

### Medicaid Expansion: A Fiscal Decision to Ensure Access to Care

Following the June 28, 2012 U.S. Supreme Court's decision (SCOTUS decision) upholding the constitutionality of the *Patient Protection and Affordable Care Act* (ACA), but modifying the ACA provision that mandated states to expand their Medicaid programs or lose all federal funds, states must now choose whether to opt to participate in the Medicaid expansion in exchange for significant federal assistance, or to maintain their Medicaid programs' status quo and deny access to potentially millions of poor and uninsured constituents.<sup>1</sup> Some states have already decided whether to opt-in or opt-out of the expansion, while many others remain undecided and are scrambling to evaluate the financial considerations involved.<sup>2</sup>

As modified by the Supreme Court's ruling, the ACA requires states that elect to participate in the Medicaid expansion to cover adults with incomes up to 133 percent of the Federal Poverty Line, beginning in 2014.<sup>3</sup> In return, the federal government will pay 100 percent of the costs of all newly eligible beneficiaries for three years, gradually scaling its matching funds down to 90 percent by 2020.<sup>4</sup> Prior to the Supreme Court's ruling, it was anticipated that the expansion would increase Medicaid eligibility to more than half of the 41.2 million adults who lacked insurance as of 2010.<sup>5</sup> The Congressional Budget Office (CBO) currently predicts that 3 million fewer individuals will have insurance as a result of the Medicaid expansion being made optional, estimating that approximately 6 million individuals will be denied insurance coverage under Medicaid, though 3 million of those individuals will likely obtain private insurance through a *state insurance exchange*.<sup>6</sup> However, this will result in a higher per person cost to the federal government than if those individuals were covered by Medicaid, and many other individuals will be left without any coverage due to ineligibility for Medicaid or private insurance subsidies.<sup>7</sup>

Although the federal government will initially fund the entire expansion, beginning in 2017, that funding will start to be scaled back, forcing states to begin paying a percentage of the healthcare expenses for both newly-eligible adults under the expansion and adults currently eligible under states' existing programs who, even in the absence of the expansion, will enroll in Medicaid as required by the ACA's individual mandate.<sup>8</sup> Despite this added financial consideration, states stand to experience significant financial gains should they elect to expand their programs. For example, the federal

government would pay a higher percentage of the healthcare costs incurred by certain currently-eligible adults, which may be especially noticeable for states in which these adults currently receive less than full-scope Medicaid and the state's expansion grants all adults the same benefits.<sup>9</sup> By expanding their programs to cover poor and near-poor uninsured adults, states may be able to cut some of their non-Medicaid costs for these individuals, such as funds expended on mental health services and uncompensated care payments to hospitals.<sup>10</sup> In addition to the significant savings produced, a state's expansion could also generate considerable revenue, e.g., the influx of additional federal Medicaid funds would increase the state's total economic activity, which would in turn generate revenue in the form of additional state income and sales taxes, as well as insurance premium and provider taxes, where applicable.<sup>11</sup>

A study of the Medicaid expansion's potential impact in Nebraska indicated that the estimated cost to the state would range from \$140 to \$168 million, but in return, the state would receive \$2.9 to \$3.5 billion from the federal government through 2020.<sup>12</sup> The study indicated that the federal government's spending in Nebraska would also generate a minimum of \$700 million every year in new economic activity, which could potentially finance more than 10,000 jobs annually through 2020.<sup>13</sup> In contrast, foregoing the expansion would cost Nebraska more than \$1 billion in uncompensated care through 2019.<sup>14</sup>

A similar study assessing Missouri's Medicaid program, found that the state would spend \$431 million over the first five years of the expansion's implementation, but would receive \$8.4 billion in funding from the federal government in return.<sup>15</sup> In 2011, Missouri spent almost \$980 million on uncompensated care, and opting-in to the expansion may lower that amount to \$311 million, as well as reduce the \$1.8 to \$3.7 billion the state loses in economic productivity annually as a result of its residents' healthcare needs going unmet.<sup>16</sup> Opting-in would mean expanding access to more than 300,000 Missourians, reducing the state's uninsured rate, stimulating the economy, and easing the burden that \$1 billion in uncollected medical bills places on the state's hospitals each year.<sup>17</sup> Although the expansion promises significant benefits in terms of increased access to healthcare services and additional revenue, the relative benefits and costs of expanding Medicaid will vary from

state to state, requiring an in-depth analysis regarding the fiscal implications for each state.<sup>18</sup>

