

Medicaid Expansion Would Pay For Itself

Cost Savings, New Revenue Offset Cost of Expansion



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Virginia has many options to ensure that expanding Medicaid can pay for itself and provide coverage to nearly 400,000 uninsured Virginians. That's because Virginia currently funds a wide range of services for the uninsured with state general fund dollars. To the extent that Medicaid would begin paying for some of those services with federal dollars, it would both reduce state costs and provide funding for unmet health needs in Virginia.

While expansion is forecast to cost the state \$1.60 billion from 2014 to 2022 – with most of that cost coming in the later years – the \$1.64 billion in savings from expansion would offset all of the costs and ease state budget pressures.

Over the next nine years (2014-2022), savings would come from six key sources:

- \$637 million from reducing indigent care funding by 50 percent.
- \$292 million from insuring patients treated through Community Service Boards for mental health and substance abuse issues.
- \$290 million from covering the inpatient hospital care for state prisoners.
- \$173 million from slowing growth in premium increases for the state employee health insurance plan.
- \$142 million from capturing savings from other provisions of the Affordable Care Act.
- \$104 million from replacing general funds with federal funds used to support programs for low-income people who currently do not qualify for Medicaid.

In addition to providing coverage for nearly 400,000 uninsured Virginians at no additional cost to the state, Medicaid

expansion would allow the free clinics and community health centers to concentrate on serving the remaining uninsured. The federal funds for Medicaid expansion would also support about 23,000 health care sector employees generating an additional \$530 million in state income and sales tax revenue through 2022.

Background

Under the Affordable Care Act (ACA), Virginia can expand eligibility for Medicaid to those earning up to 138 percent of poverty (about \$26,000 for a family of three) providing nearly 400,000 uninsured citizens access to health insurance coverage. Nearly all of the costs of expansion would be paid by the federal government.

In the first three years (2014-2016) the federal government will pay for 100 percent of the costs of the expansion of coverage, and no less than 90 percent thereafter. Virginia's share of Medicaid expansion would be \$91 million in 2017 and grow to \$391 million in 2022, according to recent estimates by the Virginia Department of

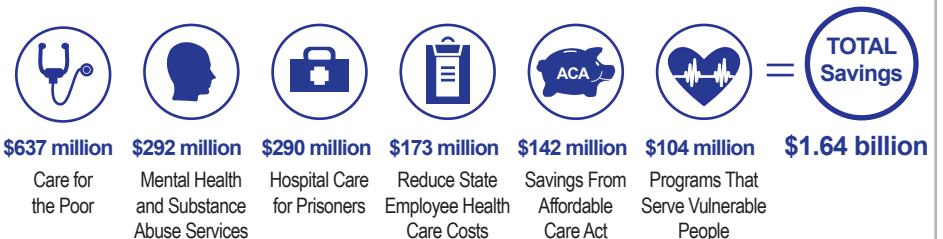
Medical Assistance Services (DMAS). These state costs come with over \$22 billion in federal funding for Medicaid expansion over the next nine years (2014-2022).

But there are also substantial savings associated with Medicaid expansion that would offset the costs of expansion. That's because Virginia currently pays for a wide range of services for people who lack health insurance with state general fund dollars. Expanding Medicaid would allow the state to use federal dollars to begin paying for some of these services, reducing state costs and providing funding for unmet health needs across the state.

To date, much of the analysis of Medicaid expansion's costs has failed to fully account for the budget savings the state would realize, including smaller premium increases for its own employees when there are fewer uninsured Virginians. But understanding these savings and the resulting reduction in pressure on Virginia's budget is critically important as policymakers consider Medicaid expansion and at the same time

Six Key Sources for Savings

Expanding Medicaid would allow for some of the services currently provided with state general fund dollars to be paid with federal funds. Savings from Medicaid expansion would offset all of the costs, ease state budget pressures, and provide funding for unmet health needs in Virginia.



Sources: TCI analyses of DMAS and Senate Finance Committee

continue to struggle with budget challenges from the lingering effects of the recession.

The substantial benefits of expanding Medicaid would ripple throughout the state as more Virginians gain access to quality, affordable health care. For instance, fewer people with serious mental illness would end up in crisis and in jail because they would have health insurance coverage that would enable them to receive appropriate treatment. More Virginians with chronic conditions would also be able to get appropriate and timely treatment if they had coverage. For example, uninsured people with HIV who now often face waiting lists for assistance with the drugs they need would have ongoing access to the treatment they need to stay healthy.

