Medicaid Expansion:
Considerations for a State Decision

Pierre, South Dakota
February 5, 2013

Vernon K. Smith, PhD
Health Management Associates
© 2013
Vsmith@HealthManagement.com
“Medicaid...

...has always been under-appreciated, particularly for the role that it plays in the lives of so many Americans.”

- John Iglehart, Founding Editor, Health Affairs
Medicaid in 2013: America’s Largest Health Program

- **Medicaid enrollment:** 63 Million (2013 avg. monthly, including 6 million children in CHIP)
  - With turnover, over 75 million enrolled for part or all of 2013

- **Medicaid spending:** $491 billion (2013)
  - Federal share: $282 billion; State share: $209 billion

- Medicare, by comparison, will cover 51 million persons with spending of $598 billion

Medicaid Makes a *Significant* Difference in Health Status

“Randomized controlled trial” study of 2008 Oregon coverage expansion by lottery to 30,000 of 90,000 applicant adults

- **Improved access to medically needed health care**
  - 70% more likely to have “usual place of care”
  - 60% higher use of preventive care like mammograms
  - Spending higher: inpatient +30%; outpatient +35%; Rx +15%

- **Improved financial security**
  - 40% less likely to borrow money to pay medical bills
  - 25% less likely to have bills sent to collection agency

- **Improved self-reported health status**
  - 25% more likely to be in good to excellent health
  - 25% less likely to screen positive for depression.

Medicaid is Associated with Better School Readiness

- Study of 22,000 children who received Medicaid well-child visits (EPSDT)

  — Results:

  “Children with the recommended number of EPSDT well-child visits had a 23% higher likelihood of being ready for school (1st grade)....”

Medicaid Saves Lives: Coverage Is Associated with Lower Rates of Death

Study of 3 states with waivers to cover low-income adults: Arizona, Maine and New York

Results: Compared to neighbor states, adults with Medicaid were significantly associated with

- Reduction in mortality (-6.1%, or 19.6 deaths/1,000)
- Less delayed care due to cost (-21%)
- Higher health status as “excellent” or “very good”

Total Medicaid Spending: Almost 1/4 of Total State Budgets (17.4% of State GF Spending)

Source: HMA, based on NASBO “State Expenditure Report,” various years, 2012.
National Federation of Independent Business v. Sebelius

• On June 28, 2012 the Supreme Court Upheld the constitutionality of the individual mandate
  — The decision was based on Congress’ taxing power

• But, the Medicaid expansion to 133% FPL (138% with MAGI) was found to be unconstitutionally coercive of states
  — DHHS Secretary cannot withhold all federal Medicaid funding for noncompliance with the expansion
  — Fundamentally changes the federal – state relationship

Result:

Medicaid expansion provision is an option for state Legislatures and Governors
Medicaid Expansion: the Most Consequential State Medicaid Decision since 1965
After Election 2012: Where the States Stand
What are the States Saying about ACA Medicaid Expansion?

Note: Based on literature review as of 1/15/13. All policies possible to change without notice.


Learn more about the impact of the Supreme Court ruling at advisory.com/MedicaidMap

© The Advisory Board Company

Health Management Associates
Summary: Concerns about Medicaid Expansion

• Fiscal issues: Medicaid costs are high and unaffordable now; future costs make it worse.
• Can’t trust the federal government: Will feds keep promises of funding after 2020?
• Hard to reverse, once state has expanded.
• Medicaid is “broken” – why expand it?
• Federal spending adds to deficit and debt.
Summary: Reasons for Medicaid Expansion

• Reduces the uninsured
• Persons with coverage get needed care, are healthier, more productive
• Little cost to state – might save state dollars
• Important to hospitals, doctors, other providers
• An avenue to support mental health
• Keeps federal tax dollars in the state
• Supports the local economy, tax revenues
• Facilitates control of health costs
Those Opposing the Medicaid Expansion List Several Concerns and Reasons

“The Medicaid expansion is ... too costly and risky a proposition.... Medicaid is rife with waste and fraud. It increases the cost of private health care and insurance, crowds out private health insurance and long-term care insurance, and discourages enrollees from climbing the economic ladder. There is scant reliable evidence that Medicaid improves health outcomes, and no evidence that it is a cost effective way of doing so.”

