

# Making the Right Choice on Medicaid

## Refusing Expansion Would be a Costly Mistake for Virginia



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The expansion of Medicaid in 2014, made possible by federal health care reform, would be a lifesaver for hundreds of thousands of Virginians, a real bargain for the Commonwealth, and a much needed boost to our economy.

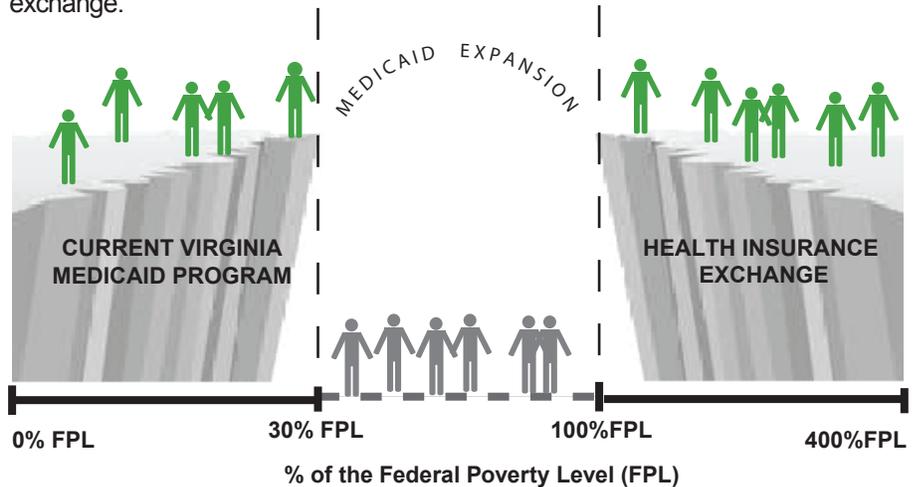
If Virginia doesn't implement the expansion, it will forgo tens of billions in federal funding, create a stunning new gap in coverage for hundreds of thousands of Virginians, and stand in stark contrast to Virginia's history of timely implementation of previous insurance expansions.

Thousands of hard working low-income Virginia families will make too much to qualify for existing Medicaid coverage but not enough to qualify for subsidies to purchase insurance in the new private health insurance marketplaces (called health benefit exchanges). They will be left in a costly gap with no coverage (Figure 1).

The right choice for the Commonwealth is to expand Medicaid.

### Medicaid Expansion Bridges the Gap

Figure 1: If Virginia chooses not to expand Medicaid, thousands of working Virginians will fall into a 'no-coverage ravine'-- unable to enroll in Medicaid and barred from getting tax credits to buy coverage in the new health insurance exchange.



\*Note: Under the current Virginia Medicaid program, working parents are eligible for coverage up to 30% of FPL. Pregnant women can get coverage up to 200% of FPL during their pregnancy and children are covered up to 200% FPL in FAMIS. Aged, blind, and disabled individuals are covered up to 80% of FPL. Non-disabled childless adults currently are not eligible for Medicaid.

Source: Department of Medical Assistance Services and IRS Revenue Bulletin Sept. 6, 2011.

#### Virginia's History of Timely Expansion of Health Insurance

Refusing to implement new federal health insurance in Virginia would be a marked departure from historical practice.

##### Medicaid: 1966

In 1966, just one year after Congress created Medicaid, Virginia authorized state participation. Three years later, Medicaid began covering Virginians.

