

What You Need to Know About

# MEDICAID CROWD OUT

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*In recent weeks, lawmakers have focused on the tens of thousands of ineligible individuals who improperly received benefits under Louisiana’s Medicaid expansion. But, fighting waste, fraud and abuse in Medicaid should also include reforms to address another important issue—crowd out. The term refers to Louisiana residents who have dropped their existing coverage to enroll in Medicaid expansion—in other words, government programs “crowding out” private insurance. **Here’s what you need to know about crowd out and Medicaid expansion:***

## **TENS OF THOUSANDS OF PEOPLE HAVE DROPPED PRIVATE COVERAGE TO ENROLL IN MEDICAID**

Recently, the Pelican Institute filed a public records request to obtain internal Louisiana Department of Health (LDH) data showing that for much of 2016 and 2017, several thousand individuals per month dropped their existing health coverage to enroll in Medicaid expansion. With enrollment in Medicaid expansion averaging approximately 15,000 individuals per month in 2017, the data indicates a significant percentage of enrollees dropped their prior coverage to joining Medicaid expansion.

### **Medicaid Expansion Enrollment** **15,000 PEOPLE PER MONTH**



## **FUNDING BENEFITS FOR PEOPLE WHO PREVIOUSLY HAD HEALTH INSURANCE CONSUMES SCARCE MEDICAID RESOURCES**

Crowd out populations pose big potential costs for Louisiana taxpayers. In 2015, the Legislative Fiscal Office assumed that if Louisiana expanded Medicaid, the state would spend between \$900 million and \$1.3 billion over five years providing Medicaid coverage to individuals with prior health coverage<sup>1</sup>.


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<sup>1</sup> Louisiana Legislative Fiscal Office, Fiscal Note on HCR 3 (2015 Regular Session), <http://www.legis.la.gov/legis/ViewDocument.aspx?d=942163>.

### Average Expansion Enrollee Cost

 = **\$6,286.20/YEAR**

### Cost of Expansion Enrollees to Taxpayers

  
**\$461.6 MILL/YEAR**

When testifying before the House Appropriations Committee on April 23, LDH staff indicated that, during the fiscal year ending this June 30, the average expansion enrollee cost Medicaid \$523.85 per month, or \$6,286.20 per year<sup>2</sup>. Multiplying this average cost-per-enrollee by the number of individuals who dropped private coverage, according to last year's LSU Health Insurance Survey<sup>3</sup>, yields a potential cost to state and federal taxpayers of \$461.6 million this fiscal year:



**Dropped Coverage from a Former Employer: 40,147**  
**Potential Cost to Taxpayers: \$252.4 MILLION**



**Dropped Coverage from a Former Employer: 23,086**  
**Potential Cost to Taxpayers: \$145.1 MILLION**



**Dropped Coverage from a Former Employer: 10,201**  
**Potential Cost to Taxpayers: \$64.1 MILLION**

Because the LSU researchers extrapolated the coverage numbers from survey responses, and because the survey responses varied only slightly from 2015 to 2017, the results for privately purchased coverage, and coverage from a former employer, might have occurred due to random chance, rather than any actual drop in coverage rates. Regardless, the decline in coverage from a former employer DID meet the tests of statistical significance; this crowd out is costing the Medicaid program on the order of \$145.1 million per year. Moreover, the potential fiscal impact of the crowd out problem demonstrates the need for more accurate data on the issue.

## CROWD OUT METRICS

A March 2019 LSU report cites a seminal 1996 work from MIT Professor Jonathan Gruber to define crowd out—the decrease in private insurance divided by the change in public insurance<sup>4</sup>. To put it simply, crowd

2 Hearing of the Louisiana House Committee on Appropriations, April 23, 2019, video available at [http://house.louisiana.gov/H\\_Video/VideoArchivePlayer.aspx?v=house/2019/apr/0423\\_19\\_AP\\_P2](http://house.louisiana.gov/H_Video/VideoArchivePlayer.aspx?v=house/2019/apr/0423_19_AP_P2).

3 Stephen Barnes, et al., "2017 Louisiana Health Insurance Survey," LSU Ourso School of Business and Manship School of Mass Communication, August 2018, <http://ldh.la.gov/assets/media/2017-Louisiana-Health-Insurance-Survey-Report.pdf>.

4 Stephen Barnes, et al., "Preliminary Assessment of Crowd Out in Louisiana: Insights from the Louisiana Health Insurance Survey," LSU Ourso School of Business, March 12, 2019; David Cutler and Jonathan Gruber, "Does Public Insurance Crowd Out Private Insurance," Quarterly Journal of Economics May 1996, <https://economics.mit.edu/files/12486>.

out should quantify the percentage of Medicaid enrollees who dropped their private coverage to enroll in expansion. Unfortunately, LDH has used different—and inaccurate—metrics to define crowd out on several occasions in attempts to minimize its impact.

