Initial Estimate of the Cost to Maryland Medicaid of Federal Health Reform Initiatives

Department of Legislative Services
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Primary Staff for This Report

Jennifer B. Chasse

Other Staff Who Contributed to This Report

Simon G. Powell

For further information concerning this document contact:

Library and Information Services
Office of Policy Analysis
Department of Legislative Services
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October 23, 2009

The Honorable Thomas V. Mike Miller, Jr., President of the Senate
The Honorable Michael E. Busch, Speaker of the House of Delegates
Members, Maryland General Assembly

Ladies and Gentlemen:

As you are aware, Congress is currently debating health care reform. Although there is still much work to be done to achieve final passage of a health reform package, certain common elements can be identified in the House and Senate proposals. One of these common elements, the expansion of eligibility under the Medicaid program, has potentially significant fiscal implications for state governments.

The Department of Legislative Services (DLS) has prepared this initial report to examine what Medicaid expansion as proposed by H.R. 3200 and the Senate Finance Committee would mean in terms of State expenditures. Based on a number of assumptions including benefit costs, enrollment rates, and cost-sharing arrangements, DLS concludes that the cost to the State of the current proposals could range from $0 to $283 million in federal fiscal 2014. However, these costs could rise sharply if federal matching provisions as currently understood by DLS are significantly altered as part of the legislative process.

Given this potential impact for the State, DLS will update this report as the federal legislative process proceeds. For further information on this report, please contact Jennifer B. Chasse of the Office of Policy Analysis at 410-946-5510.

Sincerely,

Warren G. Deschenaux
Director

WGD/jac

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Initial Estimate of the Cost to Maryland Medicaid of Federal Health Reform Initiatives

This report provides an initial estimate of State financial liability under the proposed expansion of Medicaid to 133% of federal poverty guidelines (FPG) contained in some of the federal health care reform proposals. The report presents our key findings, summarizes current Medicaid eligibility, describes the proposed Medicaid expansion, estimates the potential cost of such an expansion, and notes related potential savings and expenditures.

Summary of Key Findings and Assumptions

Depending on actual enrollment rates, expansion of Medicaid to 133% FPG could cost the State **$0 to $283 million per year beginning in federal fiscal 2014 and $79 million to $254 million in federal fiscal 2019.** These estimates assume:

- enhanced federal matching funds or federal medical assistance percentage (FMAP) for all childless adults under 116% FPG, as well as all new enrollees over 116% FPG;
- savings from an enhanced match on *current* State spending on childless adults under 116% FPG; and
- for the Senate Finance proposal only, additional savings from enhanced FMAP for the Maryland Children's Health Program (MCHP) and Medicaid.

If the enhanced FMAP for childless adults up to 116% FPG is not available, actual State expenditures will be significantly higher, ranging from $495 million to $1.0 billion per year.

Expansion to 133% FPG would make Medicaid coverage available to nearly one-third (29%) of Marylanders who reported being uninsured in 2006-2007 (although a portion of these roughly 220,000 individuals have since gained coverage under the State Medicaid expansion enacted under Chapter 7 of the 2007 special session discussed below).

Current Medicaid Eligibility in Maryland

Medicaid provides health care coverage to about 609,000 Marylanders. Eligibility is generally limited to children, pregnant women, elderly or disabled individuals, and certain parents and caretaker relatives. Chapter 7 of the 2007 special session expanded eligibility to parents, caretaker relatives, and childless adults with incomes up to 116% FPG effective July 1, 2008. During the first year of the expansion, approximately 48,000 parents enrolled.

While parents and caretaker relatives receive full Medicaid benefits, childless adults receive primary care, pharmacy, and limited mental health services through a § 1115 demonstration waiver program, the Primary Adult Care (PAC) program. Beginning in January 2010, PAC enrollees will also receive substance abuse treatment and emergency services. Extension of full Medicaid benefits to this population has been delayed due to lower-than-anticipated State revenues. An estimated 35,000 childless adults are enrolled in PAC. **Exhibit 1** illustrates the selected 2009 federal poverty guidelines.

Exhibit 1
Selected 2009 Federal Poverty Guidelines

Family Size	116% FPG	133% FPG
1	$12,563	$14,404
2	16,901	19,378
3	21,240	24,352
4	25,578	29,327
5	29,916	34,301

Source: *Federal Register*, Friday, January 23, 2009

Proposed Expansion of Medicaid under Federal Health Care Reforms

Several health care reform proposals are pending in Congress. This analysis focuses on two: the House proposal (H.R. 3200) and the Senate Finance Committee proposal (the *America's Healthy Future Act of 2009*).[1] Both proposals increase Medicaid eligibility for nonelderly individuals (parents, children, and childless adults) to a minimum of 133% FPG, with the House proposal effective in 2013 and the Senate Finance proposal effective January 1, 2014.

