Common Cents

Lawmakers Can Ensure Virginia Has Resources to Close Coverage Gap

THE COMMONWEALTH INSTITUTE

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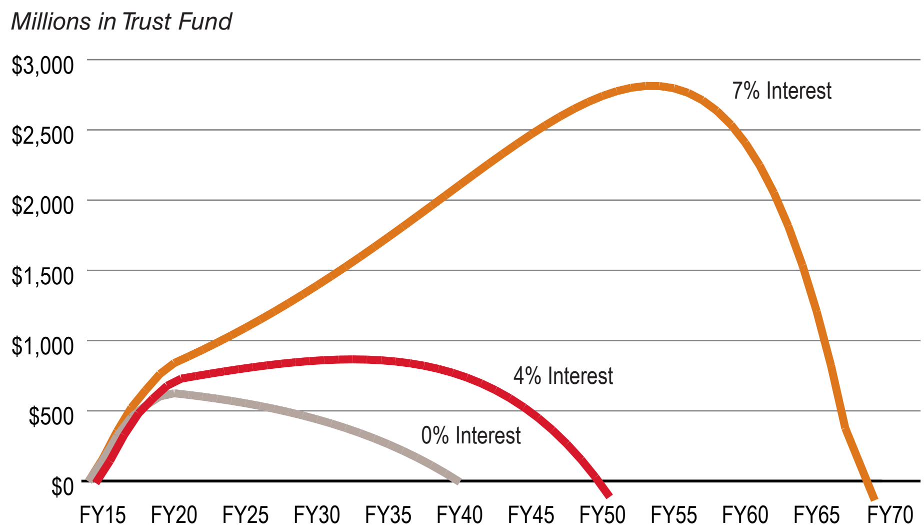
A trust fund established to hold and invest the state budget savings from closing the coverage gap could cover the costs of expansion for years to come – until 2050 under conservative scenarios and even longer under scenarios that mirror how the state currently manages its existing trust funds. But that's only if the state chooses to close the coverage gap soon.

Setting up just such a trust fund – the Virginia Health Reform and Innovation Fund – was a key feature of a compromise reached in last year's budget and could ensure Virginia has the resources to close the coverage gap.

This report lays out how the state budget savings from accepting the federal funds available to cover more Virginians could be deposited into a new trust fund that would operate much like the state's 30 or so other trust funds.

Trust Worthy

The state could pay its share of closing the coverage gap for years to come by capturing and investing early savings.



Source: TCI analysis of DMAS data released January 24, 2014

Timing is Everything

By establishing a trust fund, Virginia lawmakers can manage the budget savings from closing the coverage gap and use it to pay for future costs of coverage in a fiscally responsible manner.

In fact, investing the savings could allow the state to fund coverage until 2050 at no additional cost to the state budget. The state could accrue a net savings of $625 million in the first six years of closing the coverage gap, and then use this money when the state begins paying a 10 percent share of the costs. But capturing these savings means closing the coverage gap without delay. More than half of the savings, $391 million, would accrue in the next two-and-a-half years when the federal government would pay the entire cost of closing the gap. The state takes on partial responsibility beginning in 2017.

Retaining these savings in a trust fund and earning a modest rate of 4 percent return on the principal would allow the state to pay for its 10 percent share of the cost for the next 35 years.

These savings come from receiving billions in federals funds to use in place of state funds that currently pay for health care for Virginia's uninsured. There would be less demand for state programs that currently help low-income, uninsured adults get care, resulting in significant savings. That's because nearly 400,000 uninsured adults could get health insurance, helping them access and pay for the care they need.

The greatest source of savings the state could see from accepting the federal funds to cover more Virginians – $1.1 billion over the next eight years – would come from care for the poor at the health systems run by the University of Virginia and Virginia Commonwealth University. Over the last decade, the state has provided these two hospital systems more than $1 billion to compensate them for care provided to low-income, uninsured patients. Closing the coverage gap would allow the vast majority of the uninsured served by UVA and VCU to get health insurance, nearly eliminating the need for this state funding.

Virginia has the opportunity to provide this coverage at no cost to the state through 2050, but if lawmakers continue to delay action, the savings and the state's capacity to fund the eventual cost both shrink.

It All Adds Up

Closing the coverage gap makes sense from every angle. Nearly 400,000 uninsured Virginians could get coverage by bringing billions of Virginian's federal tax dollars back to the state. Using the federal funds set aside to close the coverage gap would save the state hundreds of millions of dollars, boost the state's economy, and help shore up the hospitals that undergird the state's health care system. In addition, implementing and managing the Virginia Health Reform and Innovation Fund would allow the state to prudently manage the savings from expansion and plan for the future costs.

In Virginia We Trust

Virginia uses trust funds to collect and distribute state revenue for a variety of uses, ranging from transportation to technology. In fact, Virginia has at least 30 such funds, including the Virginia Health Reform and Innovation Fund (VHRIF).

The VHRIF was created as part of the 2013 budget compromise to work towards helping more low-income Virginians afford health insurance. The fund would capture the savings generated from accepting the federal funds to cover more Virginians and use those savings to offset future costs.

The VHRIF is designed to work similar to the Revenue Stabilization Fund, commonly referred to as the rainy day fund. Both funds are set up to receive appropriations made by the General Assembly based off established benchmarks, accrue interest over time, and are appropriated for specific needs. In the case of the VHRIF, the funds would be used primarily to pay the state's share of helping more low-income Virginians afford health insurance.

The interest rate used for several key state trust funds is 7 percent. This issue brief, however, uses a more conservative interest rate of 4 percent. For perspective, the Virginia Retirement System recently reported a return of 4 percent for the last five year period, which included the most significant economic downturn since the Great Depression. A higher interest substantially increases how long the state can pay for its share of closing the coverage gap at no additional cost to the state budget.

The Commonwealth Institute

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Closing Coverage Gap Would Save State Millions

SFY	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Savings From Closing Coverage Gap ($M GF)										
Indigent Care Savings (0-133% FPL)		(106)	(114)	(122)	(131)	(140)	(150)	(161)	(172)	(1,096)
Shift Department of Corrections Inmate Hospital Costs		(29)	(30)	(30)	(31)	(32)	(32)	(34)	(35)	(255)
Shift Community Service Board Costs		(23)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(227)
Shift Costs for Other Programs[1]		(9)	(16)	(17)	(18)	(19)	(19)	(20)	(21)	(139)
	$0	*($168)*	*($190)*	*($199)*	*($209)*	*($220)*	*($231)*	*($244)*	*($257)*	*($1,718)*
Expenses From Closing Coverage Gap ($M GF)										
Coverage of Newly Eligible Adults				45	106	132	183	227	240	$933
Administrative Costs for Additional Enrollment	2	9	11	11	12	13	13	14	15	100
Remaining Woodwork		7	8	8	8	9	11	12	13	75
Insurance Tax			0	0	1	1	2	2	2	9
	$2	*$16*	*$18*	*$65*	*$127*	*$155*	*$208*	*$255*	*$270*	*$1,117*
Net Impact of Closing Coverage Gap ($M GF)[2]	**$2**	**($152)**	**($172)**	**($134)**	**($82)**	**($65)**	**($23)**	**$12**	**$13**	**($601)**

1) "Other Programs" include state funded programs for Breast and Cervical Cancer, Temporary Detention Orders, Pregnant Women, and Family Planning
2) The estimates reflect a July 1, 2014 start date. Every three months of delay reduces net savings by $40 million, on average

Source: TCI analysis of DMAS data released January 24, 2014