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A TEMPEST IN A TEAPOT

News Accounts, Policymakers' Statements Mischaracterize Supposed "Glitch" in Health Reform Law

by Robert Greenstein

A few weeks ago, some news articles suggested that a large and costly "glitch" in the health reform law would allow several million middle-income people to receive Medicaid, which would greatly swell budget deficits. House Majority Leader Eric Cantor claimed that the provision in question, under which Medicaid would no longer fully count the Social Security benefits of applicants under age 65 in determining their eligibility, would cost taxpayers $450 billion over the next decade. In reality, however, the provision is neither unintended nor very costly:

- The Congressional Budget Office has made clear that it *did* take this provision into account in estimating the cost of the Affordable Care Act (ACA), which it estimates will modestly reduce deficits. [1]

- Our analysis of Census data indicates that fewer than 10,000 people nationwide will qualify for Medicaid as a result of the provision but would *not* qualify for either Medicaid or help in purchasing coverage through the new health insurance exchanges if the federal government fully counted their Social Security benefits, because their incomes would then exceed 400 percent of the poverty line ($43,560 for an individual in 2011).

- This number (fewer than 10,000 people) is so small because nearly all of the Social Security beneficiaries who will newly qualify for Medicaid under the ACA would instead qualify for subsidies for the insurance exchanges if their Social Security benefits were fully counted. The cost of those subsidies would offset much if not all of the federal savings from switching these people out of Medicaid.

- A new preliminary analysis by the Congressional Budget Office and the Joint Committee on Taxation reports that fully counting Social Security benefits in determining people's eligibility for Medicaid and subsidies in the insurance exchanges would save $13 billion over ten years. In other words, Rep. Cantor overstated the cost of this matter by more than 3,400 percent.

[1] Philip Klein, "CBO says it took into account Medicaid 'glitch' in Obamacare estimates," *San Francisco Examiner,* June 21, 2011.

Background

The ACA will expand health coverage in two basic ways, starting in 2014. First, it will broaden Medicaid eligibility to cover people with incomes up to 133 percent of the poverty line. Second, it will provide tax-credit subsidies to people who have incomes between 133 percent and 400 percent of the poverty line and lack access to affordable employer-based coverage, to help them buy coverage in the new insurance exchanges.

In order to set up a streamlined system and avoid severe administrative complexities, the ACA also changes Medicaid's definition of income so that the definitions used for Medicaid and for the new tax-credit subsidies will be the same. Currently, the Medicaid program counts any Social Security benefits that applicants receive when it determines whether they fall within Medicaid income limits. The tax code, in contrast, excludes Social Security benefits from the Adjusted Gross Income (AGI) of people whose incomes are below $25,000 for individuals and $32,000 for couples and partially counts Social Security benefits toward the AGI of people above those thresholds.[2]

Once Medicaid adopts a tax-based definition of income, therefore, it will no longer fully count Social Security benefits in determining the Medicaid eligibility of people under age 65. As a result, some non-elderly people with disabilities who are in their first two years of receiving Social Security disability insurance, and some early retirees aged 62-64 who are drawing Social Security, will be able to qualify for Medicaid because their incomes — exclusive of Social Security — will be below 133 percent of the poverty line. (Once a Social Security disability beneficiary has received benefits for two years or a retiree turns 65, the individual qualifies for Medicare, and these rules no longer apply in determining Medicaid eligibility. For these individuals, who will be *in*eligible to receive subsidies to purchase coverage in the insurance exchanges, the old Medicaid income eligibility rules will continue to apply.)

Cost of Provision Much Smaller Than Claimed

Our analysis of Census data indicates that if the Affordable Care Act had been in effect in 2008, somewhere between 590,000 and 2 million Social Security beneficiaries who were not otherwise enrolled in Medicare or Medicaid would have qualified for either Medicaid or subsidies to purchase coverage in the exchange. (The low end of this range — the 590,000 figure — assumes that *no one* who had private insurance at some point during the year but also qualified for Medicaid or exchange coverage would seek one of the latter forms of coverage. The 2 million figure assumes that *everyone* who had private coverage at some point during the year but qualified for Medicaid or exchange coverage would seek one of the latter forms of coverage. The correct figure will be somewhere between the two ends of the range.)

If the federal government fully counted Social Security benefits for both Medicaid and subsidies in the exchange, the Census data show that of the 590,000 to 2 million people in this group:

- Between 2,000 and 9,500 — less than one-half of 1 percent — would have incomes above 400 percent of the poverty line and thus would qualify for neither Medicaid nor a subsidy. Because

[2] In determining whether a household is above or below the $25,000/$32,000 thresholds, half of a household's Social Security benefits are counted.

this group is so small, the federal savings that would result from fully counting their Social Security benefits are tiny.

- Between 200,000 and 700,000 would receive subsidies in the exchange, rather than Medicaid. It is unclear whether this would result in a net savings or a net cost to the federal government. CBO analyses conducted during the development of the health reform law found that the subsidies for people at the lower end of the income scale for subsidy eligibility would cost *more* than covering these people through Medicaid; Medicaid costs substantially less per beneficiary than private insurance does, and the premium contributions these people would make themselves would be relatively modest. This suggests that for people who would move from Medicaid to the lower end of the subsidy income scale if their Social Security benefits were counted, federal costs would go *up*. For people who would move from Medicaid to the upper parts of the income scale for the subsidies, there likely would be a federal *savings*. Until CBO produces a detailed cost estimate, it isn't possible to know the net effect on costs for this group.

- Between 100,000 and 630,000 would receive a subsidy to buy coverage in the exchange under either treatment. But if their Social Security benefits were counted as income, their subsidy would be smaller, and there would be a federal savings.

- Between 13,000 and 115,000 would lose eligibility for a subsidy because counting their Social Security benefits would push them over 400 percent of the poverty line. This, too, would produce federal savings.

- Between 275,000 and 530,000 would receive Medicaid coverage under either treatment.

The Congressional Budget Office and the Joint Committee on Taxation analyzed the effect of counting all Social Security benefits as income in determining eligibility for both Medicaid and subsidies for the health insurance exchanges. They estimate that the savings would be $13 billion over ten years, less than 3 percent of Rep. Cantor's estimate.

Conclusion

Policymakers will need to weigh the modest savings from fully counting Social Security benefits in determining people's eligibility for Medicaid and exchange subsidies against the added tax complexity that treating Social Security income inconsistently across different parts of the federal income tax code would create. The course that policymakers will pursue here is not yet clear.

What *is* clear at this time is that using this difficult and complex policy issue to portray the Affordable Care Act as having huge minefields and massive unintended costs is unwarranted.