KANSAS HEALTH INSTITUTE

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ACA MEDICAID EXPANSION: ENROLLMENT AND COST ESTIMATES FOR KANSAS POLICYMAKERS

Expansion Targets Low-Income Adults

The recent U.S. Supreme Court decision that upheld the Affordable Care Act made the Medicaid eligibility expansion in the law optional for states. As a result, governors and state legislatures across the country are attempting to understand how the expansion would affect the size and cost of their Medicaid programs. This brief is intended to help Kansas policymakers answer those questions and others, such as how much Medicaid costs may rise even if they choose not to implement the expansion.

The Affordable Care Act (ACA) expands Medicaid eligibility for adults, not children. It is important to keep that in mind when estimating the impact it will have on coverage and costs. That is particularly true in Kansas.

Today, Kansas' Medicaid eligibility threshold for adults is among the lowest in the country at less than 32 percent of the Federal Poverty Level (FPL) — $5,900 for a family of four in 2012. And only caregiver adults such as parents and guardians are eligible at that level. Childless adults who are not disabled cannot qualify for Medicaid, no matter how poor they are.

The ACA provision will expand Medicaid eligibility to all adults earning less than 138 percent of FPL — $30,660 for a family of four — in states that implement it. The most recent numbers from the U.S. Census Bureau show that there are about 315,000 Kansans age 19–64 with incomes under the new eligibility threshold. Of those, 127,000 are uninsured.

Approximately 380,000 Kansas adults and children are enrolled in Medicaid or the Children's Health Insurance Program (CHIP).

If state officials choose to implement the expansion, all of the 315,000 adult Kansans — including those without children — who meet the new criteria would be eligible to enroll in Medicaid starting in 2014. History and a significant body of research suggest that it is unlikely all who are eligible will enroll. Even so, it is likely that the ACA's individual mandate requiring virtually all U.S. citizens to obtain coverage in 2014 and

KEY POINTS

- More than 240,000 Kansans are expected to enroll in Medicaid if the state implements the 2014 eligibility expansion called for in the Affordable Care Act. Of those, only about 104,000 are currently uninsured.
- In its first year (2014), the expansion could increase state Medicaid costs between $21 million and $112 million. Our estimate indicates the increase will total about $70 million. Because the federal government will initially cover all of the costs for newly eligible Kansans, virtually all of the increased costs will be the result of people joining the program who were previously eligible but not enrolled.
- The state's share of the expansion costs from 2014 to 2020 could total between $221 million and $912 million. Our estimate indicates it will end up closer to $519 million, far less than what some other organizations are forecasting.

aggressive efforts by providers to enroll newly eligible Kansans will result in a higher-than-normal take-up rate. Based on the unique circumstances surrounding the expansion, we estimate that 122,000 adult Kansans will sign up for Medicaid in 2014, as shown in Figure 1.

More than 75,000 of these new enrollees are expected to be previously uninsured Kansans while an estimated 47,000 are likely to be people who drop or lose their existing coverage.

Coming Out of the 'Woodwork'

The federal government has promised to pay all costs for three years of covering those whom the ACA makes eligible for Medicaid, the so-called "newly eligible." In 2017, the federal contribution steps down to 95 percent. It drops to 90 percent in 2020, where it will remain. If the federal government keeps its commitment, the state of Kansas will not need to spend any additional money to cover the newly eligible population until 2017, when state costs specific to that population are expected to total $14 million. To put that in perspective, the current total cost of the Kansas Medicaid program is about $2.9 billion. The state's share of that is about $1.2 billion.

