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EXPANDING MEDICAID A LESS COSTLY WAY TO COVER MORE LOW-INCOME UNINSURED THAN EXPANDING PRIVATE INSURANCE

Average medical expenditures¹ per person are lower under public programs like Medicaid or the State Children's Health Insurance Program (SCHIP) than under private insurance, according to new research published by *Health Affairs*.²

The new research, by Leighton Ku of George Washington University and Matthew Broaddus of the Center on Budget and Policy Priorities, is consistent with previous work by researchers at the Urban Institute.³ It suggests that enrolling uninsured low-income people in Medicaid should cost less than enrolling them in private insurance — and that expanding public programs like Medicaid would likely be a more cost-effective way to cover uninsured people with low or moderate incomes.

There are two main reasons why overall medical expenditures per person are lower under Medicaid and SCHIP than under private insurance. First, the average cost that *insurers* (i.e. the public program or private insurance plan) pay per beneficiary is lower under public programs than under private insurance, probably because these programs reimburse health care providers at lower rates and have lower administrative costs. Second, the average out-of-pocket costs that *individuals* incur are substantially lower under public programs than private insurance because Medicaid and SCHIP limit cost-sharing for low-income beneficiaries.⁴

Key findings of the analysis, available on the *Health Affairs* website, include:

- **Adults enrolled in Medicaid tend to be in poorer health — and thus to require more health care — than low-income adults who are in private coverage.** In 2005, more than

¹ Medical expenditures are defined as aggregate payments for health care services from all sources (including third-party insurance such as Medicaid and/or private insurance, as well as self-pay), but excluding health insurance premiums, if any.

² Leighton Ku and Matthew Broaddus, "Public and Private Insurance: Stacking Up the Costs," *Health Affairs* (web exclusive), June 24, 2008, available at: <http://content.healthaffairs.org/cgi/content/abstract/hlthaff.27.4.w318> and from the authors upon request. The research is based on 2005 data from the Medical Expenditure Panel Survey (MEPS), a national survey that collects detailed information about non-institutionalized individuals, including their demographic characteristics, health status, and use of health care. The analysis examines those who were covered by Medicaid or SCHIP for the full 12 months of the year, covered by private insurance for the full year, or uninsured for the full year.

³ Jack Hadley and John Holahan, "Is Health Care Spending Higher Under Medicaid or Private Insurance?" *Inquiry* 40: 323-342, Winter 2003/2004.

⁴ Private insurance, as referred to in the new study, includes both employer-sponsored coverage and private coverage purchased in the individual health insurance market.

one-fourth of low-income adult Medicaid enrollees reported being in fair or poor health, compared to one-eighth of low-income adults enrolled in private insurance. Adult Medicaid enrollees also were more likely to have limitations in completing daily tasks or to suffer from a chronic disease.⁵

- **Adults enrolled in Medicaid are more likely than low-income adults with private coverage to be female, minority, and poor — three groups with higher medical costs.** In 2005, nearly three-fourths of adult Medicaid enrollees were women, compared to slightly more than half of low-income adults enrolled in private coverage. In addition, roughly half of adult Medicaid enrollees were African American or Hispanic, compared to slightly less than one-third of low-income adults with private coverage. Finally, adult Medicaid enrollees were three times as likely to have incomes below the poverty line as their privately insured low-income counterparts. (“Low income” is defined in the study as having household income below 200 percent of the poverty line.) All three of these demographic characteristics are associated with higher medical expenditures.

- **If one *fails* to adjust for these health and demographic differences, medical expenditures are higher for Medicaid beneficiaries than for those in private insurance.** Average medical expenditures in 2005 for non-elderly, low-income adults in Medicaid were \$4,684 per individual, compared to \$3,669 for the privately insured, and \$1,124 for the uninsured. The privately insured cost less than the Medicaid population primarily because they are healthier and thus use less health care; the uninsured cost the least largely because they receive much less health care than the other groups.

