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ISSUE BRIEF

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NEW FEDERAL INCENTIVE LOWERS THE ESTIMATED COST OF MEDICAID EXPANSION

Introduction

An estimated 87,780 uninsured Kansans who could be eligible for Medicaid if expanded under the terms of the Affordable Care Act (ACA) currently make too much to qualify for Medicaid and too little to qualify for subsidized coverage on the ACA health insurance marketplace, falling into the so-called "Medicaid coverage gap." Medicaid expansion would allow these uninsured Kansans to enroll in KanCare, the state program that provides Medicaid coverage. A new federal incentive has changed the financial equation for states that newly expand Medicaid coverage, but it is unclear whether this financial incentive will change the policy preferences of a majority of Kansas lawmakers.

This issue brief provides an updated estimate of the impact that expanding Medicaid coverage would have on KanCare enrollment and expenditures using the best available data on population, costs and savings. Expanding KanCare to all adults age 19-64 with family income at or below 138 percent of the federal poverty level (FPL, $38,295 per year for a family of four in 2022) has been a perennial issue for the Kansas Legislature since the U.S. Supreme Court made Medicaid expansion optional for states in 2012. Currently, Kansas adults are eligible for Medicaid if they are age 65 or older, blind or have a disability and meet income and resource requirements, or if they are a parent or guardian with family income below 38 percent FPL ($10,545 per year for a family of four in 2022).

In February 2022, Governor Laura Kelly and expansion supporters in the Legislature introduced new legislation, House Bill (HB) 2675 and Senate Bill (SB) 472, to expand KanCare effective January 1, 2023. Unlike expansion legislation introduced in 2021, which paired expansion with revenue from the legalization of medical cannabis, the 2022 bills are focused on expansion alone and hope to capitalize on a new federal incentive created by the American Rescue Plan Act of 2021 (ARPA), which would provide savings to the state that are similar to the initial incentive offered in the first six years of the ACA but would provide those savings over two years. In announcing HB 2675 and SB 472, the Governor noted that the state estimates net savings to the state general fund in the first fiscal year, which she proposed reallocating for a one-time investment in housing, child care and workforce development programs.

KEY POINTS

- ✓ An estimated 87,780 uninsured Kansans (about the combined populations of Salina and Hutchinson) who could be eligible for Medicaid if expanded under the terms of the Affordable Care Act (ACA) are currently in the so-called "Medicaid coverage gap" — they make too much to qualify for Medicaid and too little to qualify for subsidized coverage on the ACA health insurance marketplace.
- ✓ Using data from before the COVID-19 pandemic, a total of 148,049 Kansans, including 108,800 adults and 39,249 children, are estimated to newly enroll in KanCare if Medicaid were to be expanded in January 2023.
- ✓ Estimated new enrollment represents an increase of approximately 36.0 percent from the average monthly KanCare enrollment pre-pandemic. However, net state KanCare spending is projected to be just 1.4 percent higher (0.14 percent higher per year on average) over a 10-year period compared to projections based on the pre-pandemic trend.
- ✓ The American Rescue Plan Act of 2021 would provide an estimated $418 million in savings to Kansas over two years if Medicaid were expanded to low-income adults under the terms of the ACA.
- ✓ This estimate differs from state fiscal notes and some other estimates because it includes the indirect effect of expansion on enrollment of children and currently eligible adults.

