

Expanding Medicaid in PA: Consider the Savings



Pennsylvania has a unique opportunity to both improve the health of its residents and achieve state savings. Expanding Medicaid will provide health care coverage to 613,000¹ uninsured adults and generate up to \$400 million per year beginning 2014.

Savings: The Other Half of the Equation

To date, Pennsylvania officials have focused on whether the Commonwealth can absorb the costs of expanding Medicaid. Without disclosing their methodology, officials cite increased state costs for fiscal year 2013-14 of \$134 million, with no expansion, to \$222 million, with the expansion.² To consider only costs is mistaken. Most or all of the state costs associated with expanding Medicaid will be offset by new tax revenues and reductions in state spending.

- **Expanding Medicaid will generate \$50 million to \$80 million per year in new state revenue between 2014 and 2016 from the gross receipts tax on Medicaid managed care plans.** Pennsylvania levies a 5.9 percent tax on its Medicaid managed care plans.³ All new enrollees under the Medicaid expansion will go into managed care. Newly-eligible Medicaid recipients are covered with 100 percent federal funds between 2014 and 2016.⁴ All of this federal money will be paid as premiums to Medicaid managed care plans and thus be subject to Pennsylvania's gross receipts tax.⁵
- **Expanding Medicaid will save up to \$230 million per year in state spending on General Assistance-related health insurance.** Pennsylvania currently provides health insurance to 65,000 low-income adults with temporary disabilities, for whom it receives no federal matching dollars.⁶ Some of this spending is offset by federal "disproportionate share" hospital funding, but this will be significantly reduced soon.⁷ Under the Medicaid expansion, virtually all of the individuals in this program will become newly-eligible and qualify for 100 percent federal funding in 2014 through 2016, allowing Pennsylvania to save almost all of its current spending on General Assistance-related health insurance.
- **Expanding Medicaid will save \$80 million to \$140 million per year in state spending on county-based mental health services.** Pennsylvania currently contributes over \$700 million per year in state general funds towards county-based mental health services for the uninsured.⁸ Many of these uninsured residents will enroll in Medicaid and receive mental-health services that are funded entirely with federal dollars, allowing the state to reduce its spending on county-based services.⁹
- **Expanding Medicaid will save \$30 million per year in state spending on "medically needy" Medicaid beneficiaries.** These individuals generally deduct medical expenses from their incomes ("spend down") to qualify for limited-benefit Medicaid. By raising income eligibility most "medically needy" beneficiaries will be considered newly-eligible and the state's federal match will increase from 54 percent to 100 percent.¹⁰

Savings Depend on Expanding Medicaid in 2014

From a fiscal perspective, Pennsylvania's Medicaid expansion should begin in January 2014. Otherwise, the Commonwealth fails to realize the full financial benefits of three years of 100 percent federal funding. This unprecedented federal match rate for covering newly-eligible Pennsylvanians is tied by law to specific calendar years. The new revenues and spending offsets described above begin 2014, increase annually until 2017, and then gradually decline until 2020, after which the federal match for newly-eligible enrollees holds steady at 90 percent.

Medicaid Spending Will Increase Even Without Expansion

Unlike the new savings and revenues discussed above, new Medicaid costs will be incurred *regardless* of whether Pennsylvania adopts the expansion. New costs come from increased enrollment of Pennsylvanians eligible for Medicaid under current program rules. This enrollment will increase because the rest of health reform remains in place: there will still be the requirement that people have health insurance and Pennsylvania will still have to simplify its eligibility procedures for Medicaid.¹¹ State officials estimate new Medicaid costs, without an expansion, to be \$134 million in FY 2013-14. These costs likely increase with an expansion, but the new savings and revenues generated by the expansion more than offset the marginal difference.

Conclusion

The Medicaid expansion almost certainly pays for itself, at least through the first three years. The Medicaid-specific savings and revenues highlighted above almost certainly offset the increased costs associated with expanding Medicaid. Pennsylvania, however, has to act now to realize the full fiscal benefits of three years of 100 percent federal funding.

¹ Genevieve Kenney, Lisa Dubay, Stephen Zuckerman & Michael Huntress, [Opting Out of the Medicaid Expansion under the ACA](#), Urban Institute (July 2012) at Exh. 2. Of these uninsured adults, 398,000 have incomes below 100% FPL and will not qualify for exchange subsidies. *Id.*; The Affordable Care Act enables states to expand Medicaid coverage to 138% of the federal poverty level (\$15,415 for an individual or \$26,344 for a family of three).

