

DATE: July 17, 2012
TO: House Appropriations Committee
FROM: Steve Stauff, Senior Fiscal Analyst
RE: Medicaid Expansion – Affordable Care Act

This memo provides information on the possible future State costs and savings by opting to expand Medicaid eligibility pursuant to the recent Supreme Court ruling on the federal Patient Protection and Affordable Care Act of 2012.

Affordable Care Act and Supreme Court Decision

Included in the Patient Protection and Affordable Care Act of 2012, also referred to as the Affordable Care Act (ACA), was a requirement that states extend Medicaid eligibility to all qualified citizens and United States residents who have family incomes at or below 133% (138% with the 5% income disregard) of the Federal Poverty Level (FPL). This particular component of the Act has been referred to as the "Medicaid expansion." In 2012, 133% of FPL equates to gross yearly income of \$14,856 for an individual and \$20,123 for a household of two. Generally, the current level of coverage for the aged, blind, and disabled is up to 100% of the FPL. However, the income limit is higher for some populations (e.g., children and pregnant women) and lower for others (e.g., childless adults).

The individual mandate of the ACA requires that most people maintain a minimum level of health insurance coverage for themselves and their dependents beginning in 2014. Under the ACA's provisions, individuals above 100% of FPL will be eligible to purchase subsidized health insurance coverage on regulated exchanges.

On June 28th, the U.S. Supreme Court upheld most of the provisions of the ACA but ruled that requiring states to expand Medicaid income eligibility or not participate in the Medicaid program was too great of a penalty and was coercive. The ruling allows a state's ACA Medicaid expansion to be voluntary rather than effectively mandatory.

Michigan's Current Medicaid Program

The Michigan Medicaid program currently provides physical and mental health medical services to nearly 1.9 million residents, or 1 in 5 individuals. In FY 2011-12 Medicaid expenditures will total \$11.5 billion Gross, of which \$2.0 billion is GF/GP.

Medicaid is a means-tested program that considers an applicant's income and assets in determining who qualifies for coverage. Various factors are used in determining qualifying levels.

Low-income families are the largest component of the Medicaid population but they are the least expensive to cover at only 35% of Medicaid costs. Medical services to aged, blind, and disabled persons account for 65% of all Medicaid expenditures despite making up only 23% of the Medicaid population.

Medicaid Expansion

If Michigan opts to expand the Medicaid program eligibility level to 133% of the FPL, preliminary estimates are that, on net, \$211.1 million GF/GP may be saved in the first year of the expansion, and \$1.1 billion may be saved over a ten year period (see Table 1).

First, the federal government will pay the complete cost for the Medicaid expansion for three years beginning in 2014: 100% of the costs for enrolling the newly eligible population. After the first three years the federal government's match rate drops to 95% beginning in 2017 and then to 90% in 2020. The estimated number of individuals who may become eligible for Medicaid at the higher poverty threshold is 400,000; for this ten year analysis that number does not change. Changes in economic factors could affect future income levels. The assumed cost per eligible per year in 2014 is \$5,000 and is increased each year by a 3% inflation factor. The 3% factor is a net adjustment based on assumed Medicaid program costs increases of 5% corrected for a 2% general inflation rate increase. (Note: the same inflation factor is applied throughout this analysis.)

The result is that in 2014, without looking at the savings possibilities discussed below, the expansion would have no GF/GP cost but would bring \$2.0 billion of federal revenue into the State (see Chart 1). And, over a ten-year period federal funds would amount to \$21.6 billion, with required GF/GP funds at \$1.3 billion.

Indirect Medicaid Savings

There are existing State supported medical services programs that may be reduced due to the Medicaid expansion, generating GF/GP savings each year. The program that should see the greatest savings impact would be the non-Medicaid mental health program. Approximately \$175.0 million GF/GP would no longer be necessary to support the program as more individuals would qualify for Medicaid under the expanded FPL and would be 100% federally covered beginning in 2014. Cumulatively over the ten years this shift would result in an estimated \$2.0 billion in GF/GP savings.