Currently, 27 states remain undecided regarding whether to expand their Medicaid programs, while ten states and the District of Columbia have opted-in and another three states appear likely to participate.<sup>19</sup> Five states have announced they will not expand their Medicaid programs: (1) Florida; (2) Louisiana; (3) Mississippi; (4) South Carolina; and, (5) Texas, and another five states appear unlikely to expand their programs: (1) Iowa; (2) Missouri; (3) Nevada; (4) New Jersey; and, (5) Nebraska.<sup>20</sup> Some states have offered specific reasons for their leanings, including the unwillingness to raise taxes or the purported inability to fund other areas of need, such as education.<sup>21</sup> Other states have simply declined to participate, such as Texas, whose governor stated the state had “*no intention to implement so-called state exchanges or to expand Medicaid under Obamacare.*”<sup>22</sup>

It is uncertain whether states that have declined to participate will experience any political backlash from their constituents in the November 2012 elections, but with the Medicaid expansion’s 2014 launch rapidly approaching, it is clear that those states that have delayed action must reach a decision in the near-future.

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3 42 U.S.C. §1396a(a)(10)(A)(i)(VIII) (2010).  
4 “Medicaid Coverage and Spending in Health Reform: National and State-by-State Results for Adults at or Below 133% FPL” By John

Holahan and Irene Headen, Urban Institute, To Kaiser Commission on Medicaid and the Uninsured, Washington, D.C.: Kaiser Family Foundation, May 2010, p. 14.  
5 Kaiser, “How Will the Medicaid Expansion for Adults Impact Eligibility and Coverage?” July 2012, p. 3.  
6 “Court’s Ruling May Blunt Reach of the Health Law” By Robert Pear, The New York Times, July 24, 2012, <http://www.nytimes.com/2012/07/25/health/policy/3-million-more-may-lack-insurance-due-to-ruling-study-says.html> (Accessed 8/23/12).  
7 Ibid.  
8 “Considerations in Assessing State-Specific Fiscal Effects of the ACA’s Medicaid Expansion” By Stan Dorn, The Urban Institute Health Policy Center: Washington, DC, August 20, 2012, p. 1.  
9 Ibid.  
10 Ibid.  
11 Ibid.  
12 “Medicaid Expansion in Nebraska Under the Affordable Care Act” By Jim P. Stimpson, UNMC Center for Health Policy, Omaha, NE: August 2012, p. 1.  
13 Ibid.  
14 Ibid.  
15 John Holahan and Irene Headen, May 2010, p. 1, 10.  
16 “State Progress Toward Health Reform Implementation: Slower Moving States Have Much to Gain” By Fredric Blavin, Matthew Buettgens, and Jeremy Roth, Urban Institute, January 2012, p. 7; “Guest Commentary: \$20 for Medicaid expansion” by Robert Gatter, posted on St. Louis Post-Dispatch website, July 12, 2012, [http://www.stltoday.com/news/opinion/guest-commentary-for-medicaid-expansion/article\\_954e67b7-b3af-57fe-95d1-32d3d942d1a8.html](http://www.stltoday.com/news/opinion/guest-commentary-for-medicaid-expansion/article_954e67b7-b3af-57fe-95d1-32d3d942d1a8.html) (accessed 7/18/12).  
17 Robert Gatter, July 12, 2012; John Holahan and Irene Headen, May 2010, p. 10.  
18 Stan Dorn, August 20, 2012, p. 1.  
19 “Where Each State Stands on ACA’s Medicaid Expansion: A Roundup of What Each State’s Leadership Has Said About Their Medicaid Plans” The Advisory Board, July 17, 2012, <http://www.advisory.com/Daily-Briefing/2012/07/05/Where-each-state-stands-of-the-Medicaid-expansion> (Accessed 8/23/12).  
20 Ibid.  
21 Ibid.  
22 Ibid.



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