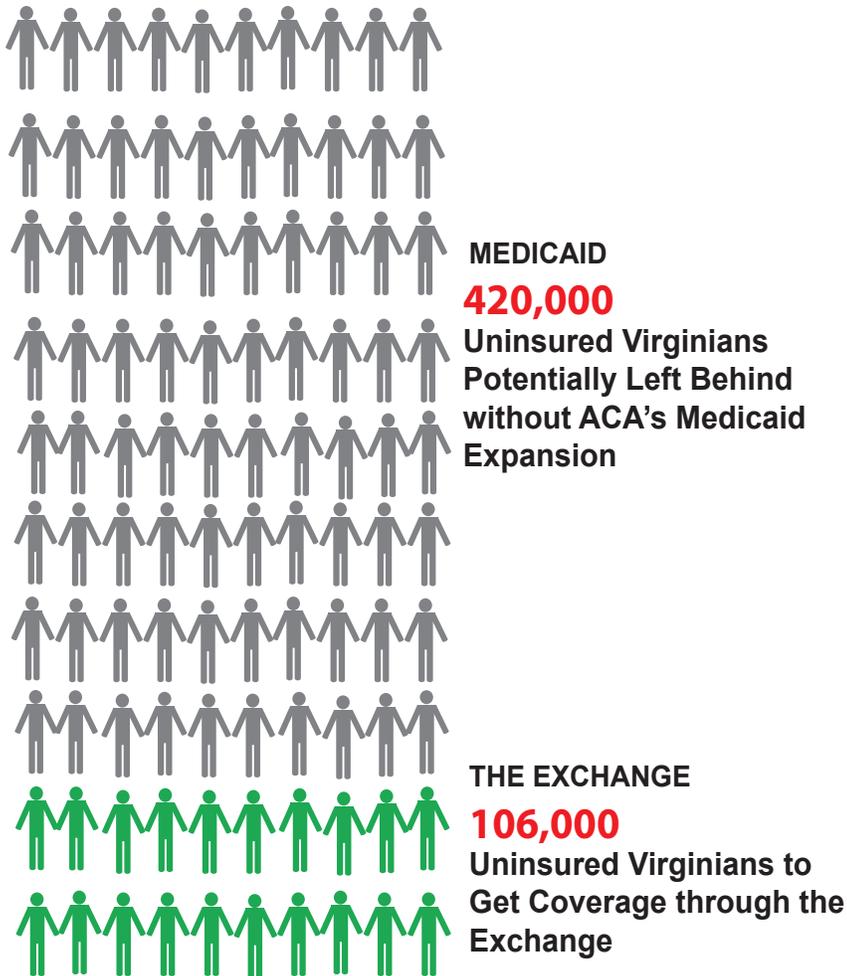
##### SCHIP/FAMIS: 1997

In 1997, when Congress created the State Children's Health Insurance Program, Virginia had already passed authorizing legislation months before, and coverage went into effect quickly for the program now known as FAMIS.

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## Medicaid is the Workhorse

Figure 2: The Affordable Care Act will help over 500,000 uninsured Virginians get health insurance, mostly through the expansion of Medicaid. If Virginia fails to expand Medicaid, thousands of Virginians will be left behind.



Source: Urban Institute and analysis for the Virginia Health Reform Initiative.

### Too Good to Refuse

Making the expansion of Medicaid optional for states was one of the key effects of the Supreme Court's decision on the Affordable Care Act (ACA). States can make sure more working parents, children, disabled people, poor adults and elderly get coverage, or choose not to. But expanding eligibility is a good bargain: the federal government will pay 100% of the costs in the early years – and no less than 90%

after that. More than 400,000 Virginians without health insurance (about 40 percent of the total number of uninsured in our state) will gain insurance coverage through a Medicaid expansion (Figure 2).

Currently Virginia has one of the stingiest Medicaid programs in the country, despite being a relatively well-off state. Just three states spend less per-capita on Medicaid than Virginia. The situation is especially

dire for low-income adults. Virginia ranks 44th among the states in Medicaid eligibility for working parents. Parents who earn approximately \$7,000 a year or less – 30 percent of the federal poverty level – are eligible for Medicaid in Virginia. Adults without children – unless they're blind or disabled – don't qualify at all. As a result, more than 400,000 low-income Virginians are left to fend for themselves. And even for the people who are covered, Virginia excludes certain basic benefits – such as hearing aids, eyeglasses, and dentures – that are standard in most states.

