



Medicaid Expansion in Virginia under the New Health Care Law

Medicaid Expansion in PPACA: What does the law say?

- States must expand Medicaid to cover all non-elderly adults up to 133 percent of the federal poverty level (\$14,404 for an individual, \$29,327 for a family of four)
- Funding for the newly enrolled will be 100 percent federal funded from 2014 through 2016¹. In 2017, the funding will shift to a 95 percent/5 percent federal/state split for the newly eligible population. By 2020 and beyond, states will be responsible for 10 percent of the cost of the newly eligible in Medicaid.

One of the key provisions of the Patient Protection and Affordable Care Act (PPACA) is an expansion of the Medicaid program to offer coverage to Americans up to 133 percent of the federal poverty level. Beginning in 2014, hundreds of thousands of low-income Virginians who were previously uninsured will gain access to health insurance coverage through Medicaid, with the federal government financing most of the expansion cost.

Medicaid expansion is a good deal for Virginia

Low-income Americans are less likely than those with higher incomes to have access to or be able to afford private health insurance coverage. Under the Medicaid expansion in the new health care law, an estimated 16 million Americans are likely to enroll in Medicaid. Approximately 96 percent of the cost will be paid for by the federal government through 2019. On average, states will only be responsible for about four percent of the total cost of the expansion between the years 2014-2019.

Virginia currently offers Medicaid coverage up to 133 percent of the federal poverty level for all children, but the state only covers parents up to 30 percent of the federal poverty level (approximately \$6,600 for family of four) and offers no coverage to childless adults.

Since our low income eligibility limits for adults in Medicaid are so low – less than half the national average – Virginia will benefit more than most states from the

Medicaid expansion in the new health law. The Medicaid expansion will give all states a much more favorable match rate than normal. For the current Medicaid population, Virginia pays 50 percent of the cost of coverage and the federal government pays the other 50 percent. Since Virginia has a lower eligibility than 42 other states, the Commonwealth will be able to claim the extra federal funds for a greater number of the newly eligible than other states.

For instance, Tennessee currently covers parents up to 134 percent of the federal poverty level. Under the new law, they will likely be unable to get the enhanced federal funding for most, if not all, parents. Virginia, on the other hand, will be able to receive enhanced federal funding for all newly eligible parents between 30 and 133 percent of poverty.²

Figure 1: Medicaid Income Eligibility Limits for Working Parents
Virginia Lags Behind Other States

State	Income Eligibility Limit (percent of federal poverty level)	State Rank
Tennessee	134%	12
Maryland	116%	15
Kentucky	62%	29
North Carolina	51%	38
Virginia	30%	44

Source: Kaiser Family Foundation

How many will enroll? How much will it cost?

The most comprehensive data to date on the cost of the Medicaid expansion to Virginia comes from the Kaiser Family Foundation and the Urban Institute. Economists John Holahan and Irene Headen utilized both federal and state Medicaid data to estimate the range of costs that states could face through 2019.³ While Virginia and all other states will likely see increased costs associated with the Medicaid expansion, the estimates show that because the federal government

will finance the vast majority of the new coverage, the expansion is potentially a good economic deal for states.

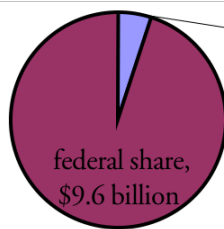
According to the Holahan and Headen standard participation estimate, the total number of new Medicaid enrollees in Virginia would total over 370,000 by 2019. For those with incomes below 133 percent of FPL, the expansion is estimated to reduce the uninsured non-elderly adult population in Virginia by 50.6 percent. Between 2014 and 2019, as Figure 2 shows, the estimate suggests that the state would likely spend approximately \$500

million while the federal government would spend about \$9.6 billion. Approximately 95.1 percent of the Medicaid expansion in Virginia would be paid for by the federal government, with billions in federal funding being added to the state economy.⁴

McDonnell administration estimate: More info needed

Virginia's governor has also released an estimate on the cost of the Medicaid expansion to the state. Unlike Holahan and Headen, the McDonnell

Figure 2: Estimated Federal/State Share of Medicaid Expansion in Virginia, 2014-2019
Federal Government Will Pay Most of the Cost