The House proposal prohibits states from reducing their eligibility standards for Medicaid (or MCHP) below those in effect as of June 16, 2009 (maintenance of effort requirement). To assist in covering nonmaintenance of effort populations, 100% FMAP is provided to states in federal fiscal 2013 through 2015, with 90% FMAP provided in subsequent years. In Maryland, this higher match would be available primarily for individuals with incomes between 116% and 133% FPG. However, language in H.R. 3200 implies that this enhanced FMAP would also be available for individuals currently covered under a § 1115 demonstration waiver, which would include PAC enrollees.

[1] *The America's Healthy Future Act of 2009* passed the Senate Finance Committee on October 13, 2009, and will now be reconciled with the Senate Health, Education, Labor, and Pensions Committee bill (*The Affordable Health Choices Act),* which proposes increasing Medicaid eligibility to 150% FPG. A combined bill will be sent to the Congressional Budget Office for scoring and then to the full Senate.

Under the Senate Finance proposal, states with coverage of parents and childless adults at or above 100% FPG are defined as "expansion states." All states will receive additional FMAP; however, nonexpansion states will start with a higher FMAP (an additional 37.3% in federal fiscal 2014), declining 1.0% annually to an additional 32.3% FMAP in federal fiscal 2019. Expansion states will begin with only 27.3% in additional FMAP in federal fiscal 2014, but this amount will increase by 1.0% annually until all states are receiving the same 32.3% in additional FMAP in federal fiscal 2019. Maryland is defined as an expansion state and thus will receive additional FMAP of between 27.3% and 32.3%, bringing the State's total FMAP for newly eligible individuals to 77.3% in federal fiscal 2014 and 82.3% in federal fiscal 2019.

The Senate Finance proposal definition of "newly eligible" includes "non-elderly, non-pregnant individuals below 133% FPG who were not previously eligible for a full or benchmark benefit package." As childless adults with incomes up to 116% FPG (PAC enrollees) are not eligible for a full or benchmark benefit package, it is assumed that the enhanced FMAP will be available for this population, in addition to individuals with incomes between 116% and 133% FPG.

The Senate Finance proposal includes two additional increases in FMAP intended to offset the costs of continuing to cover maintenance of effort populations: (1) a 23% increase in FMAP for MCHP, bringing Maryland's MCHP FMAP from 65% to 88% for federal fiscal 2014 through 2019; and (2) a 0.15% increase in the Medicaid FMAP for maintenance of effort populations, bringing the Maryland Medicaid FMAP from 50% to 50.15%.

Estimated Cost of Expanding Medicaid Eligibility to 133% FPG

As it is unknown what enrollment rates will be, low (50% enrollment), moderate (75% enrollment), and high (100% enrollment) estimates are provided. The estimates account for the cost of providing full benefits to childless adults with incomes up to 116% FPG and the cost of providing full Medicaid benefits to individuals with incomes between 116% and 133% FPG. Potential "crowd out" (individuals already insured who will drop their coverage and enroll in Medicaid) is accounted for under each estimate. To the extent that a lesser benefit package could be provided, the cost per enrollee would be reduced.

The estimates assume that an enhanced FMAP would be available for all PAC expenditures, including savings from an enhanced match on *current* PAC spending. If this additional FMAP is not available, the State share of expenditures will be increased *significantly* in the range of $495 to $712 million annually under a low estimate up to $718 million to $1.0 billion under a high estimate. The Senate Finance proposal estimates also account for savings resulting from an enhanced MCHP and Medicaid FMAP. Administrative costs and other potential savings and/or offsets related to the proposals are *not* included in the estimates, although some are noted in the next section of this analysis.

As shown in **Exhibit 2**, expanding Medicaid eligibility to 133% FPG could cost a total of $1.2 to $1.7 billion in federal fiscal 2014, depending on enrollment. New State expenditures would be zero under the first three years of the House proposal (with annual State savings of $69 to $76 million resulting from an enhanced match on current PAC spending), after which time they would range from $66 to $154 million annually. Under the Senate Finance proposal, State expenditures would range from $156 to $283 million in federal fiscal 2014 and $120 to $254 million in federal fiscal 2019, including savings from the enhanced FMAP on PAC noted above and additional enhanced FMAP for MCHP and Medicaid. State spending would be less in all years under the House proposal due to the 90% to 100% FMAP.