- **After controlling for these health and demographic factors, medical expenditures are substantially higher under private insurance than under Medicaid.** The study finds that, based on the relative average costs of Medicaid and private insurance, total medical expenditures

TABLE 1			
Estimated Average Total Medical Expenditures for Low-Income Medicaid Beneficiaries, If They Were Covered Instead by Private Insurance, 2005			
	Medicaid	If covered instead by private insurance	Difference if covered by private insurance
Adult, total medical expenditures	\$5,671	\$7,126	+\$1,456
Child, total medical expenditures	\$909	\$1,247	+\$339

for an adult Medicaid enrollee would be 26 percent, or \$1,456, higher, on average, if the individual were enrolled in private coverage rather than Medicaid. Likewise, medical expenditures for a low-income child enrolled in Medicaid would be 37 percent, or \$339, higher if the child were enrolled instead in private coverage. (See Table 1.)

⁵ Because children tend to be in good health overall, there was only modest variation in health status among children across health insurance categories.

- **Medical costs paid by insurance are higher under private coverage than under Medicaid.**

Average medical costs paid by an insurer on behalf of an adult Medicaid beneficiary would be 7 percent, or \$360, greater on average, if the beneficiary were covered instead by

private insurance. Similarly, the average amount paid by an insurer for a child Medicaid beneficiary would be 8 percent, or \$66, higher if the child were enrolled in private insurance. (See Table 2.) While the new research did not specifically examine this issue, average medical costs paid by insurers are lower for people on Medicaid likely because Medicaid has lower provider payment rates and administrative costs than private insurance does.

TABLE 2			
Estimated Average Third-Party Insurance Payments to Health Care Providers on Behalf of Low-Income Medicaid Beneficiaries, 2005			
	Medicaid	If covered instead by private insurance	Difference if covered by private insurance
Adult, amount paid by insurance	\$5,474	\$5,833	+\$360
Child, amount paid by insurance	\$867	\$933	+\$66

- **Out-of-pocket costs are substantially higher under private coverage than under Medicaid.**

A low-income adult enrolled in Medicaid would spend over six times, or \$1,096, more on an out-of-pocket basis, on average, if he or she were instead enrolled

in private insurance coverage. A low-income child enrolled in Medicaid would spend over seven times, or \$272, more if he or she were enrolled instead in private coverage. (See Table 3.) This likely reflects federal Medicaid and SCHIP requirements that significantly limit the deductibles and co-payments that states may charge low-income beneficiaries.

TABLE 3			
Estimated Average Out-of-Pocket Costs for Low-Income Adult and Child Medicaid Beneficiaries, 2005			
	Medicaid	If covered instead by private insurance	Difference if covered by private insurance
Adult, out-of-pocket costs	\$197	\$1,293	+\$1,096
Child, out-of-pocket costs	\$42	\$314	+\$272

- **Covering the uninsured through Medicaid would generally be less costly — in terms of total medical expenditures, costs paid by insurance, and out-of-pocket costs per individual — than covering them through private insurance.** Total medical expenditures would have been 26 percent, or \$805, more in 2005 — and the amounts paid by insurers would have been nearly 5 percent, or \$153, more — if the average *uninsured* low-income adult had been covered through private insurance than through Medicaid. The adult’s out-of-pocket costs would have been more than 600 percent, or \$662, more under private insurance than under Medicaid.

Likewise, total medical expenditures would have been 30 percent, or \$276, more if an average low-income, uninsured child had been covered under private insurance rather than Medicaid. The medical costs *paid by insurance* would have been about the same under private coverage and

Medicaid, but the child's *out-of-pocket costs* would have been nearly 750 percent, or \$269, more under private coverage. (See Table 4.)

TABLE 4			
Estimated Average Cost of Covering Uninsured, Low-Income Adults and Children in Medicaid vs. Private Insurance, 2005			
	Medicaid	If covered instead by private insurance	Difference if covered by private insurance
Adult, total medical spending	\$3,084	\$3,889	+\$805
Adult, amount paid by insurance	\$2,975	\$3,128	+\$153
Adult, out-of-pocket costs	\$109	\$771	+\$662
Child, total medical spending	\$918	\$1,194	+\$276
Child, amount paid by insurance	\$882	\$889	+\$7
Child, out-of-pocket costs	\$36	\$305	+\$269