The Medicaid Adult Benefits Waiver (ABW) program includes individuals who may qualify within the parameters of the Medicaid expansion. The ABW program has both a physical and mental health component and is financed at the Federal Medical Assistance Program (FMAP) rate, which is 66.39% federal and 33.61% State in FY 2012-13. The savings occur by shifting State participation from 33.61% to zero in 2014, and eventually to 10.0%. The GF/GP savings for the ABW program savings are estimated to be \$36.1 million in 2014 and \$414.1 million over ten years.

Other areas of the State budget may be impacted but were not included in the calculations shown in the attachments. The Michigan Department of Corrections may see an annual savings of roughly \$40.0 million in medical costs that are now entirely GF/GP supported but may qualify under the ACA Medicaid expansion. The 133% FPL qualifying level would cover more incarcerated individuals who require Medical services outside of the prison.

The State of Michigan may incur lower employee health care costs due to the Medicaid expansion. Covering more uninsured and underinsureds through the expansion could lead to lower uncompensated care levels in the medical services community. Lower uncompensated care levels would result in reduced medical service provider losses which may result in lower employer health care costs. Annual State expenditures for employee health insurance costs are approximately \$600 million.

Conclusion

There are still a number of questions as to how the Medicaid expansion will be rolled out by the U.S. Department of Health and Human Services. Rule promulgation regarding the expansion or law changes may be necessary to address the different States that may or may not adopt the expansion.

Based on currently available information, HFA estimates indicate that the Medicaid expansion, covering approximately 400,000 individuals, would result in some net savings to the State from 2014 to 2019 and would be roughly cost-neutral in subsequent years (see Chart 2).

Please call if you have any questions regarding this information.

Table 1 - ACA Medicaid Expansion Costs and Savings - 10 Years
Preliminary Estimates

CY	Federal Participation	Cost per Eligible/ Year	Eligibles	Preliminary Costs/(Savings) In Millions							
				Eligible Expansion Cost Gross	Federal Expansion Cost	State GF/GP Expansion Cost	Mental Health GF/GP Savings	Adult Benefits Waiver Federal Savings	Adult Beneits Waiver GF/GP Savings	Net Federal	Net GF/GP
2014	100%	\$5,000	400,000	\$2,000.0	\$2,000.0	\$0.0	(\$175.0)	(\$95.0)	(\$36.1)	\$1,905.0	(\$211.1)
2015	100%	\$5,150	400,000	\$2,060.0	\$2,060.0	\$0.0	(\$180.3)	(\$97.9)	(\$37.2)	\$1,962.1	(\$217.5)
2016	100%	\$5,305	400,000	\$2,122.0	\$2,122.0	\$0.0	(\$185.7)	(\$100.8)	(\$38.3)	\$2,021.2	(\$224.0)
2017	95%	\$5,464	400,000	\$2,185.6	\$2,076.3	\$109.3	(\$191.3)	(\$103.8)	(\$39.5)	\$1,972.5	(\$121.5)
2018	95%	\$5,628	400,000	\$2,251.2	\$2,138.6	\$112.6	(\$197.0)	(\$107.0)	(\$40.7)	\$2,031.6	(\$125.1)
2019	95%	\$5,797	400,000	\$2,318.8	\$2,202.9	\$115.9	(\$202.9)	(\$110.2)	(\$41.9)	\$2,092.7	(\$128.9)
2020	90%	\$5,971	400,000	\$2,388.4	\$2,149.6	\$238.8	(\$209.0)	(\$113.5)	(\$43.1)	\$2,036.1	(\$13.3)
2021	90%	\$6,150	400,000	\$2,460.0	\$2,214.0	\$246.0	(\$215.3)	(\$116.9)	(\$44.4)	\$2,097.1	(\$13.7)
2022	90%	\$6,335	400,000	\$2,534.0	\$2,280.6	\$253.4	(\$221.8)	(\$120.4)	(\$45.8)	\$2,160.2	(\$14.2)
2023	90%	\$6,525	400,000	\$2,610.0	\$2,349.0	\$261.0	(\$228.5)	(\$124.0)	(\$47.1)	\$2,225.0	(\$14.6)
Total:				\$22,930.0	\$21,593.0	\$1,337.0	(\$2,006.8)	(\$1,089.5)	(\$414.1)	\$20,503.5	(\$1,083.9)