-- Michael Cannon, director of health policy studies at the Cato Institute, Op-Ed in Atlanta Journal – Constitution, Nov. 16, 2012
Another Voice: “Seven Reasons States Should Just Say No to Medicaid Expansion”

1. “Medicaid is bad coverage
2. The exploding Medicaid population
3. The woodwork and crowd-out effects
4. The cost to state budgets
5. Federal controls
6. Rampant fraud
7. Loss of state sovereignty”

South Carolina’s Medicaid Director Outlined His State’s Rationale for Not Expanding

• “We are not debating that coverage contributes to health – it does....[but]... Every dollar spent to produce a health benefit is taken from somewhere else....”

• “Health sector employment should not be a goal of health reform.”

• “Uninsured individuals who need care should be able to receive it...[but] Because the health services sector contains so much excess cost, it is unwise to inject several hundreds of billions of dollars into the system....”

• Leverage states now have is lost if they uncritically follow the federal lead in expanding Medicaid without expectations of better performance.”

Governors Opposing Expansion Have Often Cited Costs

- Gov. Rick Perry (R-TX) wrote that expanding “would simply enlarge a broken system that is already financially unsustainable.” (Letter to Sec. Kathleen Sebelius, July 9, 2012,
- Gov. Robert Bentley (R-AL) said “we simply can’t afford it.” (Montgomery Advertiser, Nov. 11, 2012)
- Gov. Nathan Deal (R-GA): “That is something our state cannot afford.” Atlanta Journal-Constitution, 8/28/12)
- Gov. Rick Scott (R-FL): “We have to be able to afford a health care safety net that our citizens can pay for.” (South Florida Sun-Sentinel, Dec. 17, 2012)
- Gov. Otter (R-ID): “[T]here is broad agreement that the existing Medicaid program is broken. So I’m seeking no expansion of those benefits.” (State of State, Jan. 7, 2013.)
“Understandable Concerns….”

• "It's the biggest expansion of Medicaid in a long time, and the biggest ever in terms of adults covered. Although the federal government is on the hook for most of the cost, Medicaid on the whole is one of the biggest items in state budgets and the fastest growing. So there are some understandable concerns about the financial implications and how implementation would work."

– Mark McClellan, who ran Medicare and Medicaid as CMS Administrator under President George W. Bush, quoted in *Pittsburgh Post-Gazette*, February 3, 2013.

States Will Bear Some Costs of Increased Medicaid Enrollment

- For newly-eligible, new enrollees
  - 100% FMAP for 3 years, to 90%

- For currently-eligible, new enrollees ("woodwork" or "welcome mat" effects)
  - Outreach, publicity, simplification will result in additional enrollment beyond "natural" growth
  - States will receive regular FMAP (Never less than 50%)

- Administration
  - Current Medicaid experience (e.g., 3-5%)
  - Efficiencies may occur due to enrollment simplification, etc.

Important assumptions:
- Take-up rate (Never 100%)
- Cost per person (likely less than ABD)
Cost of Medicaid Expansion is Largely Borne by New Federal Matching Funds

• For *new* eligibles, the *State* Medicaid share:
  – 2014, 2015 and 2016 is 0%;
  – 2017 is 5%
  – 2018 is 6%
  – 2019 is 7%
  – 2020 and after is 10%

• For *current* eligibles, State share unchanged:
  – State share averages 43% (Range 26% to 50%)

• Over decade, U.S. Medicaid cost projected to grow by $1,029 Billion to $7.4 Trillion

• State costs up $76 Billion, Federal share $952 Billion
Medicaid Enrollment Will Grow Among Those Now Eligible and Newly Eligible, by State

States Will Reap Offsetting Savings as Certain Current Limited-Benefit Medicaid Enrollees Become New Full-Benefit Enrollees

“Limited Benefit” Medicaid enrollees will qualify for the enhanced FMAP, if states end these programs and enrollees shift to “full-scope” Medicaid:

• **Breast and Cervical Cancer Treatment program**
• Family planning waiver
• Limited benefit waiver programs
• Medically needy/spend-down
States Will See Significant Savings in Health Programs Currently State-Funded

• **Mental Health/Substance Abuse Programs**
• **State-only coverage** (for states that previously adopted programs for low-income uninsured adults)
• **High risk pools**
• **Uncompensated care pool/fund**
  – In some states, Counties will see savings
• **Inpatient care for indigent prisoners**
• **Public health** (likely limited savings)
Expanding States Will See Significant Savings in Mental Health Programs

Oklahoma Health Care Authority study shows annual savings to state from Medicaid Expansion of $47.8 million.