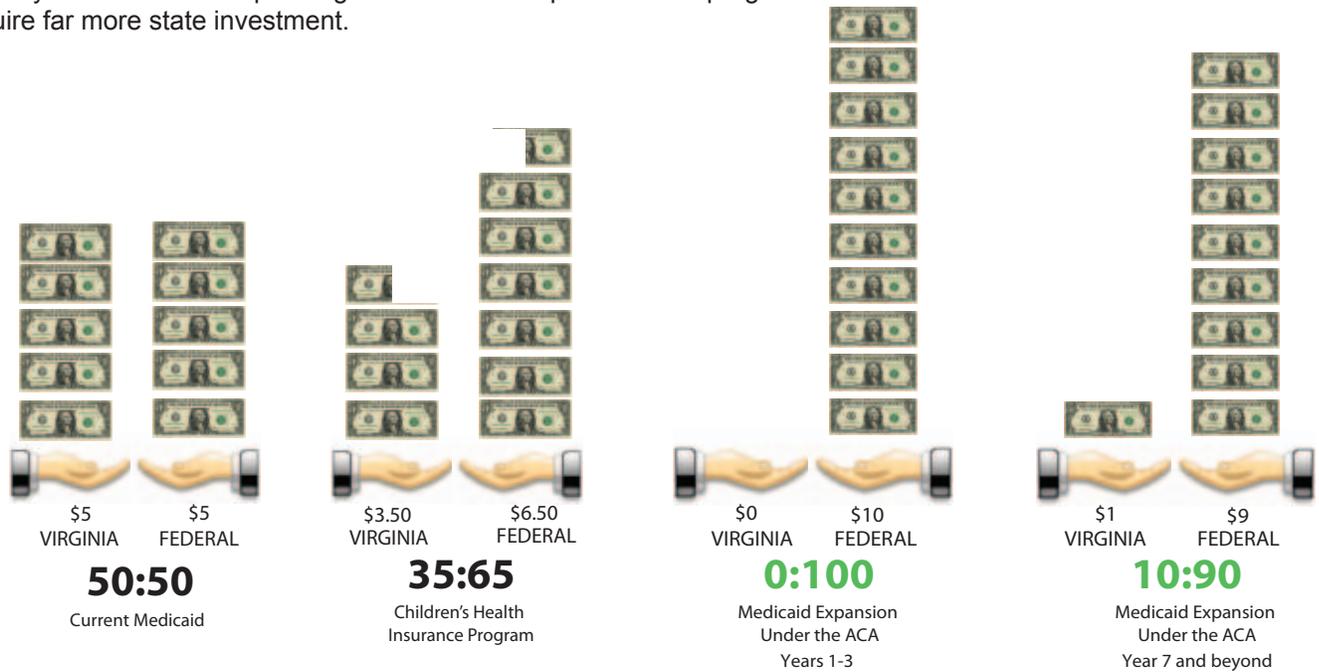
The increased federal Medicaid funding included in the health care law to extend coverage to all adults up to 138 percent of the federal poverty level – \$31,000 for a family of four – is a tremendous deal (Figure 3 on page 3). The federal government will pay 100 percent of the cost for the first three years. Beginning in 2017, Virginia would pick up a small portion of the cost, paying no more than 10 percent from 2020 forward. By comparison, state funding pays for half of Virginia's current Medicaid program and 35 percent of FAMIS, which is Virginia's children's health insurance program.

Opponents of expanding coverage cite the expected increase in state costs (\$2.2 billion over 10 years), but that estimate fails to put the cost in proper context or note that Medicaid is far more efficient than private insurance at controlling health care costs (Figure 4 on page 3).

Virginia likely will spend over \$48 billion over the next 10 years in state funds on Medicaid, based on average growth estimates from the Department of Planning and Budget's six-year financial plan. Spending \$2.2 billion to cover more than 400,000 additional low-income Virginians would represent a less than 5 percent increase in state spending, a modest amount compared to the soaring costs of private insurance coverage.

## Medicaid Expansion is a Great Deal for Virginia

Figure 3: The federal government will cover the vast majority of the costs of expanding Medicaid. Other public health programs require far more state investment.



Comparing federal and state shares of funding for public health programs

Source: Kaiser Family Foundation.

In addition, opponents fail to mention that Virginia will receive well over \$20 billion in additional federal funds to pay for this coverage.

