Overview of Medicaid Expansion Economic Implications

Prepared for the South Carolina Hospital Association

January 2016
Agenda

- Medicaid Expansion Landscape
- Alternative Coverage Plan in South Carolina
- State Savings from Accessing Enhanced Federal Matching Funds
- State Savings from Replacing General Funds with Medicaid Funds
- Revenue Gains
- Key Takeaways
Medicaid Expansion Landscape
31 States and D.C. Have Expanded Medicaid

**Expanded Medicaid (31 + DC)**

- Alaska
- California
- Colorado
- Connecticut
- Delaware
- Georgia
- Hawaii
- Idaho
- Illinois
- Indiana
- Iowa
- Kansas
- Kentucky
- Louisiana
- Maine
- Massachusetts
- Michigan
- Minnesota
- Mississippi
- Missouri
- Montana
- Nebraska
- Nevada
- New Hampshire
- New Jersey
- New Mexico
- New York
- North Carolina
- North Dakota
- Ohio
- Oklahoma
- Oregon
- Pennsylvania
- Rhode Island
- South Carolina
- South Dakota
- Tennessee
- Texas
- Utah
- Vermont
- Virginia
- Washington
- West Virginia
- Wisconsin
- Wyoming

**Not Expanded Medicaid (19)**

- Alabama
- Arkansas
- Arizona
- Idaho
- Nevada
- New Hampshire
- New Mexico
- Oregon
- Texas
- Utah
- Washington, DC
- West Virginia

**Alternative Medicaid Expansions (6)**

- California
- Nevada
- Arizona
- Utah
- Idaho
- Montana

Pennsylvania is not implementing its approved waiver for an alternative Medicaid expansion. Louisiana’s Governor has signed an Executive Order to expand Medicaid by July 1, 2016.
### ADVANCING

**Alabama**: Governor’s Health Care Improvement Task Force recommends expanding coverage

**Kansas**: Foundations & hospital association release report highlighting budget neutrality of Medicaid expansion

**Louisiana**: Governor signs Executive Order to expand Medicaid, with July 1, 2016 launch date

**Nebraska**: Republican legislator previously oppositional to expansion introduces bill to expand via Marketplace premium assistance

**South Dakota**: Governor supports expansion in budget address and establishes coalition to study options for paying State share

**Wyoming**: Governor includes Medicaid expansion in budget proposal

### SUSTAINING

**Arkansas**: Governor and Task Force recommend continuing expansion with new features

**Kentucky**: Newly-elected Governor announces intent to convert from traditional to alternative Medicaid expansion – but not repeal it, as suggested during his campaign
The Latest on Economic Impacts of Expansion in AR and KY

**Kentucky – Governor Beshear Press Conference 11/6/2015**

- Expansion has had a $300 million positive impact on the State General Fund in 2 years
  - Rolling back expansion would cost $300 million over next 2 years
- $2.9 billion in new provider revenues by July 2015
- $30 billion positive impact on Kentucky’s economy over 8 years

**Arkansas – The Stephen Group Report 10/1/2015**

- Projected net positive impact on Arkansas State Budget of $438 million from 2017-2021
  - Rolling back expansion would cost $438 million over next 4 years
- $1.1 billion reduction in hospital uncompensated care costs from 2017-2021
- $207 million in increased State premium tax revenues

Deloitte report on Kentucky:
http://governor.ky.gov/healthierky/Documents/medicaid/Kentucky_Medicaid_Expansion_One-Year_Study_FINAL.pdf

The Stephen Group report on Arkansas:
http://www.arkleg.state.ar.us/assembly/2015/2015R/Pages/MeetingDetails.aspx?committeecode=836&meetingID=26509
President Obama announced on January 14, 2016 that he will seek Congressional approval to extend enhanced federal funding (at 100%) for three years for any non-expansion state that decides to expand.
Alternative Coverage Plan in South Carolina
350,000 Adults Gain Coverage Under New Program

## South Carolina Medicaid: By the Numbers

<table>
<thead>
<tr>
<th>“Today”</th>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Total Enrollment</strong> (current)</td>
<td>951,988</td>
</tr>
<tr>
<td><strong>Total Costs</strong> (Federal and State, FY 2015)</td>
<td>$5.6 billion</td>
</tr>
<tr>
<td><strong>Federal Matching Percentage</strong> (FMAP) (2015)</td>
<td>70.64%</td>
</tr>
<tr>
<td><strong>Total State Costs</strong> (FY 2015) (approximate)</td>
<td>$1.6 billion</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>SFY 2017</th>
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</thead>
<tbody>
<tr>
<td><strong>Newly Eligible Adult Enrollment</strong></td>
<td>351,600</td>
</tr>
<tr>
<td><strong>Total Costs for Newly Eligible Adults</strong></td>
<td>$1.8 billion</td>
</tr>
<tr>
<td><strong>Newly Eligible Adult FMAP</strong></td>
<td>95%</td>
</tr>
<tr>
<td><strong>Total State Costs for Newly Eligible Adults</strong></td>
<td>$104 million</td>
</tr>
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</table>

