

## The Medicaid Costs of Legalizing Illegal Aliens

By James R. Edwards, Jr.

The recently enacted health reform law, in part, expands eligibility for the Medicaid program. Illegal aliens remain ineligible for Medicaid beyond emergency services. However, this could change if they are legalized. This *Memorandum* estimates the potential Medicaid costs associated with legalization. The costs associated with the new affordability credits for those with income above the Medicaid threshold are not included here, and would be in addition to the extra Medicaid costs.

Among the findings:

- We have previously estimated that 3.4 million uninsured illegal immigrants have incomes low enough (under 133 percent of poverty) to qualify for Medicaid under the expanded eligibility established by health reform.
- Based on the 1986 amnesty, we estimate that incomes for uninsured illegal aliens would rise modestly after legalization, leaving 3.1 million uninsured illegal immigrants qualified for Medicaid.
- The primary reason so many illegal immigrants have low incomes is that most have relatively few years of schooling, with more than half not having completed high school. Legalization would not change this fact.
- The estimated cost of providing Medicaid coverage to 3.1 million amnestied illegal immigrants would be \$8.1 billion annually.
- We have previously estimated that taxpayer-provided health care for uninsured illegal immigrants costs \$4.3 billion annually. About half of that goes to those with incomes below 133 percent of poverty.
- While the annual costs run into the billions, because of their relatively young age and generally good health, the average cost of Medicaid for illegal immigrants is about half of the average general cost of Medicaid per enrollee.
- During the budget period 2014-2019, in which Medicaid expansion takes effect, covering 3.1 million amnestied immigrants would conservatively cost taxpayers \$48.6 billion.

This *Memorandum* examines the Medicaid costs that amnesty would impose on American taxpayers. Any discussion of legalization must include an understanding of the health care costs associated with legalization, including Medicaid. This is especially true in light of the expansion of Medicaid under health reform. Most of the costs estimated here would be over and above currently projected obligations under health reform's Medicaid provisions.

The expansion of Medicaid under the new health reform law already adds significant costs to the system. However, this analysis focuses only on the Medicaid costs for the roughly three million uninsured illegal aliens whose incomes would qualify them for Medicaid. This analysis does not include the costs of the new taxpayer-provided affordability credits for those with incomes between 133 percent and 400 percent of the official poverty level.

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## Health Reform's Expansion of Medicaid

The Patient Protection and Affordable Care Act (P.L. 111-148), as amended by the Health Care and Education Reconciliation Act (P.L. 111-152), expands the Medicaid program to individuals and families with incomes up to 133 percent of the federal poverty level, including childless adults. One-third above the official poverty level equals \$29,000 a year for a family of four.

Medicaid is a federal-state entitlement program, providing taxpayer-funded health benefits for those meeting specified low-income levels. The federal share of Medicaid spending for those made eligible under health reform's expansion will cover nearly their entire cost. For the previously Medicaid-eligible, the federal share has averaged 57 percent, with states picking up the difference. Legal immigrants are supposed to rely on their visa sponsors during the immigrants' first five years in the United States, as required by the 1996 welfare reform law, before they become eligible for Medicaid.

With respect to fiscal policy, Medicaid, along with Medicare and Social Security, is responsible for the lion's share of growing U.S. debt and budget deficits. These entitlement programs drive federal deficit spending because they guarantee certain benefits, regardless of fiscal sustainability or the budget impact, to everyone who meets the statutory qualifications. In Medicaid's case, qualifications relate to low income. Medicaid has contributed significantly to rising state spending and budget pressures, particularly during the current economic downturn.