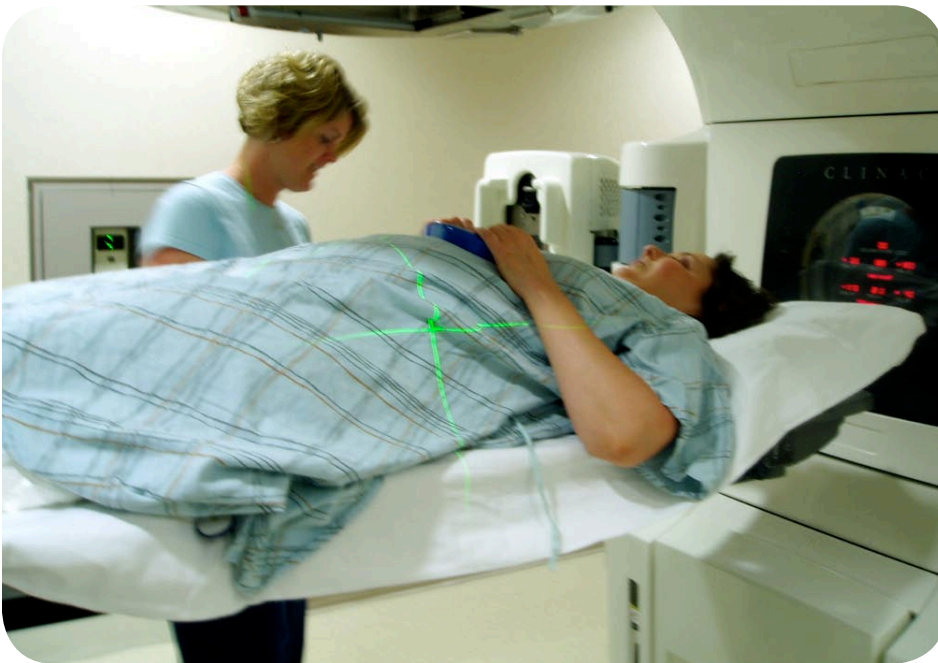
state share,
\$498 million

Source: John Holahan and Irene Headen, "Medicaid Coverage and Spending in Health Reform: National and State-by-State Results for Adults at or Below 133% FPL," Kaiser Commission on Medicaid and the Uninsured, May 2010.

Virginia will benefit more than most states from the expansion of Medicaid under the new health law.

administration provides a cost estimate through state fiscal year 2022.⁵ The state assumes enrollment of between 275,000 and 425,000 in the expansion population. Using a more conservative lower-bound estimate, the Medicaid expansion would result in approximately an additional \$1.5 billion in additional state Medicaid costs through state fiscal year 2022. Along with this estimated \$1.5 billion in state costs, the federal government will contribute over \$10 billion in Medicaid funding to Virginia, a potentially huge boost to the state's economy.

While the administration has released many details about its estimate, they still have not released some details, including the methodology and data sources used to produce its findings. Additionally, neither the McDonnell Administration nor Holahan/Headen have shared information on how quickly they estimate newly eligible Virginians will enroll. For instance, it is unlikely that all of the new



enrollment will happen in the first year, but will instead happen gradually over a number of years. This gradual enrollment will help the state manage the increased size of the Medicaid program and the expanded financial commitment.

Placing costs into context

The McDonnell administration estimate did not include the total amount the state is estimated to spend on Medicaid (current program plus expansion population) over the next 12 years, an important reference

96% of the cost of the Medicaid expansion in VA will be funded by the federal government.

point. In state FY 2011, Virginia will spend approximately \$3 billion in state funds on Medicaid and about \$3.5 billion in state FY 2012. Over the entire 12 year period, even factoring in modest historical growth of the existing program, Virginia is likely to spend upwards of \$50 billion in state funds on Medicaid. While it is difficult to determine what the fiscal conditions will be a decade or more from today, as a percentage of overall state Medicaid spending, an additional \$1.5 billion in state costs spread over a number of years, when coupled with significant federal dollars, and viewed in the context of overall spending in the program, is much more manageable for the state. It is also a much more accurate figure.

The estimate also only anticipates an approximately 10 percent reduction in uncompensated care payments. Recent experiences in Massachusetts suggest that savings could be greater. For example, when Massachusetts implemented their

universal health insurance law several years ago, they saw a 38 percent decrease in uncompensated care payments to hospitals, health centers and free clinics. In addition, the estimate appears to discount any potential mental health savings. State general funds account for more than 60 percent of mental health services to the uninsured.⁶ These costs could decrease as more Virginians gain health insurance coverage.

Conclusion

Medicaid expansion in Virginia will increase the state's Medicaid spending, although the actual amount is still unknown. Yet the expansion likely will be a good deal for the Commonwealth, as it will bring even more federal resources to the state and cover a large percentage of the low-income uninsured adult population at a manageable increase in total program spending and a reduction in the cost of uncompensated care.



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¹ In this case, the brief refers to calendar year. In a later discussion of the McDonnell administration cost-estimate, we use state fiscal year.

² Neither state covers childless adults in Medicaid and would be eligible for the enhanced federal funding for all childless adults up to 133 percent of FPL.

³ The model, Health Insurance Policy Simulation Model (HIPSM), was created by the Urban Institute's Health Policy Center. It looks at state-based eligibility requirements and applies these to data from the Annual Social and Economic Supplement to CPS. The cost-per-person estimates are also derived from HIPSM.

⁴ The brief focuses on standard enrollment estimates. If Virginia's outreach is especially successful at enrolling non-elderly adults in Medicaid, the cost projections would change. Under the enhanced outreach estimate, Holahan and Headen estimate the total number of new Medicaid enrollees would be over 500,000, leading to an approximately 75 percent reduction in uninsured adults below 133 percent of FPL. Between 2014 and 2019, the state would spend \$863 million while the federal government would spend \$11.1 billion over the same time period. The federal government will, therefore, pay for 92.8 percent of the total spending. Medicaid enrollment in 2019 would increase by 56.7 percent over current program projections. State spending would increase by 3.1 percent and federal spending would rise by 40.5 percent.

⁵ "Analysis Federal Health Reform's Potential Impact on Virginia Medicaid", Virginia Department of Medical Assistance Services presentation to the Senate Finance Committee, Health and Human Resources Subcommittee, June 21, 2010. Using an upper-bound estimate, the McDonnell administration estimates the Medicaid expansion would cover 425,000 Virginians at a net cost of approximately \$2.15 billion between through state fiscal year 2022.

⁶ Approximately \$380 million in FY 2006. National Association of State Mental Health Program Directors Research Institute, Inc., "SMHA-Controlled Mental Health Revenues, By Revenue Source and by State, FY 2006.", <http://www.nri-inc.org/projects/Profiles/RevExp2006/T24.pdf>