Exhibit 2
Maryland's Financial Liability for the Expansion of Medicaid Under Federal Health Care Reform Proposals[1]
($ in Millions)

	FFY 2013	FFY 2014	FFY 2015	FFY 2016	FFY 2017	FFY 2018	FFY 2019
Low Estimate (50% Enrollment)							
Total Cost	**$1,107**	**$1,169**	**$1,234**	**$1,303**	**$1,375**	**$1,453**	**$1,533**
House Proposal							
Federal Share	1,107	1,169	1,234	1,173	1,238	1,307	1,380
State Share[2]	-69	-73	-76	66	70	74	79
Senate Finance Proposal							
Federal Share	-	904	966	1,033	1,104	1,181	1,262
State Share[2]	-	156	150	145	138	130	120
Moderate Estimate (75% Enrollment)							
Total Cost	**1,372**	**1,450**	**1,532**	**1,619**	**1,711**	**1,808**	**1,910**
House Proposal							
Federal Share	1,372	1,450	1,532	1,457	1,540	1,627	1,719
State Share[2]	-69	-73	-76	98	104	110	112
Senate Finance Proposal							
Federal Share	-	1,121	1,200	1,284	1,374	1,470	1,572
State Share[2]	-	219	215	210	204	196	187
High Estimate (100% Enrollment)							
Total Cost	**1,637**	**1,731**	**1,830**	**1,935**	**2,046**	**2,164**	**2,288**
House Proposal							
Federal Share	1,637	1,731	1,830	1,742	1,841	1,948	2,059
State Share[2]	-69	-73	-76	129	137	146	154
Senate Finance Proposal							
Federal Share	-	1,338	1,433	1,535	1,643	1,759	1,883
State Share[2]	-	283	280	276	270	263	254

[1]Federal matching funds (FMAP) for newly eligible populations would be 100% in federal fiscal 2013 through 2015 and 90% in subsequent years under the House proposal and 77.3% in federal fiscal 2014, increasing annually by 1.0% to 82.3% in federal fiscal 2019 under the Senate Finance proposal.

[2]Estimates include offsets for potential State savings due to an enhanced match on *current* Primary Adult Care program spending. Additional State savings are assumed under the Senate Finance proposal due to a 23% increase in the Maryland Children's Health Program FMAP and a 0.15% increase in the Medicaid FMAP for previously covered populations.

Source: Department of Legislative Services; Department of Health and Mental Hygiene

Legislative Services notes that 88% to 89% of total expenditures under an expansion of Medicaid to 133% FPG reflect the cost of providing full Medicaid benefits to childless adults with incomes up to 116% FPG, including those currently enrolled in PAC (35,000), those eligible for but not enrolled in PAC (an estimated 73,000), and potential "crowd out" individuals (an estimated 6,600). Expenditures to provide full Medicaid coverage to this population is expected be considerable ($990 million to $2.0 billion in total funds annually, depending on enrollment) due to high projected medical costs.

In contrast, expanding Medicaid eligibility to individuals with incomes between 116% and 133% FPG is considerably less expensive, an estimated $117 to $283 million in total funds annually (depending on enrollment), and comprises only 12% to 13% of total costs. The potentially eligible population is smaller (an estimated 35,000 individuals) and contains parents, children (already eligible but not enrolled), and higher income and presumably healthier childless adults. Medical costs for these populations are estimated to be much lower than those for childless adults under 116% FPG.

Potential Additional Major Expenditures and Savings under the Reform Proposals

In addition to the cost of providing medical services under the expansion, there is the potential for additional State savings or expenditures under the proposals, including, but not limited to the following:

- **Reduction in Uncompensated Care –** Hospital uncompensated care is reimbursed through Maryland's all-payor system. An uncompensated care component is built into each hospital's rates. Therefore, all payors of hospital care, including Medicare, Medicaid, commercial payors, and others finance uncompensated care when they pay for hospital services. Certain hospitals with high levels of uncompensated care receive additional funding through the Uncompensated Care Fund. In fiscal 2009, hospitals received about $912 million for uncompensated care through the rate structure and $101 million from the fund. Expanding Medicaid coverage to 133% FPG will result in a reduction of hospital uncompensated care. The amount of such savings cannot be reliably estimated at this time but is expected to be significant. As hospital costs are split among payors at approximately 44% commercial, 37% Medicare, and 18% Medicaid (50% general funds/50% federal funds), a reduction in hospital rates generates general fund savings for the State. Furthermore, precedent exists to use a portion of uncompensated care savings to fund expansion of Medicaid. Under Chapter 7 of the 2007 special session, a portion of uncompensated savings resulting from the expansion of Medicaid to 116% FPG was used to help finance the expansion. In fiscal 2009, $24 million in uncompensated care savings were used to support the Medicaid expansion.