Getting a handle on health reform's Medicaid costs is complicated. First, the law as enacted ensured federal payment of all states' (not just Nebraska's) Medicaid expansion costs for two years. Thus, states' Medicaid obligations related to new beneficiaries will not be realized immediately. Second, because of the implementation schedule, cost estimates appear lower than they will be over the longer term. That is because official projections reflect spending that applies in just the latter six years of a 10-year budget window, 2010-2019. Health reform's tax increases generally begin in earlier years, while benefits start several years later. Third, administrative costs from Medicaid expansion borne by both federal and state governments and other budget gimmicks are not reflected in most cost estimates.<sup>1</sup>

The Chief Actuary of Medicaid (CMS) has estimated that, of the 34 million people who gain health insurance by 2019, more than half (18 million) will be enrolled in the Medicaid program. Furthermore, the CMS actuary has written, "Of the estimated \$828 billion net increase in federal expenditures related to the coverage provisions of the PPACA [the health reform law], about one-half (\$410 billion) can be attributed to expanding Medicaid coverage for all adults who live in households with incomes below 133 percent of the FPL [federal poverty level]."<sup>2</sup> The above cost estimates do not include expenditures on legalized illegal immigrants who may become eligible for Medicaid.

## Amnesty: The Second Fiscal Shoe to Drop

Illegal immigrants are excluded from participating in welfare programs such as Medicaid (other than for emergency medical care). Were they to gain legal status through amnesty legislation, legalized aliens may be eligible for public programs, including Medicaid. It seems that it will be difficult to apply the same five-year exclusion from most welfare that applies to legal immigrants for legalized illegal aliens and Medicaid. Most of the newly legalized illegal immigrants would not have the normal visa sponsors who are to support them, as required of most lawful immigrants.

Moreover, since one of the primary goals of health reform is universal coverage, it may be politically difficult to leave millions of newly legalized illegal aliens outside of the system. It may also be assumed that supporters of amnesty would strongly fight efforts to keep legalized immigrants ineligible for Medicaid. As shown below, if there were an amnesty and if uninsured illegal immigrants with qualifying incomes were allowed access to Medicaid, it will create significant obligations for U.S. taxpayers. These fiscal obligations are above what taxpayers already spend on uninsured illegal immigrants.

## Illegal Immigrants and Medicaid

In prior research, the Center for Immigration Studies has estimated, based on Census Bureau data, that 7.3 million (or 62 percent of) illegal immigrants lacked health insurance in 2007. Of those, 3.4 million earned less than 133 percent of the official poverty level, making them eligible for Medicaid.<sup>3</sup> Based on prior research, we also estimate that if illegal immigrants were legalized, wages would rise somewhat for those with jobs, thereby reducing the number of uninsured former illegal aliens with incomes below 133 percent of poverty to 3.1 million.<sup>4</sup>

On average, U.S. Medicaid spending per enrollee was \$5,163 in FY 2007. The amount of Medicaid spending per enrollee does vary widely from state to state, but illegal immigrants are spread throughout the country. As a result, in the estimates below we assume average costs for Medicaid by age. In FY 2007, the average annual Medicaid cost for children was \$2,135, for adults it was \$2,541, for the elderly it was \$12,499, and for the disabled it was \$14,481.<sup>5</sup> We estimate that 13.4 percent of uninsured illegal immigrants with incomes below 133 percent of poverty are children, 85.2 percent are adults, and 1.3 percent are 65 and older. Taking a weighted average with these shares means that the average annual cost of providing Medicaid to uninsured low-income former illegal immigrants would be \$2,614.

Assuming 3.1 million illegal immigrants would qualify for Medicaid after amnesty, then the total average costs of providing Medicaid to illegal immigrants would be \$8.1 billion annually (3.1 million x \$2,614). Our estimated costs of covering illegal aliens are about half of the current overall average cost of Medicaid coverage because the elderly and disabled account for a large share of the costs of Medicaid, but they represent only a fraction of illegal immigrants.<sup>6</sup>

We have previously estimated that taxpayers spend \$4.3 billion a year providing health care to uninsured illegal immigrants.<sup>7</sup> Thus, our estimate for providing Medicaid coverage to the low-income uninsured illegal immigrants is larger than what taxpayers currently pay for *all* uninsured illegal aliens, including those with higher incomes. It must be remembered that this estimate does not include costs associated with providing the new affordability credits to legalized uninsured illegal immigrants with incomes from 133 percent to 400 percent of poverty. We have previously estimated there are 3.5 million uninsured illegal immigrants with incomes between 133 percent and 400 percent of poverty. The costs of providing affordability credits to these uninsured illegal immigrants would need to be added to the \$8.1 billion in new Medicaid costs to calculate the full costs of a legalization under health reform.