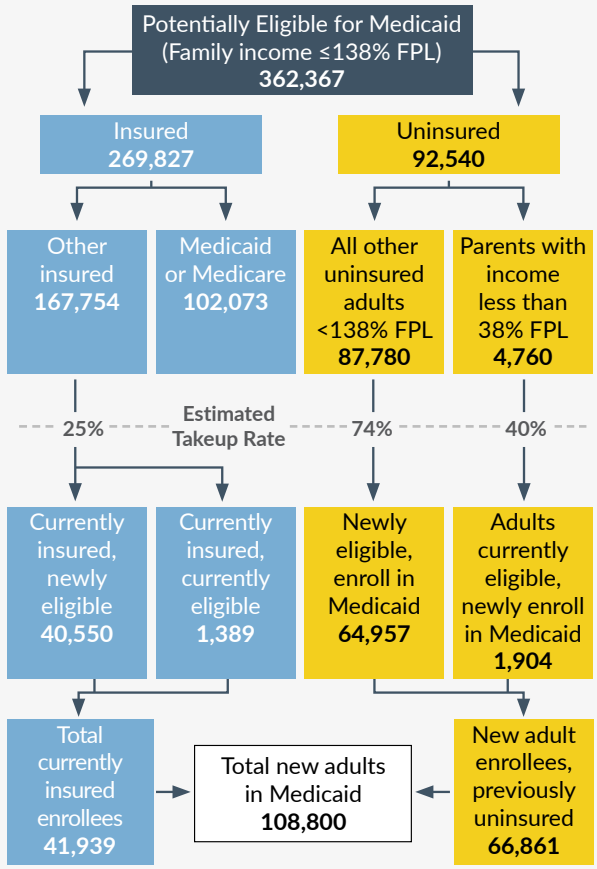
The analysis in this brief uses 2019 population information as well as updated costs and revenues to project that Medicaid expansion would result in the enrollment of more than 148,000 Kansas adults and children — a 36.0 percent increase from the average monthly enrollment for the three fiscal years before the pandemic. The increase in enrollment is expected to result in $308 million in net savings to the state in the first two calendar years of expansion because of an estimated $418 million in additional savings over two years from the new federal incentive created by ARPA. Over 10 years, net state Medicaid spending, after accounting for Medicaid expansion and the new financial incentive, is expected to be 1.4 percent higher, or 0.14 percent higher per year on average, compared to projections made from pre-COVID-19 trends.

Federal Medicaid Expansion Financial Incentive

ARPA provides states that newly expand their Medicaid programs a five percentage point increase in the Federal Medical Assistance Percentage (FMAP) applied to spending on most currently eligible Medicaid enrollees for two years (eight quarters) after expansion. Adults newly eligible because of expansion would receive the standard 90 percent FMAP for expansion enrollees. In Kansas, the federal share of spending would effectively increase from 60 cents to 65 cents of each dollar spent on KanCare members currently enrolled in the qualifying groups. The KanCare program spends around $4 billion a year on benefits for those who would qualify for the increased FMAP resulting in about $200 million per year in savings if Medicaid were expanded.

Enrollment in Medicaid and the Children's Health Insurance Program (CHIP) in Kansas has increased 21 percent during the pandemic due to changes in the economy and administrative policies adopted to prevent beneficiaries from being disenrolled. Those policies were required by the Families First Coronavirus Response Act as a condition for states to obtain a temporary 6.2 percentage point increase in the FMAP during the federal COVID-19 public health emergency (PHE). Barring new federal legislation, the 6.2 percentage point increase in the FMAP will last through the end of the quarter in which the federal PHE ends (the current declaration expires July 15, 2022).

Figure 1. **Projected Kansas Adults Age 19-64 in Medicaid Expansion Population Under 138 percent FPL**



Note: Take-up rate is the estimated probability of enrolling in Medicaid if expanded among Kansans potentially eligible for Medicaid if expanded.
Source: KHI analysis of IPUMS USA 2019 American Community Survey data.

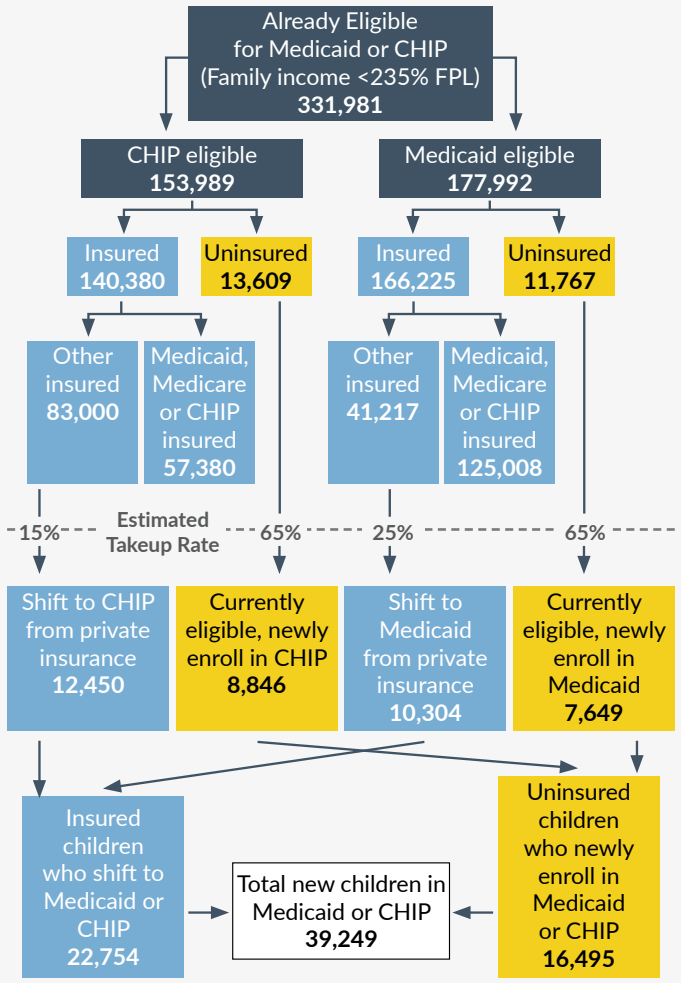
This estimate assumes all beneficiaries who would no longer be eligible after the PHE ends would be disenrolled before January 1, 2023. After adjusting for spending and enrollment trends before the PHE, the ARPA incentive was estimated to be $205 million in 2023 and $213 million in 2024. The cost of expansion would be lower if the PHE were still in effect.

