Updated Estimate of the Cost to Maryland Medicaid of Federal Health Care Reform

Department of Legislative Services
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January 14, 2010

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 continues to debate national health care reform. On November 7, 2009, the U.S. House of Representatives passed *H.R. 3962, Affordable Health Care for America Act*. On December 24, 2009, the U.S. Senate passed *H.R. 3590, Patient Protection and Affordable Care Act*. The two bills are currently undergoing an informal conference process. Although there is still much work to be done to achieve final passage of a health reform package, one common element in these bills is the expansion of eligibility under the Medicaid program, which will have significant fiscal implications for state governments.

The Department of Legislative Services (DLS) has prepared this report to estimate the impact of expanding Medicaid on State expenditures. Based on a number of assumptions including benefit costs, enrollment rates, and cost-sharing arrangements, DLS concludes that during the first three years of an expansion to 133% of federal poverty guidelines (FPG) under the Senate bill, the State would incur savings of $131 to $145 million annually. Beginning in federal fiscal 2017, new State expenditures would range from $137 to $285 million. During the first two years of an expansion to 150% FPG under the House bill, the State would incur savings of $69 to $73 million annually, after which time new State expenditures would range from $60 to $155 million annually. 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 Simon G. Powell of the Office of Policy Analysis at 410-946-5530.

Sincerely,

Warren G. Deschenaux
Director

WGD/jac

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Updated Estimate of the Cost to Maryland Medicaid of Federal Health Care Reform

This report provides estimates of State financial liability with respect to expanding Medicaid as proposed by the two federal health care reform bills – the Senate bill (*H.R. 3590, Patient Protection and Affordable Care Act)* and the House bill (*H.R. 3962, Affordable Health Care for America Act)*. The report, which builds on our October 23, 2009 report, *Initial Estimate of the Cost to Maryland Medicaid of Federal Health Reform Initiatives*, presents our key findings, summarizes current Medicaid eligibility, describes the two proposed Medicaid expansions, estimates the potential cost of such expansions, and notes related potential savings and expenditures.

Summary of Key Findings and Assumptions

Expansion of Medicaid to 133% federal poverty guidelines (FPG), as proposed under the Senate bill, could cost a total of $1.2 to $1.7 billion in federal fiscal 2014, depending on enrollment. During the first three years of the expansion, the federal government would finance 100% of expansion costs, and the State would incur annual savings of $131 to $145 million resulting from an enhanced match on current Primary Adult Care Program (PAC) spending and additional enhanced match for the Maryland Children's Health Program (MCHP). Beginning in calendar 2017, State expenditures would range from $153 to $270 million annually.

Expansion of Medicaid to 150% FPG under the House bill could cost a total of $1.3 to $1.9 billion in federal fiscal 2014, depending on enrollment. During the first two years of the expansion, the federal government would finance 100% of expansion costs, and the State would incur annual savings of $63 to $76 million resulting from an enhanced match on current PAC spending. Beginning in federal fiscal 2015, State expenditures would range from $60 to $155 million annually.

For purposes of this analysis, the Department of Legislative Services' (DLS) 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, and savings from an enhanced match on *current* State spending on childless adults under 116% FPG. If enhanced federal matching funds are *not available* for PAC, State expenditures will increase *significantly* under both proposals and could range from a low of $495 million to as much as $1.1 billion annually, depending on enrollment.

Current Medicaid Eligibility in Maryland

Medicaid provides health care coverage to about 647,000 Marylanders. Eligibility is generally limited to children, pregnant women, the 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 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	150% FPG
1	$12,563	$14,404	$16,245
2	16,901	19,378	21,855
3	21,240	24,352	27,465
4	25,578	29,327	33,075
5	29,916	34,301	38,685

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

Proposed Expansion of Medicaid under the Senate and House Bills

The Senate bill increases Medicaid eligibility for nonelderly individuals (parents, children, and childless adults) to a minimum of 133% FPG, effective federal fiscal 2014, while the House bill increases eligibility to 150% FPG, effective federal fiscal 2013. Both bills prohibit states from reducing their eligibility standards for Medicaid (or MCHP) below those in effect prior to passage (maintenance of effort requirement). **Exhibit 2** provides a summary of key provisions in the two bills.

Exhibit 2
Summary of the Impact of Federal Health Care Reform Bills on Maryland Medicaid

