Saving Delaware's Budget from Medicaid

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(This is an abbreviated summary of the full proposal for a Delaware Medicaid HSA Demonstration Project. Full summary available upon request.)

Historically, Medicaid has represented approximately 17% of the state of Delaware's budget. It is a state and federal funding partnership, unlike Medicare, which is strictly federally funded.

In recent years Medicaid has risen to over 25% of the state of Delaware's budget and is on track to grow well beyond that. Currently, 59% of Delaware's Medicaid program comes from the federal government, which is scheduled to decline slightly in the near future.

There are many reasons for this rise in the cost of the Medicaid program and the increasing prominence in the budget.

- **The cost of healthcare is rising** at a pace, 5.2% per year according to the Federal Bureau of Labor Statistics, considerably higher than inflation, generally 3% per year. While the rate of rise in past decades, notably the 1980s, was multiples of this rate, the acceleration of the cost of healthcare annually has stabilized around 5.2%. In aggregate, for the fiscal year 2021, Delaware's spending on healthcare has been estimated at nearly 40% of the budget.

- **An increase in Medicaid enrollment** in the program resulting from the Affordable Care Act. Eligibility to the Medicaid program is currently set at 138% of the Federal Poverty Level.

- **There is a lack of growth in Delaware's economy**, 0.0% growth in the past two years with a shrinkage of the GDP this year (negative growth). Quite obviously, the two trendlines are incompatible with fiscal liquidity for the state.

Simultaneously, the stock market, as measured by the two most prominent indices, the NASDAQ and the S&P, have risen quite dramatically in recent years. Since the inception of these two indices almost 100 years ago, over any ten-year period of time. The market has risen an average of 10% per year. Given this set of data, wouldn't it be nice to fund the Medicaid program with funds growing faster than the cost of the program? In fact, there is such a program, *Health Savings Accounts*.

One of the fundamental problems with the distorted economy of our healthcare sector is that the recipient or purchaser of the healthcare is largely disconnected from the cost by insurance, whether that be Medicare, Medicaid, employer-sponsored health insurance, or private insurance. The single exception to this rule is the *Health Savings Account* (HSA).

Originally proposed by Congressman Archer as the *Medical Savings Account* (MSA), it allowed individuals to contribute to a savings account for the purposes of healthcare spending and deduct the cost of that contribution from income tax. Once the money is contributed to the MSA, now called HSA, the money must be spent specifically for healthcare purposes. Unlike a flexible spending account (FSA), **the money can roll over into the next year if not spent**. *In general, FSA monies must be spent by the end of the calendar year, or they are forfeited*. By contrast, **HSA monies continue to grow and compound year-over-year.**

In the scenario of the HSA, the individual purchasing the healthcare is more directly connected to the cost of the service and is far more likely to seek out a better price or a higher quality service because they're spending their own money. In conclusion, reconnecting the healthcare service financially to the recipient drives up quality and drives down the cost. This has been repeatedly demonstrated in areas of elective cosmetic surgery, which are typically not covered by health insurance. Their costs have gone down, and the quality has gone up.
There are certain constraints placed on HSA's.

- They must be associated with a high deductible catastrophic health insurance plan, which on average costs about $99 a month.

- The deductible must be at least $1,400 for an individual or $2,800 for a family. Most are closer to $10,000. The higher the deductible, the lower the cost of the insurance.

- *There are limits on how much money can be contributed to an HSA and deducted from your taxes.* The money in an HSA is contributed as a tax deduction from your income, grows tax-free and approved investments such as the stock market index funds, and can be spent on healthcare tax-free.

- The HSA can be passed on to your spouse without taxation. *They have been described as IRAs on steroids.*

Because of the constraints, they are not available to anyone covered by an employer-sponsored insurance plan, Medicare, Medicaid, or any other government program. **But what if they could be made available to a portion of the Medicaid population?**

While the average Medicaid enrollee costs $8,875 per year, the demographic group from the age of birth to 20-year-old averages $3,745 per year. **We did some calculations, which can be found in greater detail in the full 5000-word proposal, available upon request with full annotations and references.**

I will give a recap synopsis here.

- If the state of Delaware were to request permission from the Medicaid program to do a *Demonstration Project* on the demographic for the age of birth to 20-year-old and fund for each individual in that group a *Health Savings Account*, and those accounts were to be placed for the individual in an index fund and spent as needed on appropriate approved healthcare needs, then the money would grow considerably faster than the rise in the cost of healthcare.

- Furthermore, the cost of the Medicaid program would stabilize at that level. If we assume that the law of supply and demand is in play, the cost would necessarily stabilize or go down, and quality would go up (to attract business). The compounding effect of invested money would substantially exceed the decade over decade 10% per year average.

- When we ran the real numbers, we assume that the state of Delaware monthly spends $312 on the average Medicaid enrollee from the age of birth to 20-year-old, $3,745 per year per individual. If that amount of money were contributed regularly and invested in the stock market in an index fund, and

$99 a month was spent from that pool of money on a high deductible catastrophic insurance policy, and we expect average health expenditures from that pool of money, we can expect certain outcomes.

- Over ten years, on average, there would be an excess of $7,366 remaining in the HSA after all healthcare expenditures. Large healthcare expenditures would be covered by the catastrophic insurance policy. After two decades, assuming average healthcare expenditures, there would remain $14,491 in the HSA in real dollar purchasing power. **The state of Delaware would be indemnified against catastrophic healthcare costs for the individual enrollee, as would the individual.** *To make these calculations, we are assuming an average over ten years of 10% per year average growth and 3% per year average inflation.*

- We would presume that the money spent on healthcare by the individual would be more carefully spent with an eye towards higher quality and lower price. If the individual were to not spend any money on healthcare, at age 20, they would have $143,417 in the account. During that entire time, they would have been covered by the catastrophic health insurance product.

Currently, many enrollees in Medicaid functionally cannot get the appropriate healthcare because a limited number of providers accept Medicaid as payment and are enrolled as Medicaid providers, so it is difficult to find healthcare for Medicaid enrollees.

Given factors such as increasingly high deductibles and increasingly high copayments, effectively, access to care for Medicaid enrollees is limited. **Often the only place a Medicaid enrollee currently can get healthcare is in an emergency room or hospital, both of which are very expensive to the system.**

We would assume those factors to be eliminated by this program for the participants. Access to care would be greatly expanded. One can also assume that the financial incentive would promote better efforts to stay healthy.

Delaware is a small state with a big-budget problem. It is the ideal place for innovative and necessary experimentation.

Writing an opinion on the case before the United States Supreme Court in 1932, Associate Justice Louis Brandeis said the following as he pondered the implications of the Constitution's 10^{th} amendment:

"… *A single courageous state may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country.*"

Given the obvious impending budgetary crisis, it is high time for our legislators to innovatively think out-of-the-box.