<table>
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<th>SFY 2018</th>
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</thead>
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<tr>
<td><strong>Newly Eligible Adult Enrollment</strong></td>
<td>373,100</td>
</tr>
<tr>
<td><strong>Total Costs for Newly Eligible Adults</strong></td>
<td>$2.0 billion</td>
</tr>
<tr>
<td><strong>FMAP Newly Eligible Adults</strong></td>
<td>94%</td>
</tr>
<tr>
<td><strong>Total State Costs for Newly Eligible Adults</strong></td>
<td>$132 million</td>
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In 2017, South Carolina would draw down $1.7 billion in Federal funds for the expansion population.
Estimated State Expenditures for Expansion: Revisited

Estimated state expenditures for expansion in SFY 2018: $132.4 million

<table>
<thead>
<tr>
<th>Select state expenditures for expansion in SFY 2018</th>
<th>SFY 2018 (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newly Eligible Adults (previously uninsured)</td>
<td>$85.1</td>
</tr>
<tr>
<td>Newly Eligible Adults (previously insured)</td>
<td>$27.5</td>
</tr>
<tr>
<td>State Agency Offset (DHEC &amp; DOC)</td>
<td>($5.5)</td>
</tr>
</tbody>
</table>

1. Assumes Medicaid managed care delivery system
2. Can be reduced by implementing premium assistance for the employer sponsored insurance market. In addition, crowd-out assumptions appear high.
3. Can be increased substantially. Savings estimate is likely low and does not consider increased revenue.

Cost comparison: Medicaid v. Marketplace

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Medicaid managed care</td>
<td>$4,850</td>
<td></td>
</tr>
<tr>
<td>(PMPY, 2016)</td>
<td></td>
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<tr>
<td>Marketplace QHPs</td>
<td>$4,488 - $4,872</td>
<td></td>
</tr>
<tr>
<td>(PMPY, 2015)</td>
<td></td>
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</table>

Source for Marketplace QHP costs: Premiums represent second lowest cost silver plans for coverage year 2015 for a 40-year-old earning $13,000 annually. Annual cost-sharing wrap based on other state experience.
The Economics of Expansion: Impact on State Budgets

1. State Costs
   - Coverage for newly eligible adults
   - Increased administration

2. State Savings
   - Accessing enhanced federal matching funds for some previously enrolled Medicaid beneficiaries now eligible for the new adult group
   - Replacing State General Funds that have historically supported programs and services for the uninsured with Medicaid funds

3. Revenue Gains
   - As a result of expansion, provider and health plan revenue increases, thereby increasing the revenue generated by provider and health plan taxes

### ACA Newly Eligible FMAP

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>FMAP</th>
</tr>
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<tbody>
<tr>
<td>2015</td>
<td>100%</td>
</tr>
<tr>
<td>2016</td>
<td>100%</td>
</tr>
<tr>
<td>2017</td>
<td>95%</td>
</tr>
<tr>
<td>2018</td>
<td>94%</td>
</tr>
<tr>
<td>2019</td>
<td>93%</td>
</tr>
<tr>
<td>2020 and thereafter</td>
<td>90%</td>
</tr>
</tbody>
</table>
State Savings from Accessing Enhanced Federal Matching Funds
Savings From Accessing Enhanced Federal Matching Funds

Savings May be Generated from Accessing Enhanced FMAP for Some or All of the Following Populations

- Pregnant Women
- Disabled
- Family Planning Programs
Women enrolled in the new adult group who become pregnant remain in the new adult group; states continue to receive enhanced federal match.

**Breaking it Down**

States accrue savings for:
- Childless adults below 138% FPL who become pregnant
- Newly eligible parents (between 62% and 138% FPL in South Carolina) who become pregnant

States do not accrue savings for:
- Individuals who attest to being pregnant at the time of application or renewal; they are no longer eligible for the new adult group

In 2018, South Carolina would be paying for 6%, instead of 30%, of the costs for pregnant women who:
- Are first-time mothers (i.e., are “childless adults” in the new adult group) with income 0%-138% FPL
- Are mothers (i.e., are “parents” in the new adult group) with income greater than 62% FPL

**Potential Savings in South Carolina**

South Carolina Medicaid covers pregnant women up to 194% FPL.