	Senate Bill *(H.R. 3590)*	**House Bill** *(H.R. 3962)*
Increases Eligibility to	133% FPG	150% FPG
Maintenance of Effort Requirements	States will be required to maintain the same income eligibility levels through December 31, 2013, for adults and September 30, 2019, for children currently in Medicaid or the Maryland Children's Health Program (MCHP)	States are prohibited from reducing eligibility standards for Medicaid or MCHP beneath what they were prior to passage
Estimated Impact on PAC	112,000 childless adults (including those currently enrolled in the Primary Adult Care Program (PAC) and those eligible for but not enrolled) with incomes up to 116% FPG could become eligible for full Medicaid benefits	
Estimated Number of Marylanders Newly Eligible for Medicaid	21,000	40,500
Federal Matching Funds	100% FMAP in 2014 through 2016 80.3% FMAP in 2017 81.3% FMAP in 2018 82.3% FMAP in 2019 and thereafter	100% FMAP in 2013 and 2014 91% FMAP in 2015 and thereafter
Additional Funding	Enhanced FMAP for MCHP of 88% (currently 65%) for 2014 through 2019; estimated to save Maryland $58 to $75 million annually	Expands enhanced ARRA match for six months, providing $384 million in additional federal funds for Maryland *in fiscal 2011 only*
Total Cost	$1.2 to $2.3 billion annually	$1.2 to $2.6 billion annually
State Savings from Enhanced FMAP on Current PAC Spending	$51 to $80 million annually	$66 to $76 million annually
Estimated Net State Expenditures	Annual savings of $131 to $145 million in 2014 through 2016; $153 to $285 million annually thereafter	Annual savings of $69 to $73 million in 2013 and 2014; $60 to $155 million annually thereafter

ARRA: American Recovery and Reinvestment Act of 2009
FMAP: federal matching funds
FPG: federal poverty guidelines

Source: Department of Legislative Services

Under both bills, an additional 112,000 childless adults with incomes up to 116% FPG could become eligible for full Medicaid benefits. Expanding Medicaid eligibility to 133% FPG, as proposed in the Senate bill, could make an estimated 21,000 Marylanders newly eligible for Medicaid. Expansion to 150% FPG, as proposed in the House bill, could expand Medicaid eligibility to an estimated 40,500 Marylanders. In total, expansion of Medicaid eligibility to 133% or 150% FPG could increase total Medicaid enrollment in Maryland by as much as 133,000 to 152,500 individuals (21% to 24%), respectively.

Medicaid expenditures in Maryland are typically split 50% federal funds, 50% State funds. The cost of expansion would be supplemented with enhanced federal matching funds (federal medical assistance percentage or FMAP). Under the Senate bill, 100% FMAP is provided for three years (2014 through 2016). Maryland would receive 80.3% FMAP in 2017 increasing by 1.0% annually to 82.3% FMAP in 2019 and thereafter. The Senate bill also provides enhanced FMAP for MCHP (88.0% vs. 65.0% for 2014 through 2019). Under the House bill, 100% FMAP is provided for two years (2013 and 2014), with 91.0% FMAP in subsequent years.

In Maryland, enhanced FMAP would be available primarily for individuals with incomes between 116% and either 133% or 150% FPG. However, language in both bills implies that this enhanced FMAP would also be available for individuals who are either currently covered under a § 1115 demonstration waiver or do not receive full Medicaid benefits, which would include PAC enrollees.

Though unrelated to expansion, DLS notes that the House bill extends enhanced FMAP for *existing* Medicaid expenditures currently provided under the *American Recovery and Reinvestment Act of 2009* (ARRA) for an additional six months. This provision is estimated to provide $384 million in additional federal matching funds (and a corresponding reduction in required State funding) to Maryland in fiscal 2011.

Estimated Cost of Expanding Medicaid Eligibility

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, under the Senate bill, or 116% and 150% FPG under the House bill. Potential "crowd out" (individuals already insured who will drop their coverage and enroll in Medicaid) is accounted for under each estimate. For purposes of this analysis, DLS assumes the following annual costs per population beginning in federal fiscal 2013, with 5% annual medical inflation in future years:

- current PAC enrollees, $13,331;
- childless adults with incomes up to 116% FPG, $11,576;
- parents and childless adults with incomes above 116% FPG, $7,093; and
- children, $2,480.

To the extent that these costs fall below actual costs, State expenditures could increase. Conversely, 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 bill estimates also account for savings resulting from an enhanced MCHP 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 3**, expanding Medicaid eligibility to 133% FPG per the Senate bill could cost a total of $1.2 to $1.7 billion in federal fiscal 2014, depending on enrollment. During the first three years, the State would incur annual savings of $131 to $145 million. Beginning in calendar 2017, State expenditures would range from $153 to $270 million annually, including savings. Expanding Medicaid eligibility to 150% FPG per the House bill could cost a total of $1.3 to $1.9 billion in federal fiscal 2014, also depending on enrollment. During the first two years, the federal government would finance 100% of expansion costs, and the State would incur annual savings of $63 to $76 million. Beginning in federal fiscal 2015, State expenditures would range from $60 to $155 million annually.