During the budget period 2014-2019, in which Medicaid expansion takes effect, covering 3.1 million amnestied immigrants would conservatively cost taxpayers \$48.6 billion. This estimate is conservative because it takes the average cost of \$8.1 billion a year and assumes that spending level for the six fiscal years, 2014 to 2019. The actual costs will almost certainly be higher as inflation in the Medicaid program has been significant in recent years.

## Conclusion

This analysis has shown that the costs of providing Medicaid to legalized illegal immigrants would be substantial. Because illegal aliens are relatively young in age and in generally good health, the average cost of their Medicaid coverage is about half of the average cost of current Medicaid recipients, which includes the aged and disabled. Nonetheless, we still estimate that covering just 3.1 million uninsured illegal immigrants with the lowest incomes would cost \$8.1 billion annually. This estimate does not include the extra costs of the illegal immigrants whose incomes would qualify them for the new affordability credits under health reform.

## End Notes

<sup>1</sup> Edmund Haislmaier, Heritage Foundation Web Memo, “Expanding Medicaid: The Real Costs to the States,” January 14, 2010, <http://www.heritage.org/Research/Reports/2010/01/Expanding-Medicaid-The-Real-Costs-to-the-States>. Keith Hennessey, “A New \$29 B Gimmick in the Reconciliation Bill,” March 19, 2010, <http://keithhennessey.com/2010/03/19/medicaid-cliff/>.

<sup>2</sup> Richard S. Foster, Memorandum from Centers for Medicare and Medicaid Services, “Estimated Financial Effects of the ‘Patient Protection and Affordable Care Act,’ as Amended,” April 22, 2010, page 4, [http://www.politico.com/static/PPM130\\_oact\\_memorandum\\_on\\_financial\\_impact\\_of\\_ppaca\\_as\\_enacted.html](http://www.politico.com/static/PPM130_oact_memorandum_on_financial_impact_of_ppaca_as_enacted.html).

<sup>3</sup> Steven A. Camarota, “Illegal Immigrants and H.R. 3200: Estimate of Potential Costs to Taxpayers,” Center for Immigration Studies *Memorandum*, September 2009, p. 5, <http://www.cis.org/IllegalsAndHealthCareHR3200>. Figure or estimates are based on an analysis of the 2008 Annual Social and Economic Supplement to the Current Population Survey. The survey asks about income and health insurance coverage in the prior calendar year.

<sup>4</sup> On illegal immigration in particular, the best research shows that wages for those legalized by the 1986 amnesty rose 6 percent within a few years as a result of the legalization. See Sherrie A. Kossoudji and Deborah A. Cobb-Clark, “Coming Out of the Shadows: Learning About Legal Status and Wages from the Legalized Population,” *Journal of Labor Economics*, vol. 20, no. 3, July 2002: 598-628. It must be remembered that a majority of illegal immigrants tend to be significantly less educated than native-born Americans on average. Legalization will not change this fact. Education is the single best predictor of income in the modern American economy. To estimate the number of uninsured illegal immigrants who would, once legalized, increase their income above 133 percent of poverty, we look at those on the income threshold and adjust their incomes up by 6 percent.

<sup>5</sup> Kaiser State Health Facts, “Medicaid Payments per Enrollee, FY2007,” <http://www.statehealthfacts.org/comparable.jsp?ind=183&cat=4&sub=47&yr=23&typ=4>.

<sup>6</sup> Some share of illegal immigrants must be disabled. However, we have been unable to estimate reliably what share and so we have not included estimated costs for treating disabled legalized illegal immigrants.

<sup>7</sup> See “Illegal Immigrants and HR 3200: Estimate of Potential Costs to Taxpayers,” <http://www.cis.org/IllegalsAndHealthCareHR3200>.