Savings to:

- Dept. of Mental Health: $34 million
- Dept. of Corrections: $11.2 million
- State Health Department: $2.4 million

Examples of Comprehensive State Analyses: Michigan

- **Michigan House Fiscal Agency (7-12-2012)**
  - Net state savings first 6 years and roughly cost neutral thereafter; net savings over 10 years of **$1.1 Billion**

- **Michigan Senate Fiscal Agency (6-28-2012)**
  - State GF savings of **at least $200 Million/year through 2017**; Medicaid expansion is “more of a policy issue than a fiscal issue”

- **Center for Health Care Research & Transformation**
  - Net state savings of **$1.17 Billion** (2014-2019); a small annual net cost equal to $41 Million in 2020 or **$65 per covered enrollee**

Sources:
http://www.senate.michigan.gov/sfa/Publications/Memos/memo62812.pdf
Arkansas Study Found Net Fiscal Benefit of Medicaid Expansion

Arkansas Estimates Medicaid Expansion Will Save State $358 Million Over 2014-2025

$358 million net savings

$1.3 billion

$1.7 billion

Source: Arkansas Department of Human Services

Center on Budget and Policy Priorities | cbpp.org
Other Recent State Analyses: Florida

• **Florida** (Social Services Estimating Conf. 8-14-2012)
  — Higher state **costs** beginning in 2016 (**+$79.2M**) growing to **+$337.6M** annual cost by 2022.

• **Florida** (Health Policy Institute, 11-2012)
  – State can expand coverage *and* achieve net savings of **$100M/year** as some safety net programs become less necessary.

Sources:
- [http://edr.state.fl.us/Content/conferences/medicaid/FederalAffordableHealthCareActEstimates.pdf](http://edr.state.fl.us/Content/conferences/medicaid/FederalAffordableHealthCareActEstimates.pdf)
Recent Analyses Also for Idaho, Nebraska, Wyoming

• **Idaho** (Milliman, 11-9-2012)
  — Savings of $6.5M to $290.4M (2014-2024)

• **Nebraska** (Center for Health Policy, 8-2012)
  — Higher state costs ranging from $140M — $168M (2014-2020); but would generate at least $700M per year in new economic activity and health care providers would save $163M — $325M from reduced uncompensated care.

• **Wyoming** (Milliman, 9-5-2012):

Sources:

http://www.statereforum.org/sites/default/files/idaho_medicaid_expansion_population_and_cost.pdf
http://www.unmc.edu/publichealth/docs/medicaidexpansion.pdf
Hospitals Have a Clear Interest in Medicaid Expansion, Due to Reductions in Medicaid DSH

- DSH payments help cover most hospitals' costs of serving uninsured patients
- DSH cuts begin in 2014 (5%) and accelerate in 2017 (17%), 2018 (46%) and 2019 (51%)
  - Cuts occur regardless of whether state expands Medicaid
- Nationally, DSH cuts total $56 billion/10 years,
  - Hospital Medicaid revenues projected to increase by $314 billion if all states expand

Other Considerations: System Reform, Fairness and Equity

• **Cost control and quality**: Policy makers say it is hard to control health spending or improve care when people keep moving in and out of the system.

• **Equity**: Fairer alignment of subsidies
  – Health care tax expenditures cost $300 billion/yr.
  – Exchange subsidies will help middle-income
  – Medicaid is the vehicle to aid lower incomes
    – Not expanding Medicaid leaves a gap, as this group will not qualify for exchange subsidies below 100%FPL
Maryland is Committed to Expansion: Has Spelled Out its Rationale:

- “The public’s health is not the only reason....Our choice also reflects clear evidence that the Medicaid expansion ....will generate economic activity and jobs, save state money, protect the safety net and other health care providers; help lower all insurance premiums...create a continuum with our health insurance exchange, and improve health outcomes through access to Medicaid coverage and care.”

Maryland Fiscal Analysis Shows Increased Coverage of New and Current Eligibles

“The Medicaid expansion will insure nearly 190,000 Maryland citizens in 2020; 143,000 through the expansion itself, and about 45,000 by enrolling currently eligible individuals.”

Maryland Fiscal Analysis Shows Substantial Overall Savings

To 2020, the “effect on Maryland’s state budget shows overall state savings of $672 million, even after accounting for all the factors often cited by opponents of the Medicaid expansion:

• the ‘woodwork effect’ of more individuals enrolling at the state’s regular 50-50 match rate;
• the effect of slightly higher provider fees to enroll providers who will serve all of Maryland’s Medicaid eligibles (old and new);
• the fact that Maryland will need to start picking up a portion of the cost of the expansion population beginning in 2017;
• And, the fact that Maryland’s administrative costs will rise at the regular 50-50 match rate.”
Montana Governor Outlined Support

"Medicaid expansion is federally-funded, so if Montana doesn't expand its Medicaid program, then our tax dollars will be used to help patients in states like Arizona, Nevada, and North Dakota, states where Republican governors are leading the effort to expand Medicaid."