Over the long-term, preventive health care and treatment for pregnant women and people with chronic conditions such as multiple sclerosis (MS) or diabetes will also

mean savings to state health budgets and benefit the economy. Healthier children being born, fewer missed work days by employees, and better performance in school are all important results of having uninterrupted access to quality, affordable health care.

The budget savings Virginia could gain through Medicaid expansion and use to offset the costs of expansion include:

- Payments to state teaching hospitals for caring for the poor;
- Community-based mental health and substance abuse services;
- Hospital care for state prisoners;
- Savings from implementing other provisions of the ACA;
- Slowed growth in the state employee health plan; and
- Programs for vulnerable populations not currently eligible for Medicaid.

Expanding Medicaid Would Produce Substantial Savings

The state stands to save \$1.64 billion over the next nine years by expanding Medicaid. These savings come from using federal funds in place of general funds to provide health care and from reductions in the growth of state employee health insurance premiums. In total, it is estimated that the state would draw down more than \$22 billion in federal funds.

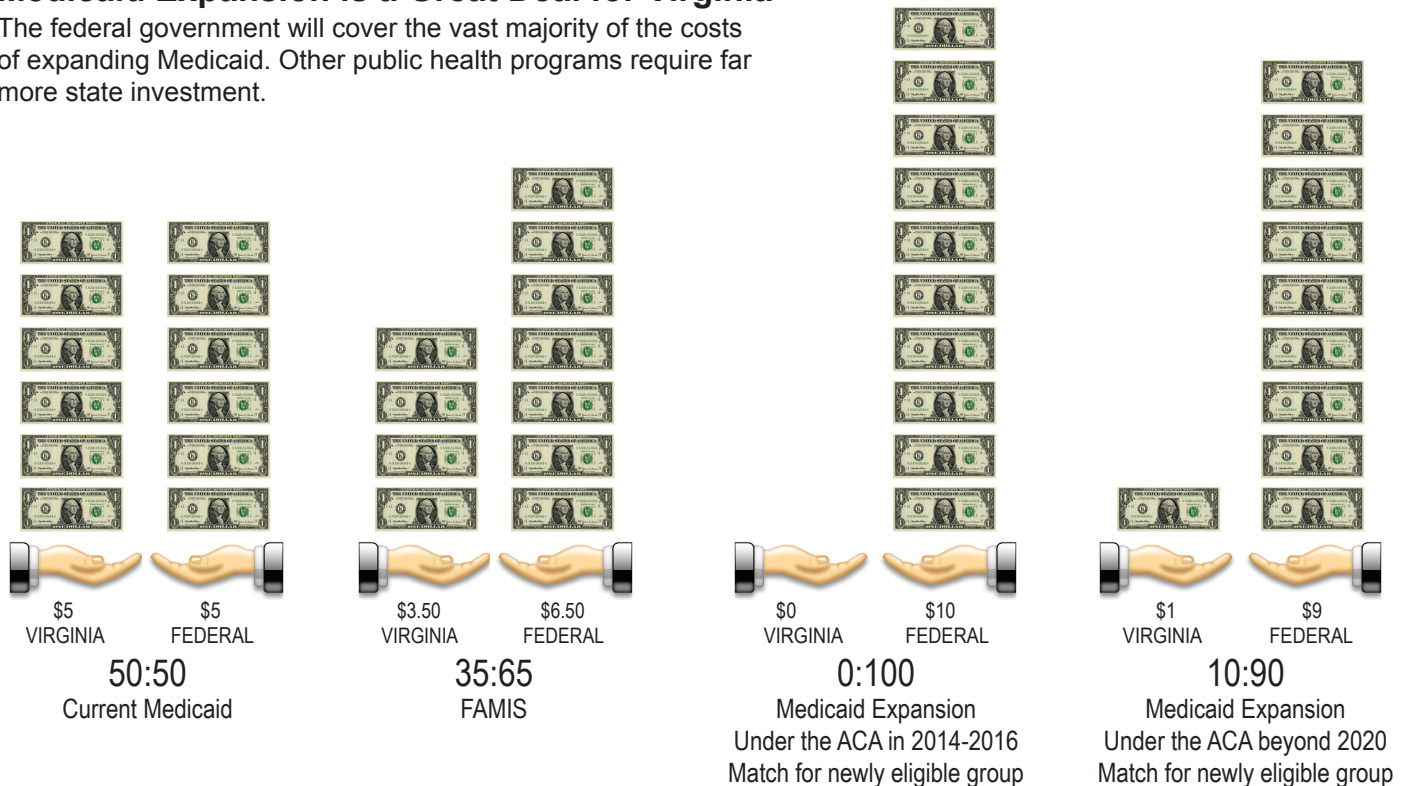
Saving Money on Care for the Poor

Virginia subsidizes the cost of care for low-income, uninsured patients at the health systems run by the University of Virginia and Virginia Commonwealth University. The cost is substantial: \$1 billion over the past 10 years.

Expanding Medicaid in Virginia would cover many of these currently uninsured patients and reduce the need for state

Medicaid Expansion is a Great Deal for Virginia

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

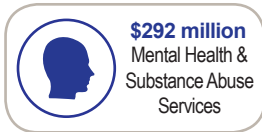


Source: Kaiser Family Foundation

funding starting in 2014. Through expansion, the state could reduce indigent care funding by 50 percent, according to DMAS estimates, which would save Virginia \$637 million over the next nine years (2014 to 2022).

The partial reduction reflects the fact that some Virginians would continue to lack insurance even after expansion of Medicaid. Certain populations, such as undocumented immigrants, are barred from participating in Medicaid and others will choose not to get coverage. Regardless, the net savings to the state still would be substantial.

Strengthening Community Mental Health and Substance Abuse Services While Lowering State and Local Costs



Community Services Boards (CSBs) provide mental health care and

substance abuse treatment for children and adults, and services for people with intellectual disabilities. They provide a wide range of services, from acute care to crisis intervention to therapeutic care.