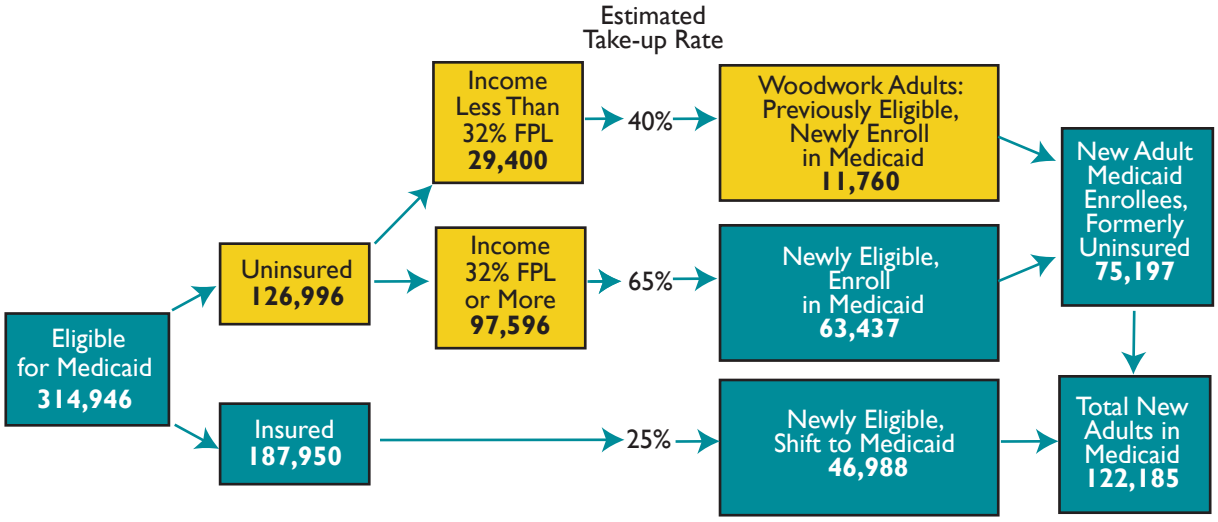
The eligibility expansion's biggest impact on state spending will be generated by a phenomenon known to health researchers as the woodwork effect. As the name suggests, this occurs when people who already are eligible for a program but not enrolled suddenly appear and sign up.

Estimating how many eligible but not-enrolled Kansans will come forward for Medicaid in 2014 is important because it will cost the state more to serve them. That is because the federal government will cover only about 57 percent of their costs, leaving the state to pick up the rest. It follows, then, that most of the projected increase in state costs will result from previously eligible Kansans enrolling in Medicaid — something that is likely to occur whether or not the state expands eligibility.

We estimate that of the 29,400 Kansas adults who currently could be eligible for Medicaid but are not enrolled, approximately 11,800 will sign up for the program in 2014. If our estimate is correct, the total additional cost in 2014 will be $27.6 million, of which the state will be responsible for approximately $11.9 million.

Even though the Medicaid eligibility expansion in the ACA does not change the criteria for

Figure 1. Kansas Adults in ACA Medicaid Expansion Population



Source: KHI Analysis of U.S. Census Bureau Data, along with KHI enrollment projections.

children, a greater number of them also are expected to enroll. Currently, there are about 45,300 uninsured children in Kansas whose family incomes qualify them for Medicaid or CHIP. Of those, 29,400 are expected to enroll due to the woodwork effect, as shown in Figure 2. In addition, we estimate that 88,500 children would move from private insurance into Medicaid or CHIP.

We estimate that the numbers of previously eligible children and adults enrolling in Medicaid and CHIP combined with those who shift from private to public coverage will increase the state's share of the costs by $70.1 million in 2014.

Calculating Cost

Calculating the total cost of the Medicaid expansion requires an estimate of how much it will cost on average to serve each of those who enroll. Our projections are based on the annual per-person rates included in the waiver application that the Brownback administration submitted to federal officials when seeking approval of its KanCare initiative.