Exhibit 3

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)							
House Bill (H.R. 3962)							
Total Cost	$1,223	$1,292	$1,365	$1,443	$1,524	$1,611	$1,702
Federal Share	1,223	1,292	1,243	1,313	1,387	1,466	1,549
State Share[2]	-69	-73	60	64	68	72	77
Senate Bill (H.R. 3590)							
Total Cost	-	1,170	1,236	1,305	1,379	1,456	1,538
Federal Share	-	1,170	1,236	1,305	1,107	1,184	1,266
State Share[2]	-	-131	-138	-145	153	145	137
Moderate Estimate (75% Enrollment)							
House Bill (H.R. 3962)							
Total Cost	1,527	1,614	1,707	1,805	1,908	2,018	2,134
Federal Share	1,527	1,614	1,553	1,642	1,737	1,836	1,942
State Share[2]	-69	-73	91	97	103	109	115
Senate Bill (H.R. 3590)							
Total Cost	-	1,452	1,534	1,622	1,714	1,812	1,915
Federal Share	-	1,452	1,534	1,622	1,376	1,473	1,576
State Share[2]	-	-131	-138	-145	219	212	204
High Estimate (100% Enrollment)							
House Bill (H.R. 3962)							
Total Cost	1,831	1,936	2,048	2,167	2,292	2,425	2,566
Federal Share	1,831	1,936	1,864	1,972	2,086	2,207	2,335
State Share[2]	-69	-73	122	129	137	146	155
Senate Bill (H.R. 3590)							
Total Cost	-	1,733	1,832	1,938	2,049	2,168	2,292
Federal Share	-	1,733	1,832	1,938	1,646	1,762	1,887
State Share[2]	-	-131	-138	-145	285	278	270

[1]Federal matching funds (FMAP) for newly eligible populations would be (1) 100% for federal fiscal 2014 through 2016, 80.3% in federal fiscal 2017, increasing annually by 1.0% to 82.3% in federal fiscal 2019 under the Senate bill; and (2) 100% in federal fiscal 2013 and 2014 and 91% in subsequent years under the House bill.

[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 bill due to a 23% increase in the Maryland Children's Health Program FMAP.

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

Legislative Services notes that 88% to 89% of total expenditures under an expansion to 133% FPG and 78% to 81% of expenditures under an expansion to 150% FPG reflect the cost of providing full 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 these populations is expected to 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 above 116% FPG is considerably less expensive, an estimated $119 to $287 million in total funds annually to expand to 133% FPG, and an estimated $234 to $561 million in total funds annually to expand to 150% FPG. The potentially eligible populations in these income categories are smaller and contain parents, children (already eligible but not enrolled), and higher income/presumably healthier childless adults. Medical costs for these populations are estimated to be lower than those for childless adults under 116% FPG.

A comparison of annual State expenditures (or savings) under each bill is provided in **Exhibit 4.** Savings are initially incurred under both bills. In future years, the State share under the House bill increases due to a flat 91% FMAP, while under the Senate bill the State share declines between federal fiscal 2017 and 2019 as FMAP increases from 80.3% to 82.3%.

Exhibit 4
Comparison of the State Share of Expenditures for the Expansion of Medicaid under the House vs. Senate Bills
Federal Fiscal 2013-2019
($ in Millions)

	FFY 2013	FFY 2014	FFY 2015	FFY 2016	FFY 2017	FFY 2018	FFY 2019
Low Estimate (50% Enrollment)							
House Bill	-$69	-$73	$60	$64	$68	$72	$77
Senate Bill	-	-131	-138	-145	153	145	137
Moderate Estimate (75% Enrollment)							
House Bill	-69	-73	91	97	103	109	115
Senate Bill	-	-131	-138	-145	219	212	204
High Estimate (100% Enrollment)							
House Bill	-69	-73	122	129	137	146	155
Senate Bill	-	-131	-138	-145	285	278	270

Source: Department of Legislative Services

Potential Additional Major Expenditures and Savings under the Reform Bills

In addition to the cost of providing medical services under the expansion, there is the potential for additional State savings or expenditures under the reform bills, 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% or 150% 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 bills 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 bill would reduce State expenditures by approximately $58 to $75 million annually. Such savings are reflected in the Senate bill 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 bills include provisions to reduce Medicaid prescription drug spending, including increasing the brand-name drug rebate from 15.1% to 23.1%, effective January 1, 2010, and requiring manufacturers to pay states rebates on prescription drugs provided through managed care organizations (currently no rebates are received for these drugs). The Senate bill also increases the generic drug rebate from 11% to 13%. 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.

Conclusion

Depending on actual enrollment rates, expansion of Medicaid to 133% FPG is estimated to cost a total of $1.2 to $2.3 billion annually in Maryland between federal fiscal 2014 and 2019, while expansion to 150% FPG could cost $1.3 to $2.6 billion. *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 Senate bill (which provides 100% FMAP for the first three years and 80.3% to 82.3% thereafter), the State would initially incur savings of $131 to $145 million resulting from enhanced FMAP on current PAC spending and from additional enhanced FMAP for MCHP, after which time annual expenditures would range from $137 to $284 million, including any savings.

Under the House bill (which provides 100% FMAP for the first two years and 91% thereafter), the State would initially incur savings of $66 to $76 million resulting from enhanced FMAP on current PAC spending, after which time annual expenditures would range from $60 to $155 million annually, including the above noted savings from enhanced FMAP on current PAC spending.

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 $464 to $715 million annually under low (50%) enrollment estimates up to $701 million to $1.0 billion annually under high (100%) enrollment estimates.

Legislative Services notes that this analysis is based on the status of federal health care reform proposals as of January 12, 2010. The details of these proposals are subject to change. We will issue a revised estimate for any final legislation that is signed by the President.