CSBs are funded with a mix of state and local general fund dollars and through public programs like Medicare and Medicaid. Some also receive payments from private insurers. The amount of state and local funding they receive is significant: over \$225 million annually in state general fund support and over \$230 million in local general fund support.

About one-third of the over 90,000 patients that CSBs serve each year are uninsured, according to the Virginia Association of Community Service Boards. A substantial number of those uninsured patients likely would be eligible for coverage through Medicaid if Virginia expanded eligibility up to 138 percent FPL.

Because the expansion would shift more of the cost for these services to Medicaid,

it would reduce state spending for these services. Expanding Medicaid and reducing the number of uninsured patients CSBs treat would save the state \$292 million over the next nine years. In addition, it would be critical to addressing unmet needs. For example, many CSBs have waiting lists for their services, especially for residential care and methadone treatment. Medicaid expansion could free up capacity and funding for these and other services that are successful in treating people with serious mental illness and substance abuse disorders.

Using Federal Funds for Hospital Care for State Prisoners

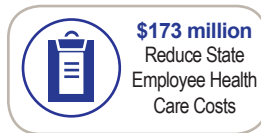


Inmates have not been eligible for Medicaid since its creation. But the state is

responsible for providing all necessary care for inmates. As a result, the Department of Corrections provides care for inmates using general funds. This includes acute care, which may require hospitalization.

By expanding Medicaid, the state would take advantage of a component of the ACA that allows Medicaid to cover inpatient hospital care for incarcerated populations. Expansion would save the state an estimated \$290 million in this area over the next nine years.

Reducing State Employee Health Care Costs



Like their counterparts in most other states, full-time Virginia

state employees are eligible for health insurance. Employees pay a portion of the total monthly premium, but the state pays a significant portion of the cost.

Because there are a large number of uninsured people in our country, employers and employees who have private health insurance pay more to cover the costs that

health care providers incur from treating patients without health insurance -- often referred to as a "hidden tax" or a "cost shift" to those with coverage. The average U.S. family and their employers paid about an extra \$1,017 in health care premiums last year to compensate for the uninsured.

Extending Medicaid to many of those who are now uninsured would decrease this cost shifting. Premium increases could be reduced by two to five percent for the Virginia insurance plan, according to estimates from the Virginia Senate Finance Committee. Conservatively, that would mean more than \$17 million in reduced premium growth annually, totaling \$173 million in savings over the next nine years.