² Melissa Daniels, [Corbett: State Can't Absorb Medicaid Expansion Costs](#), DelCo Times, Nov. 20, 2012 (Governor Corbett projecting "welcome mat" or "woodwork" costs for enrollees who would qualify for Medicaid under eligibility criteria existing *before* enactment of the ACA. Pennsylvania will receive its standard federal match: 54.28%). *See also* [The Challenges Facing PA in Implementing the Health Care Reform Law](#), Testimony of Gary Alexander, Secretary of Public Welfare for Pennsylvania, U.S. House of Representatives, Dec.13, 2012 at 6 (estimating \$222 million in the first state fiscal year of the expansion).

³ 72 P.S. §8101(b.1) (2009) (creating new excise tax on the receipts of certain managed care organizations).

⁴ The federal government's share of Medicaid costs for newly eligible enrollees will decrease to 95% in 2017, 94% in 2018, 93% in 2019, and 90% thereafter.

⁵ *Note on method*: New tax revenues are calculated by multiplying the number of newly-eligible individuals expected to enroll in the program by the average annual cost per enrollee and by 5.9%, the amount of [Pennsylvania's gross receipts tax](#). The estimated tax revenues increase annually as more newly-eligible individuals enroll.

While estimates of the number of individuals who will enroll vary significantly, the most commonly cited source for enrollment projections is John Holahan and Irene Headen, [Medicaid Coverage and Spending in Health Reform: National and State-by-State Results for Adults at or below 133% FPL](#), Kaiser Commission on Medicaid and the Uninsured (May 2010) at 40, Table 7. Using a participation rate of 57%, Holohan and Headen project that Medicaid expansion in Pennsylvania would cover 482,000 individuals by 2019. *Id.* PHLP's analysis utilizes a participation rate of 45% (where 100% = 482,000) in 2014 and a 30% marginal increase each following year (.45, .615, .73). *See generally* Ben

Sommers, *et al.*, [Understanding Participation Rates in Medicaid: Implications for the Affordable Care Act](#), U.S. Dept. of Health and Human Services, Assistant Secretary for Planning and Evaluation Issue Brief (March 2012).

An average annual cost per enrollee of \$3,826 is used. This is the 2010 national average cost per enrollee for non-disabled, non-elderly adults (\$4,314) multiplied by a projected growth rate of 6.1% per year and a .70 factor. According to the CMS Office of the Actuary, per enrollee costs of new enrollees who were formerly uninsured are estimated to be about 70% of those for current beneficiaries by eligibility group. [2011 Actuarial Report on the Financial Outlook for Medicaid](#), at 13, 28, 32. Current Pennsylvania Medicaid expenditure data cannot be used because the state does not currently cover non-disabled childless adults.

⁶ Pennsylvania has approximately 50,000 General Assistance-related “categorically needy” recipients and 15,000 GA-related “medically needy” recipients. For per-member per-month enrollee costs for each coverage type, see [HealthChoices Expansion, 35-County FFS Databook](#), Mercer (Dec. 2011) at 18.

⁷ See [Facts About Medicaid Expansion in PA](#), Hospital & Healthsystem Assoc. of PA (Dec. 2012).

⁸ The FY 2012-13 Enacted Budget contains line-item appropriations for “mental health services” (\$662 million) and “behavioral health services” (\$43.1 million). Outpatient drug and alcohol programs for the uninsured, which are not included in this analysis, are another state-funded service that will be at least partially offset by Medicaid expansion.

⁹ *Note on method:* Estimated savings are calculated by multiplying current state spending on county-based mental-health services by the projected decrease in the uninsured in 2014. This amount is reduced by one-third to account for components of these funding streams, such as housing and employment supports, and the state mental hospital system, that are not Medicaid covered services. Holahan and Headen project that Medicaid expansion will reduce the number of uninsured adults under 138% FPL in Pennsylvania by 41.4% to 67.2% by 2019, depending on state outreach and Medicaid participation rates. *Supra* note 5, at 41, 45, Tables 7, 11. PHLP’s analysis assumed an incremental reduction of 18.6% to 30% in uninsured adults in 2014 (45% of the projected 41.4% to 67.2% reduction).

¹⁰ Pennsylvania has approximately 14,000 TANF-related “medically needy” beneficiaries and 2,000 SSI-related “medically needy” beneficiaries. Estimated savings are calculated by multiplying the number of “medically needy” beneficiaries by their average annual cost and by 46%, the current state match rate. An average annual cost of \$3,826 was used for “medically needy” beneficiaries in the TANF-related category (see note 5), and \$6,800 for those in the aged or disabled category (annualized per-member per-month costs of SSI recipients; see Mercer Databook, *supra* note 6).

¹¹ See John Holohan, Matthew Buettgens, Caitlin Carroll & Stan Dorn, The Urban Institute, [The Cost and Coverage Implications of the ACA Medicaid Expansion: National and State-by-State Analysis](#), Kaiser Commission on Medicaid and the Uninsured, at 5 (November 2012).