- **Elimination of the Maryland Health Insurance Plan** – Expanded access to health insurance under other aspects of the reform proposals not discussed in this analysis should eventually eliminate the need for high-risk pools such as the Maryland Health Insurance Plan (MHIP). MHIP is funded primarily by an annual assessment on hospital rates. In fiscal 2009, the value of the assessment was $111 million. As the purpose of MHIP is to reduce uncompensated care by providing health insurance benefits for medically uninsurable persons, revenues from the MHIP assessment could potentially be redirected to help finance the State's share of the Medicaid expansion.

- **Children's Health Insurance Program –** An enhanced MCHP FMAP of 88% for federal fiscal 2014 through 2019 under the Senate Finance proposal would reduce State expenditures by approximately $58 to $75 million annually. Such savings are reflected in the Senate Finance proposal estimates provided. However, these savings will be partially offset as some children currently covered through MCHP (children ages 7 up to 19 with family incomes up to 133% FPG) will be shifted into Medicaid under the expansion. The cost of covering these children will no longer be funded at the enhanced MCHP FMAP, but rather at the lower Medicaid FMAP. This may result in additional State expenditures of approximately $9 million annually.

- **Prescription Drug Provisions** – Both proposals include provisions to reduce Medicaid prescription drug spending. The House proposal increases the brand-name drug rebate from 15.1% to 22.1% and limits Medicaid payments for multiple source drugs to 130% of the weighted average manufacturer price. The Senate Finance proposal increases the brand-name drug rebate to 23.1% and increases the generic drug rebate from 11% to 13%. Both proposals require manufacturers to pay states rebates on prescription drugs provided through managed care organizations (currently no rebates are received for these drugs). These provisions may provide net savings to Maryland of $4 to $16 million per year beginning in federal fiscal 2010, for cumulative savings over 10 years of $129 million.

- **"Clawback" Provision** – The Senate Finance proposal allows nonelderly, nonpregnant adults between 100% and 133% FPG to choose whether to enroll in a state health insurance exchange or in Medicaid. State exchanges would pool purchasing of health insurance for the individual market and small employers. States would be required to pay for these individuals that enroll in an exchange an amount equal to the state's average cost of coverage for individuals in the same Medicaid eligibility category. This provision could make Maryland financially liable for additional individuals beyond those projected to enroll in Medicaid under the estimates provided. Specifically, Maryland may be required to contribute to the cost of coverage for individuals currently insured through the individual market or a small employer.

Conclusion

Expansion of Medicaid to 133% FPG under pending federal health care reform is estimated to cost a total of $1.2 to $2.3 billion annually in Maryland between federal fiscal 2014 and 2019, depending on actual enrollment rates. *Maryland's share of these expenditures would vary significantly based on the percentage of FMAP provided, as well as the specific populations deemed eligible for enhanced funds.* For purposes of this analysis, Legislative Services assumes that enhanced FMAP would be available for *all* childless adults, including those with incomes up to 116% FPG currently served under PAC, as this population would be "newly eligible."

Given this key assumption, under the House proposal (which provides 100% FMAP for the first three years and 90% thereafter), State expenditures would initially be zero (with annual State savings of $69 to $76 million resulting from enhanced FMAP on current PAC spending), later increasing to $66 to $154 million annually. Under the Senate Finance proposal, (which provides FMAP ranging from 77.3% to 82.3%), State expenditures would range from $156 to $283 million annually, including the above noted savings from enhanced FMAP on current PAC spending and from additional enhanced FMAP for MCHP and Medicaid, which are provided under the Senate Finance proposal.

To the extent that enhanced FMAP is *not available* for the childless adult population with incomes up to 116% FPG, State expenditures will increase *significantly* under both proposals and could range from $495 to $712 million annually under a low (50% enrollment) estimate up to $718 million to $1.0 billion annually under a high (100% enrollment) estimate.

Legislative Services notes that this analysis is based on the status of federal health care reform proposals as of October 23, 2009. The details of these proposals are subject to change. We will issue a revised estimate if and when final Senate and House legislation becomes available, as well as for any final legislation that is signed by the President.