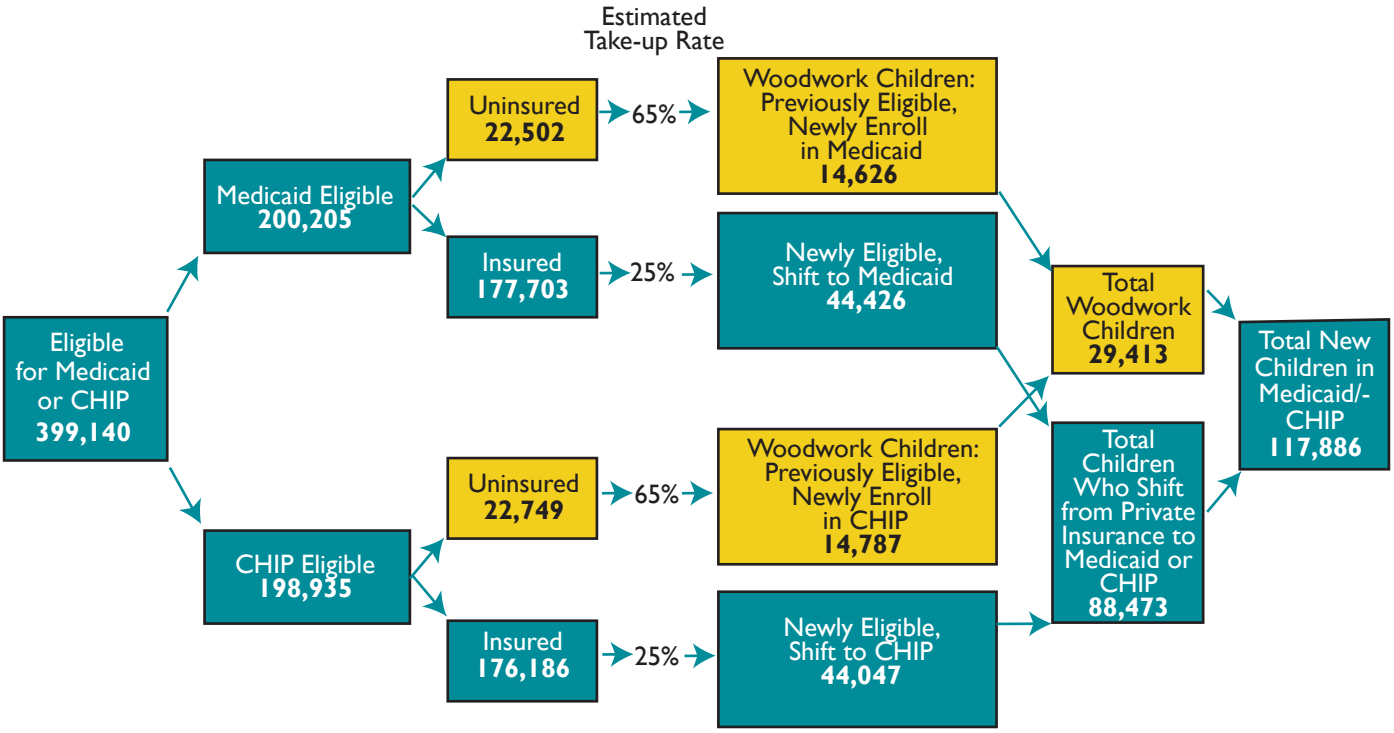
The waiver application sets those rates at $2,351 for low-income adults and $1,341 for children in 2014. From 2015 to 2017, the state's initial contract with the three managed care organizations calls for annual inflationary increases in the rates.

Based on those rates and the enrollment projections detailed earlier, we estimate that the Medicaid expansion will increase state spending on Medicaid and CHIP by a total of $518.5 million from 2014 to 2020 (Table 1, page 4). The total additional cost to the federal government during the same period will be $2.9 billion.

Calculating the Range

As noted earlier, our estimate of how much the Medicaid expansion will cost relies on enrollment projections that assume not all Kansans who become eligible for the program will enroll. We employed participation assumptions that

Figure 2. Kansas Children Indirectly Affected by the ACA Medicaid Expansion



Source: KHI Analysis of U.S. Census Bureau Data, along with KHI enrollment projections.

researchers use when estimating take-up rates to calculate a low-end estimate of additional costs to the state from 2014 through 2020 of $221 million. That is, we assumed that almost 60 percent of the uninsured Kansans made eligible by the expansion would enroll and that 25 percent of those who already were insured would shift to Medicaid. In addition, we assumed that only 40 percent of uninsured children who were eligible but not enrolled in Medicaid or CHIP would enroll. For our high-end estimate of $912 million we assumed that 75 percent of newly eligible uninsured Kansans — adults and children — would enroll and that 30 percent of those with private insurance would drop it for Medicaid. We also assumed a higher annual per-person cost of $4,278, which reflects the actual costs of serving adults in the program from fiscal year 2008 through fiscal year 2010.

Based on a variety of factors, we concluded the actual increase in state costs would be somewhere in between our low- and high-end estimates — settling on the aforementioned $518.5 million.