CHART 1
Direct Costs of Medicaid Expansion Under ACA
Preliminary Long-Term Estimates

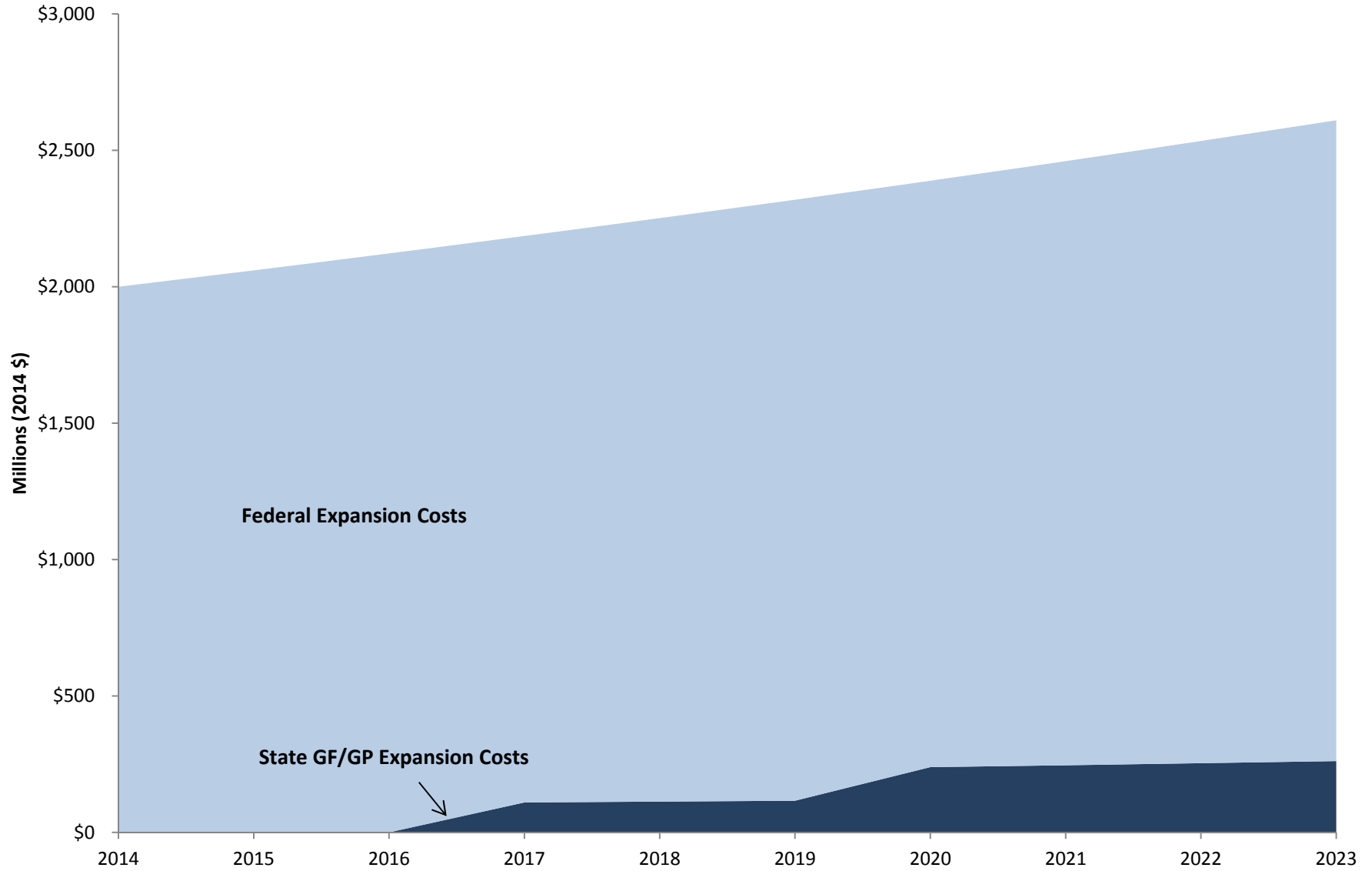


CHART 2
State Costs/(Savings): Medicaid Expansion Under ACA
 Preliminary Long-Term Estimates