Nevada Governor Announced His Support of Medicaid Expansion in December

“All in all, it makes the best sense for the state to opt in. This is a way for me to protect these people.”

– Gov. Brian Sandoval (R-NV), noting that 22% of state residents are uninsured and the Medicaid expansion would cover 78,000 residents. (AP, December 12, 2012)
"We try to leave the politics out in the hallway when we make these decisions. In the end, it comes down to are you going to allow your people to have additional Medicaid money that comes at no cost to us, or aren't you?" he said. "We're thinking, yes, we should."

Arizona Governor Jan Brewer (AZ – R) Announced Support for Medicaid Expansion

“With this move, we will secure a federal revenue stream to cover the costs of the uninsured who already show up in our doctor’s offices and emergency rooms.”

“There is no way to look at this issue and say this is not the right thing for Arizona at this time.”

– Gov. Jan Brewer (R-AZ), January 14, 2013
AZ Governor’s Support for Expanded Medicaid Contingent on Ongoing Federal Support

“I will not allow Obamacare to become a bait and switch.”

– Gov. Jan Brewer (R-AZ), referring to a “circuit breaker” to freeze expanded coverage if federal matching for expansion group ever drops below 80%. (January 14, 2013.)
Ohio Gov. John Kasich Explained His Support of Medicaid Expansion February 4

• “It’s our money, let’s bring it home.”
  - Kasich estimated that Ohio will save $773 million through 2020 by expanding Medicaid
  - Will cover 230,000 people who are already eligible and 270,000 newly eligible

• If Ohio does not expand,
  - those with low incomes would continue to get care through emergency rooms rather than doctors’ offices or more appropriate settings,
  - hospitals would suffer as federal funds decrease for uncompensated care for the uninsured.
Gov. Kasich Listed Other Benefits for localities and for streamlining eligibility

• Would save money for local jurisdictions that provide mental health care funding; [he is] “very pleased about beginning to build that safety net for mental health.”

• Will streamline the state’s 150 or so Medicaid eligibility categories into three:
  – children and pregnant women;
  – people who are age 65 or older who have Medicare coverage or who need long-term
  – other non-pregnant, non-LTC adults.
Gov. Kasich: Conditions for Expansion

- Kasich emphasized that he is “not endorsing an individual mandate” and
- “If the federal government reduces its financial commitment, the expansion would automatically be reversed.”
- HHS Secretary Sebelius responded Monday:
  - “The president made it very clear that he understands that this framework is essential to giving governors confidence, that he would oppose any change in that framework, and he intends to keep the deal,”

Sources: Rebecca Adams and John Reichard, CQ HealthBeat, February 4, 2013.

Budget detail: http://www.healthtransformation.ohio.gov/Budget/Budget1415.aspx
IF all States Expand Medicaid, U.S. Medicaid Enrollment Will Grow by About 1/3 by 2020

Millions of U.S. Medicaid Beneficiaries. Unduplicated, ever-enrolled annually. % Growth by decade.

Potential % Increase in Non-Elderly Enrollment Due to Medicaid Expansion (Compared to ACA with No Expansion)

Selected States -- % Increase with Expansion, through 2022

U.S. Average Increase = 27%

Closing Comments

The Medicaid expansion is the most consequential state decision in the history of Medicaid.

Key takeaway:

Each state decision - to expand or not - will directly affect health care and health status of a large share of the state’s citizens, with ripple effects throughout the health care system, the state budget, the economy, employers and others paying for health insurance.

Ultimately, the Medicaid expansion is a state political decision

Each state has a unique set of budget and health care interests to be weighed by state policy makers, but this ultimately is a political decision for the Governor and the Legislature.
Assessing the State Fiscal Impact: Guides for Analysis

• Urban Institute/KFF Analysis

• Medicaid Expansion Analysis Tool
  – Created by State Network Initiative Technical Providers including SHADAC, CHCS and Manatt Health Solutions

• CHCS – Planning for Medicaid Expansion: An Online Toolkit

• CBPP – Health Reform’s Medicaid Expansion: A Toolkit for Advocates