While other policy changes that ultimately were adopted during the 2022 legislative session — such as extending Medicaid benefits for pregnant women to one year post-partum — may impact the number of new enrollees and cost, the end of the 6.2 percentage point increase is the only policy change other than Medicaid expansion assumed in this estimate.

Enrollment Estimate

As in previous KHI estimates, the estimate in this brief represents all those who are expected to enroll if Medicaid is expanded. This assessment differs from other estimates of Medicaid expansion enrollment, including state fiscal notes, because it includes potential indirect effects of

Figure 2. **Projected Kansas Children Affected by Potential Medicaid Expansion for Adults**



Note: Take-up rate is the estimated probability of enrolling in Medicaid if expanded among Kansans potentially eligible for Medicaid if expanded. House Substitute for Substitute for SB 267, Section 70(i), sets CHIP eligibility at 250 percent of the current FPL for Fiscal Year 2023. This policy change is not reflected in the estimated number of CHIP eligible children who would newly enroll if Medicaid is expanded.

Source: KHI analysis of IPUMS USA 2019 American Community Survey data.

expansion, such as currently eligible children and adults who might newly enroll in an expanded Medicaid program.

The estimate of 148,049 additional enrollees includes 108,800 adults and 39,249 children. Of the 108,800 new adult enrollees (*Figure 1*, page 2), 64,957 are newly eligible adults who are currently uninsured, 1,904 are adults who are currently eligible but uninsured, and 41,939 are adults who might switch to KanCare from another insurance source.

This brief also considers that some adults already enrolled in KanCare could shift to the expansion group, which is estimated to reduce state costs as discussed in the next section. Approximately 7,696 current KanCare members who might otherwise have enrolled in pre-expansion eligibility categories could instead become eligible in the new expansion group. That effect would increase the adult enrollment in the expansion group but not the total enrollment, so the group is not included among the 108,800 estimated "new" adult enrollees.

Expanding Medicaid would not change the eligibility levels for children, but it is assumed that more currently eligible children who are not enrolled would enroll in KanCare as outreach efforts following expansion reached more people, particularly if their parents were to newly enroll. The estimate of 39,249 newly enrolled children (*Figure 2*) includes 16,495 currently uninsured children and 22,754 children who might switch to KanCare from other coverage.

Cost

This estimate assumes expansion would be implemented on January 1, 2023. The estimated net cost to the state includes new revenues, savings from adults who would enroll in the new expansion group (with a federal match rate of 90 percent) rather than another eligibility group with a less favorable match rate (regular match rate of 60 percent), and additional administrative costs from new enrollment. The resulting estimated costs are presented in *Figure 3*, page 4.

Estimated new annual revenues associated with new KanCare enrollees include managed care privilege fees, increased drug rebates collected by the state, and additional CHIP premiums collected. The estimated savings each year from expansion are associated primarily with enrollees becoming reclassified into different eligibility groups, such as women who would become pregnant while already enrolled in the expansion group as well as those moving to the expansion group who would have qualified as Medically Needy, who would have enrolled in the entirely state-funded MediKan program or who may otherwise have been eligible through Supplemental Security Income. State savings also are estimated to account for inmates who could be eligible for Medicaid in the case of a hospital admission longer than one day.