### Fiscal Health of Virginia Hospitals at Stake

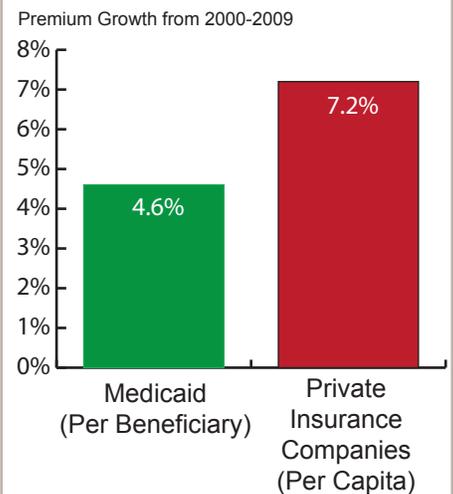
Virginia's hospitals, nursing homes and other health care providers would benefit from the increased federal funding for Medicaid. Between 2014 and 2019, Virginia hospitals could save over \$1 billion that they now spend out of their own pockets to cover patients without insurance, according to an Urban Institute estimate that takes account of the Medicaid expansion and those who get private insurance through the health care exchanges. Hospitals would receive additional reimbursements from treating more Virginians with Medicaid coverage and private insurance.

Failure to expand Medicaid, however, would severely harm public hospitals that provide a disproportionate share of care to low-income Virginians. For these hospitals, Medicaid helps cover the cost of caring for those without insurance through "disproportionate share hospital" (DSH) payments. In 2011, Virginia hospitals received over \$87.7 million in DSH payments, the 28th highest in the nation.

Because the Affordable Care Act would extend Medicaid coverage to more Americans, it has been expected that hospitals may not need as much in DSH payments. As a result, they are scheduled to be reduced in the years 2014-2020. This could cost Virginia hospitals more than \$140 million over seven years.

### Medicaid Controls Costs Better

Figure 4: Between 2000-2009, premium growth was much lower in Medicaid than in the private insurance market.



Source: Center on Budget and Policy Priorities analysis.

## New Gaps in Coverage

Failure to expand Medicaid also would create new gaps in coverage and more insecurity for people who live on the economic margins.

The Affordable Care Act was designed to have states expand Medicaid to adults with household incomes of up to \$31,800 for a family of four, 138 percent of the federal poverty level. Americans with incomes between 100 percent<sup>1</sup> and 400 percent of the federal poverty level will be eligible for federal tax credits to help make insurance affordable to them through the exchanges.

Since Virginia's current Medicaid program only covers parents in a family of four with income below \$7,000 a year (just 30 percent of federal poverty level) failure to expand Medicaid would leave thousands stranded with no viable options to obtain health insurance. They would neither qualify for Medicaid nor for the subsidies to help make private insurance affordable.

A related concern is that many Virginians will fall in and out of coverage depending on their income in a particular year. Changes in household circumstances, especially income, can change a family's eligibility. This process is called churning, the involuntary movement between health plan options, including Medicaid and subsidized private insurance. Without the Medicaid expansion, an individual could

lose her job, see her income fall below 100 percent of the federal poverty level, and subsequently lose access to exchange subsidies when they can least afford coverage. Conversely, a working Virginia parent living below 30 percent of poverty could get a raise or a new job that pushes him above the existing Medicaid income eligibility maximum but still below the qualification level for private insurance subsidies, leaving him uninsured.

Even if states fully implement the Medicaid expansion, 29.4 million people under the age of 65 will be part of this churn each year, the Urban Institute estimates. This includes 6.9 million people who move from Medicaid to subsidized coverage in the exchange; 19.5 million people who move between Medicaid and ineligibility for all programs; and 3 million people who move between subsidized coverage in the exchange and ineligibility for all programs. Without the expansion, churning will be even more common.

## Conclusion

While there are a number of additional questions that need to be addressed about expanding Medicaid in Virginia – what benefits to include, outreach strategies to maximize enrollment – the most critical question facing legislators is whether to allow more Virginians to get the health care they need, or not.

**Failure to expand Medicaid would leave thousands stranded with no viable options to obtain health insurance**

Virginia already has received federal funding to streamline and simplify enrollment in Medicaid. In addition, the state recently released a request for proposals to create a system for timely, automated Medicaid eligibility determinations. The new system is expected to be ready by October 2013, as required under the ACA. The new eligibility system is likely to be modified and used as the platform for the private health insurance exchange, allowing for seamless coordination between the exchange and Medicaid.

With these preparations funded and well under way, Virginia should take the next step and expand coverage for the most vulnerable in our state.

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## Endnote

<sup>1</sup> Low-income consumers with incomes between 100-138 percent of the federal poverty level that are ineligible for Medicaid (legal immigrants that have been in the country for fewer than 5 years) or choose not to enroll in Medicaid can also access the tax credits available in the Exchange.

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