<table>
<thead>
<tr>
<th>Pregnant Women</th>
<th>Total Expenditures on Pregnant Women, 0%-133% FPL, 2014</th>
<th>State Funds on Pregnant Women, 0%-133% FPL, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$213.9 million</td>
<td>$63.0 million</td>
</tr>
</tbody>
</table>

Source: SC Department of Health and Human Services. State funds were calculated using the State’s 2014 FMAP and total expenditures.
Medicaid Spending on Disabled Population

With expansion, some low-income individuals who previously would have had to pursue a disability determination to qualify for Medicaid are able to enroll into the new adult group based on income alone. As a result, early expansion states are reporting sharp drops in the number of individuals seeking disability determinations. In the near-term, states see savings from the reduced administrative costs of conducting disability determinations, and in the longer term from fewer individuals in the disability category.

Potential Savings in SC, longer term:

<table>
<thead>
<tr>
<th>SSI Blind/Disabled income limit: 100% FPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSI Blind/Disabled (SFY 2015)</td>
</tr>
<tr>
<td>Total Expenditures</td>
</tr>
<tr>
<td>$1,538 million</td>
</tr>
</tbody>
</table>

Source: SC Department of Health and Human Services.

Milliman did not consider these savings in its Economic Analysis.

In Arkansas, spending on the SSI disabled group had historically grown annually by ~5%. In 2015, SSI spending actually decreased by .02% and the State reduced spending by 6% on their non-SSI disabled population.
Through State Plan Amendments or waivers, states may cover individuals with incomes above Medicaid levels and not otherwise eligible for Medicaid in family planning programs. States receive 90% match for family planning services and regular match for family planning related services.

Breaking it Down:

South Carolina’s Family Planning Program – Healthy Connections Checkup (“Checkup”) -- provides coverage for family planning and family planning related services (including preventive care) for men and women with incomes below 194% FPL who are not otherwise eligible for Medicaid.

The Department of Health and Human Services encourages enrollees to make maximum use of the family planning services (at 90% match) and the preventive and family planning related services (at 71% match).

Checkup enrollees below 138% FPL would transition to the new adult group and receive full coverage; state would receive enhanced federal match.

Family planning related services currently reimbursed at regular match will become reimbursable at the enhanced match if state expands for enrollees who are:

- Childless adults below 138% FPL
- Newly eligible parents (between 62% and 138% FPL in South Carolina)

Potential Savings in South Carolina

<table>
<thead>
<tr>
<th>State Funds: FY 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family Planning (Checkup)</td>
</tr>
</tbody>
</table>

Source: South Carolina Department of Health and Human Services
State Savings from Replacing General Funds with Medicaid Funds
Savings From Replacing General Funds with Medicaid Funds

Categories May Include:

- Mental/Behavioral Health
- Inmates
- Public Health
- Other State Programs Targeted to the Uninsured
Savings from Mental Health and Substance Abuse Services

State and local funding supports mental health and substance abuse treatment for uninsured individuals. With expansion, previously uninsured individuals are now eligible for Medicaid in the new adult group; states receive Medicaid funding.

Breaking it Down

- 100% state funding replaced with Medicaid funding with enhanced federal match
- Savings are outside of the Medicaid budget and often in the budget of another agency; legislative action may be needed to reduce spending
- Enhanced federal match applies to spending on medical services; 50% federal match on administrative spending

Potential Savings in South Carolina

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Department of Mental Health</td>
<td>$357.1 million</td>
<td>$158.6 million</td>
</tr>
<tr>
<td>Department of Alcohol &amp; Other Drug Abuse Services</td>
<td>$39.1 million</td>
<td>$6.4 million</td>
</tr>
<tr>
<td>Total</td>
<td>$396.2 million</td>
<td>$165.0 million</td>
</tr>
</tbody>
</table>

Savings from Inpatient Costs of Prisoners

Medicaid covers inpatient costs of prisoners who would otherwise be eligible for Medicaid. With expansion, most prisoners will be Medicaid eligible (but for their incarceration status) resulting in savings to state corrections budgets related to inpatient care.

- Savings accrue to corrections budget for costs of inpatient services for prisoners < 138% FPL
- State must estimate the percentage of corrections health care costs that are attributable to inpatient services
- Pew Charitable Trusts and the MacArthur Foundation found that South Carolina spent approximately $68.5 million on prisoner health care in 2011
- The same report found that approximately 20% of states’ spending on prisoner health care was on inpatient care
- 20% of South Carolina’s total state spending on prisoner health care is $13.7 million
- The report assumes nearly all prisoners are likely to qualify for the new adult category

Potential Savings in South Carolina

<table>
<thead>
<tr>
<th>Total Spending</th>
<th>Approximate Spending on Inpatient Care (20% of total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prisoner Health Care Spending, 2011</td>
<td>$68.5 million</td>
</tr>
</tbody>
</table>

Savings from Public Health Programs

State and local funding supports the provision of health services to uninsured individuals, for example, tobacco cessation programs or services at local health centers. With expansion, previously uninsured individuals are now eligible for Medicaid in the new adult group; states receive Medicaid funding.