The estimated state net costs do not include the projected effects on the workforce or the overall state economy. A February 2021 analysis by John Leatherman, a professor in the Department of Agricultural Economics at Kansas State University, suggested that expanding Medicaid would increase economic output, thus generating each year additional state tax revenue of between 3.1 percent and 3.9 percent and local tax revenue of between

Figure 3. **Estimated Direct and Indirect Costs Related to Medicaid Expansion, 2023 to 2032, by Calendar Year (in Millions)**

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total
Combined Federal and State Spending on New Enrollees	$1,007	$1,065	$1,128	$1,194	$1,265	$1,340	$1,419	$1,507	$1,601	$1,700	$13,226
State Gross Cost of New Enrollees	$140	$148	$161	$171	$180	$191	$202	$214	$226	$240	$1,873
New State Revenues, Offsetting Savings, Administrative Costs	$(84)	$(94)	$(96)	$(102)	$(108)	$(115)	$(122)	$(129)	$(138)	$(146)	$(1,135)
ARPA Incentive	$(205)	$(213)	–	–	–	–	–	–	–	–	$(418)
State Net Cost (Savings) of Expansion	$(148)	$(159)	$65	$68	$72	$76	$80	$84	$89	$94	$320
State Net Cost of New Adults	*$16*	*$12*	*$16*	*$17*	*$18*	*$19*	*$20*	*$21*	*$23*	*$24*	*$184*
State Net Cost of Current Adults	*$8*	*$9*	*$11*	*$11*	*$12*	*$13*	*$13*	*$14*	*$15*	*$16*	*$122*
State Net Cost of Current Children	*$32*	*$34*	*$38*	*$40*	*$42*	*$44*	*$47*	*$49*	*$51*	*$54*	*$431*

Note: This analysis presents results by Calendar Year, assuming a January 1, 2023, implementation. Numbers may not sum due to rounding. The total ARPA incentive only includes savings associated with the population currently eligible and enrolled. Costs for new enrollees who are currently eligible were accounted for separately in the two years that the ARPA incentive is applied. Detailed assumptions are available in a technical supplement available at bit.ly/METechNote. "()" indicates the state savings are subtracted from expenses when calculating the net cost of Medicaid expansion. New adults indicates adults newly eligible for Medicaid if expanded who would enroll. Current adults and current children indicate adults and children who are currently eligible for Medicaid but would newly enroll if Medicaid is expanded.

Source: KHI analysis of data from IPUMS USA 2019 American Community Survey, the Fiscal Year 2020 and 2021 Medical Assistance Reports, the Kansas Department of Health and Environment and the Kansas Department of Corrections.

2.3 percent and 2.9 percent of the federal cost of new enrollees. This cost estimate does not assume the state would reduce funding for other programs that currently provide services for uninsured Kansans, including safety net clinics and community mental health centers.

Methods

Because data collection issues during the pandemic made 2020 data not comparable to previous years, this analysis uses data from the U.S. Census Bureau's 2019 American Community Survey (ACS) as the basis for the population estimates. Additional information from IPUMS USA was incorporated to more closely reflect the KanCare program's family definitions and eligibility requirements based on immigration status. Policies implemented in response to the COVID-19 pandemic also resulted in a significant increase in Medicaid enrollment and spending in 2020 and 2021. Thus, this estimate does not use fiscal year 2021 as the basis for all cost and savings projections; instead, the fiscal year that most closely reflects expectations for cost and savings after the PHE ends was used. The details of each assumption are provided in a technical supplement available at bit.ly/METechNote.

Conclusion

The American Rescue Plan Act of 2021 created an estimated $418 million financial incentive for Kansas to expand Medicaid to low-income adults under the terms of the Affordable Care Act. It remains to be seen if that incentive will persuade Kansas or the 11 other states that have not yet expanded Medicaid to do so. None of the non-expansion states have adopted expansion since ARPA was enacted (Missouri and Oklahoma implemented expansion in 2021 but had adopted expansion in 2020). In the meantime, Kansans who remain in the coverage gap have few alternatives for comprehensive affordable health insurance.

ABOUT THE ISSUE BRIEF

This brief is based on work done by Phillip Steiner, M.A., and Kari M. Bruffett. It is available online at khi.org/policy/article/22-20.

KANSAS HEALTH INSTITUTE

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