Capturing Savings From Other Components of the Affordable Care Act



Other provisions of the ACA in Virginia will generate additional

revenue that could be used to offset some of the cost of expanding Medicaid. Savings from the ACA include increased rebates through the Medicaid pharmaceutical program and enhanced federal funding for the children's health insurance program. While there are also some new costs associated with the ACA, including providing coverage for the nearly 75,000 people who are already eligible for Medicaid or FAMIS but haven't enrolled, these costs don't outweigh the savings. On net, these provisions will save the state \$142 million through 2022, according to state estimates.

Replacing General Funds for Programs That Serve Vulnerable People Not Currently Eligible for Medicaid



The state also uses general funds to pay for certain health care services for

individuals that are not currently eligible for Medicaid, services like screening for breast

cancer and family planning. The state also uses general funds to pay for uninsured individuals who are temporarily detained to receive mental health services.

Expanding Medicaid would allow the state to supplant the general funds used to pay for these services with federal funds for individuals under 138 percent FPL. Using federal funds for these services would save the state \$104 million over the next nine years, according to state estimates.

Savings Provide Options to Relieve State Budget Pressure

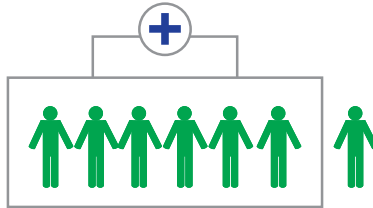
Medicaid expansion would bring substantial savings, especially in the first three years. Because the state will be responsible for an increasing percentage of the costs of expansion beyond 2016 (up to 10 percent), it is critically important that the state capture early savings to offset these costs. To help offset future costs, the 2013 General Assembly created a special fund to hold the savings from expansion. This would allow for the \$1.64 billion in savings from expansion to offset the \$1.60 billion in state costs. Taking this action would help ensure that the state is financially prepared to assume its share of expansion costs and relieve other state budget pressures on key priorities like public safety or education

Bolstering Free Clinics and Community Health Centers to Help Remaining Uninsured

Expanding Medicaid coverage to more Virginians would allow free clinics and community health centers to concentrate on serving the remaining uninsured. Free clinics, community health centers, and similar organizations treated 235,000 uninsured patients in 2012. But this is only one-third of the uninsured Virginians with incomes at or below 200 percent of the federal poverty line. Free clinics, alone, treated a total of 79,008 patients in 2011 and turned away at least 12,550 due to lack of capacity. The actual number of patients turned away is likely higher because a large

Free Clinics Could See More Patients

Because of lack of capacity, Virginia's free clinics turned away nearly 1 in every 7 patients in 2011.



Source: Virginia Association of Free Clinics

portion of the free clinics do not track this information.

While free clinics and community health centers receive some state funding (\$3.1 million annually for free clinics and \$2.4 million for community health centers), the majority comes from foundations, individual donors, and in some cases the Medicaid or Medicare coverage that some patients have. For those organizations that accept Medicaid payments, expansion would provide more funding to cover costs, improve care, and increase their workforce to meet the needs of their community.

Job Supports and Additional Tax Revenues Increase Value of Expansion

Expansion also would allow Virginia to draw down billions of dollars appropriated for Medicaid that would support tens of thousands of well-paying health care sector jobs and generate millions in new tax revenue for the state. On average, the \$2.6 billion per year in federal funding for Medicaid expansion would support about 23,000 jobs. The people working in these jobs will pay state income and sales tax, increasing the value of Medicaid expansion to the state. In total, the state would see an additional \$530 million in state income and sales tax revenue over the next nine years. Of that, \$492 million would be available to help pay for other important priorities like

education and public safety, and \$38 million go to transportation.

Conclusion

While much of the current debate over whether Virginia should expand Medicaid under the ACA is focused on the state costs of expansion, the significant state budget savings and reductions in future funding pressures are equally as important to consider. Hundreds of thousands of Virginians stand to gain coverage through expansion, and the savings to the state would offset the costs. Policymakers need to assess the best approach for Virginia with all the facts at hand, including the wide array of savings that the state would realize if it expands Medicaid.

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