contributing factor to the push for Medicaid expansion is a recent [report](#) from the Alabama Hospital Association which claimed that since the beginning of the COVID-19 pandemic Alabama hospitals have lost an estimated \$1.5 billion in revenue. The assumption is that Medicaid expansion would help to bolster the bottom line of hospitals and other providers.

From the standpoint of medical providers, there also remains the question of how Governor Kay Ivey and the Alabama Legislature will decide to use the state's remaining \$1 billion in ARPA [funds](#). Sen. Orr said that he believes the appeal from the Alabama Hospital Association is "political posturing." Though final decisions about ARPA funds will have to be made during a special session or the 2023 regular session, Orr said that those discussions are happening now, and hospitals are fighting for a share of the money.

It is important to note that hospitals have already received hundreds of millions of dollars in stimulus funds. Alabama appropriated a combined \$148 million in state Coronavirus Aid, Relief, and Economic Security Act and ARPA funds towards hospitals. Alabama medical providers have also directly received over \$745 million in stimulus funds directly from the federal government's [Provider Relief Fund](#), a program which is ongoing.



The Public Affairs Research Council of Alabama has estimated that the average annual cost of expanding the state Medicaid program would be approximately [\\$225 million](#) over the first six years. In return, PARCA says that the state should expect net savings and revenues to total over \$1 billion dollars. Some of those new revenues are expected to come in the form of increased sales and income tax receipts.

However, the State General Fund (SGF) would bear all the costs of Medicaid expansion. The majority of income and sales tax revenues are dedicated to the Education Trust Fund, meaning that there could potentially be a several hundred million dollar hole left in the SGF. And an average cost \$225 million annually is likely just the start. By year six of expansion the annual costs are projected to reach \$243 million. They are unlikely to do anything but rise in subsequent years. The federal Medicaid program is projected to grow by more than a third in the coming decade.

*Who will be left to fill the funding gap
in the state general fund?*

Barring spending cuts, taxpayers will be.

As Sen. Orr said, “Well, who will be taxed to come up with another couple hundred million dollars to pay for this? Mom and pop, middle class workers, et cetera.”

The state’s labor participation rate is another potential pitfall of Medicaid expansion. Alabama’s labor participation rate, i.e., the number of citizens who were employed or actively seeking employment in the previous month, was 56.8% in December. That is the sixth worst participation rate in the U.S. Some Alabamians work solely to have access to health insurance. Medicaid expansion could provide a disincentive to work for some citizens, further degrading labor participation. This could impact Alabama’s ability to expand existing businesses or attracting new businesses to the state.

Finally, Sen. Orr spoke to the problem of Alabama becoming more dependent on the federal government. The annual federal deficit averaged nearly \$1.3 trillion over the past five years. Cumulative debt is currently [\\$31.4 trillion](#), about a \$100,000 for every Alabamian. Federal health care and social security programs are the primary contributors to increased spending and debt. By expanding Medicaid, Alabama’s state government would become more reliant on an already unsustainable federal budget. Sen Orr. Rightly asked, “When’s the house going to fall in? We know it’s going to happen unless something changes, and nothing is wired up there to change anything.” Eventually all Americans will pay the price for growing federal budgets, likely through higher taxes.



Medicaid expansion proponents also make the case that the new federal funding would somehow be “free money.” But nothing comes from the federal government without strings attached. For example, several states have attempted to tie work requirements to Medicaid eligibility. The Biden Administration has repeatedly denied these requests.

When states take more money from the federal government, and Medicaid dollars in particular, they must adapt their policy decisions to federal spending guidelines. The state has less autonomy to tailor programs towards the need of Alabamians, and gives more power to Washington, D.C.

While Alabamians can agree that all citizens should have access to high quality healthcare, lawmakers must look beyond how much money state government will get from expanding Medicaid. They must also consider the long-term impacts to state budgets, the labor participation rate, impacts on federalism, and the inherent risks of growing more dependent on the federal government.

If they don't, taxpayers will pay the price.

"Expanding Medicaid with the intent of receiving hundreds of millions of dollars of free federal money is a misnomer.

There is no such thing as free government money.
Every single dollar spent is a dollar out of a taxpayer's wallet."

- Stephanie Smith, API President & CEO



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