Breaking it Down

- 100% state funding replaced with Medicaid funding with enhanced federal match
- Savings are outside of the Medicaid budget and often in the budget of another agency; legislative action may be needed to reduce spending
- Milliman estimates 2018 savings of $5.5 million at 74% participation and $9.5 million at 100% participation for the Department of Corrections and the Department of Health and Environmental Control combined
State General Funds are allocated to support the “Healthy Outcomes Plan,” including:

- 2.75% Medicaid rate increase for inpatient and outpatient hospital services
- Primary care enhancement payments to safety net providers, including Federally Qualified Health Centers (FQHCs), Rural Health Clinics (RHCs), free clinics, other clinics serving the uninsured and Welvista
- Funding for FQHCs/Free Clinics

### Potential Savings in South Carolina

<table>
<thead>
<tr>
<th>Components of the Healthy Outcomes Plan</th>
<th>Total Funds (2016)</th>
<th>State Funds (2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.75% Medicaid Rate Increase</td>
<td>$38.0 million</td>
<td>$11.4 million</td>
</tr>
<tr>
<td>Primary Care Enhancement</td>
<td>$7.5 million</td>
<td>$7.5 million</td>
</tr>
<tr>
<td>FQHC/Free Clinic Payments</td>
<td>$16.0 million</td>
<td>$16.0 million</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$61.5 million</td>
<td>$34.9 million</td>
</tr>
</tbody>
</table>

Source: South Carolina Hospital Association.
Enhanced Federal Match for CHIP

Starting October 1, 2015, the CHIP federal matching rate will increase by 23 percentage points across all states. The enhanced rate continues until at least September 30, 2017.* If CHIP is not reauthorized, enrollees will transition to Marketplace coverage.

Breaking it Down

South Carolina’s CHIP federal matching rate will increase from 79% to 100% on October 1. While unrelated to Medicaid expansion, as federal funding increases, the State share could be shifted to fund the non-federal share of expansion.

Potential Savings in South Carolina

<table>
<thead>
<tr>
<th>Savings from CHIP Enhanced Rates</th>
<th>SFY 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>$42.3 million</td>
<td></td>
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Revenue Gains
Revenue Gains

Pre-expansion

Many states raise revenue through assessments/taxes on providers and health plans

Post-expansion

With expansion, Medicaid revenue to providers and plans increases, generating additional tax revenue for states

Revenue Gain Categories

- Provider taxes (primarily on hospitals)
  - South Carolina has provider taxes
- Insurer taxes
Existing South Carolina Taxes

Hospital Provider Tax: Calculated to raise $264 million.
- $132 million supports the state share of Disproportionate Share Hospital (DSH) payments.
- $132 million supports the state share of general Medicaid spending.

As federal funding for DSH decreases starting in 2018, the state share can be shifted to fund the non-federal share of expansion at a higher match rate.

$52.3 million in state funding will be available in 2018

Key Takeaways
## Funding State Share of Alternative Coverage Plan in 2018

### COST

$132 million

### REDUCE THE COST

Implement Premium Assistance for ESI

### COVER THE COST

Use potential expansion-related savings*

(Federal dollars can be substituted for all or some of the State spending in the following categories)

<table>
<thead>
<tr>
<th>Category</th>
<th>Cost</th>
<th>Allocation</th>
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<tbody>
<tr>
<td>DSH (2018)</td>
<td>$52 million</td>
<td>All</td>
</tr>
<tr>
<td>CHIP Savings (2018)</td>
<td>$42 million</td>
<td>All</td>
</tr>
<tr>
<td>Corrections, Inpatient Costs (2011)</td>
<td>$13 million</td>
<td>All</td>
</tr>
<tr>
<td>Healthy Outcomes Plan (2016)</td>
<td>$35 million</td>
<td>All or some</td>
</tr>
<tr>
<td>Disabled (2015)</td>
<td>$451 million</td>
<td></td>
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<tr>
<td>Mental Health &amp; Substance Abuse (2016)</td>
<td>$165 million</td>
<td>Some</td>
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<tr>
<td>Pregnant Women</td>
<td>$63 million</td>
<td></td>
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<td>Family Planning (Checkup) (2015)</td>
<td>$165,000</td>
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<tr>
<td>Public Health Programs</td>
<td>TBD</td>
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*$These are program areas in which early expansion states generated or expected to generate savings

$107 million in savings

$25 million more required

Funding State Share of Alternative Coverage Plan in 2018

COST

$132 million

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Thank You!

Deborah Bachrach, Partner
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