However, even our high-end estimate does not approach the state cost totals suggested by other analysts.

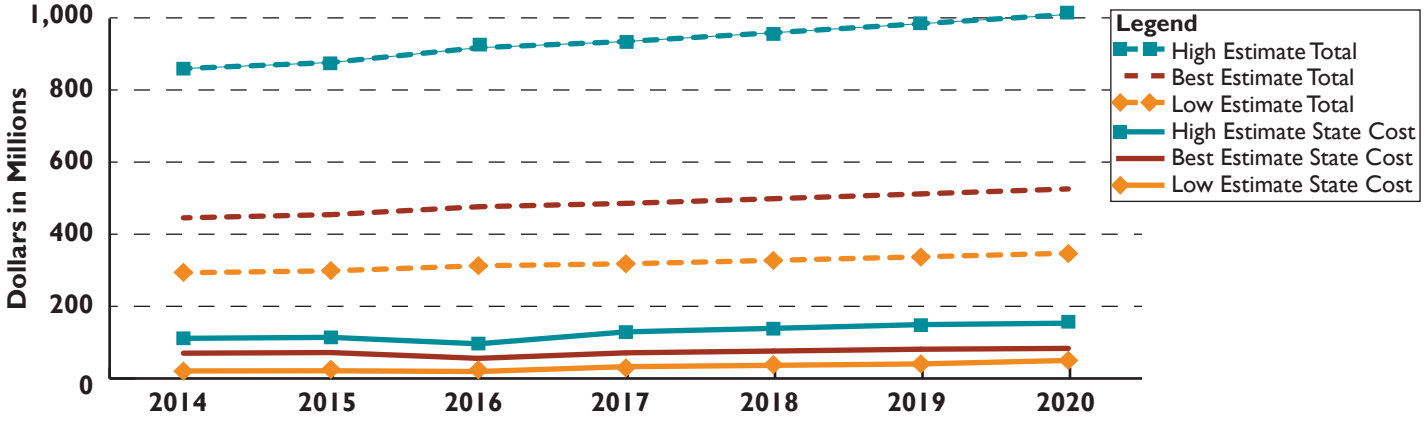
Projections that show the cost to the state for 2014–2020 in the tens of billions of dollars assume higher per-person costs and, we believe, substantially overestimate the number of previously eligible adults who will enroll in Medicaid due to the woodwork effect.

Table 1. Cost Estimates of ACA Medicaid Expansion (Dollars in Millions)

	2014	2015	2016	2017	2018	2019	2020	Total
Low Estimate Total	$293.2	$298.4	$312.4	$318.0	$327.5	$337.3	$347.4	$2,234.2
Low Estimate State Cost	$20.9	$21.3	$19.3	$32.7	$36.4	$40.3	$50.0	$220.8
Best Estimate Total	$445.4	$454.3	$476.2	$485.5	$498.5	$511.8	$525.6	$3,397.3
Best Estimate State Cost	$70.1	$71.8	$55.9	$71.1	$76.0	$81.1	$92.5	$518.5
High Estimate Total	$859.4	$876.2	$917.2	$934.4	$958.8	$983.8	$1,009.5	$6,539.3
High Estimate State Cost	$111.3	$114.0	$96.1	$129.2	$139.0	$149.3	$173.4	$912.3

Source: KHI Analysis of U.S. Census Bureau Data, along with KHI enrollment projections.

Figure 3. Cost Estimates of ACA Medicaid Expansion



Source: KHI Analysis of U.S. Census Bureau Data, along with KHI enrollment projections.

About the Issue Brief

This publication is based on work done by Scott C. Brunner, M.A. It is available online at www.khi.org.

KANSAS HEALTH INSTITUTE

The Kansas Health Institute is a nonprofit, nonpartisan, independent health policy and research organization based in Topeka, Kansas. Established in 1995 with a multiyear grant from the Kansas Health Foundation, the Kansas Health Institute conducts research and policy analysis on issues that affect the health of Kansans.

212 SW Eighth Avenue, Suite 300 Topeka, Kansas 66603-3936 Telephone (785) 233-5443 Fax (785) 233-1168 www.khi.org