For instance, in August 2017, the Department counted 5,659 “Medicaid expansion members who have private insurance whose private insurance policies ended 0-60 days prior to Medicaid expansion enrollment”—4,957 whose coverage ended 0-30 days prior to enrollment in expansion, and another 702 whose coverage ended 31-60 days prior to enrollment. The Department’s internal spreadsheets calculated one crowd out rate of 1.3%, based on a total enrollment in expansion of 442,674.

### Louisiana Department of Health’s Crowd-Out Calculation

#### Expansion Enrollees Whose Coverage Ended Before Enrollment

0-30 days	<b>4,957</b>	<b>= 5,659</b>	<b>Total Enrollment</b> <b>442,674</b>	<b>Crowd Out Rate</b> <b>1.3%</b>
31-60 days	<b>702</b>			

But this calculation creates an inherently inaccurate result, because it divides the number of new enrollees who dropped coverage by the number of total enrollees in the program. An accurate crowd out rate would compare like with like—dividing the number of new enrollees who dropped private coverage in a given month by the overall number of new enrollees in that month. This metric would accurately determine what percentage of new enrollees are dropping coverage.

Using that rubric, Louisiana’s Medicaid expansion suffers from far higher crowd out rates. According to data provided by LDH in response to the Pelican Institute’s public records request, in August 2017 a total of 13,955 individuals enrolled in expansion—8,783 who had previously enrolled in Medicaid, and 5,172 who had never done so before. Dividing the number of new enrollees who dropped private coverage in the prior 30 days (4,957) by the number of new enrollees overall (13,955) yields a potential crowd out rate of 35.5%—far higher than the 1-2% figure cited in the internal LDH spreadsheets.

### More Accurate Crowd-Out Calculation

<b>Expansion Enrollees</b>		<b>Total Enrollment</b> <b>= 13,955</b>	<b>Enrollees Who Dropped Coverage in the Previous 30 Days</b> <b>4,957</b>	<b>Potential Crowd Out Rate</b> <b>35.5%</b>
Previous	<b>8,783</b>			
New	<b>5,172</b>			

At the April 23 House Appropriations Committee hearing, Medicaid director Jen Steele cited data from the LSU Health Insurance Survey to estimate a crowd out rate of 2.4%. But, that survey data expressed coverage changes as a percentage of the overall low-income population, not based as a percentage of Medicaid enrollees—making it another inaccurate metric.

Based on LDH's own internal data that rate more likely approaches 30-40%.

## NEED FOR BETTER PROGRAM INTEGRITY

The debate regarding crowd out comes on the heels of the Medicaid eligibility situation, in which LDH acknowledged that 1,672 individuals with six-figure incomes—including at least one individual reporting a higher income than Gov. John Bel Edwards' annual salary—enrolled in Medicaid expansion<sup>5</sup>. LDH's failure to address the crowd out problem, and at the same time, the expansion enrollment of individuals with six-figure incomes suggests the need for fundamental reform to Louisiana's Medicaid program. Government officials at all levels must serve as smart stewards of scarce taxpayer dollars, and a growing number of signs raise questions about LDH's fulfillment of this critical role.

### Medicaid Enrollees with Six-Figure Incomes

1,672 ENROLLEES



## CONCLUSION

Solutions to mitigate crowd out should focus on using scarce government resources wisely, while promoting independence and self-sufficiency amongst beneficiaries. For instance, Indiana recently proposed a waiver that would allow beneficiaries transitioning off of Medicaid to keep a portion of their Medicaid dollars. Those retained dollars could fund co-payments on their new private insurance, whether purchased through an employer or individually. These and similar innovative concepts would encourage beneficiaries to transition off of government assistance and into private coverage.

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<sup>5</sup> Sheridan Wall, "Medicaid Controls Questioned after Hundreds Are Stripped from the Rolls," LSU Manship News Service April 9, 2019, <https://www.fox8live.com/2019/04/09/medicaid-controls-questioned-after-hundreds-stripped-rolls/>; Louisiana Legislative Auditor, "Medicaid Eligibility: Wage Verification for Process of the Expansion Population," Audit Control #80180130, November 8, 2018, [https://lla.la.gov/PublicReports.nsf/1CDD30D9C8286082862583400065E5F6/\\$FILE/0001ABC3.pdf](https://lla.la.gov/PublicReports.nsf/1CDD30D9C8286082862583400065E5F6/$FILE/0001ABC3.pdf).

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