FactSHEET

Medicaid Expansion

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A Fair Accounting of State Costs For the Medicaid Expansion

As states evaluate whether to expand Medicaid or not, many are taking a close look at the potential state costs. That's appropriate. States should carefully consider the costs *and* the benefits as they make this decision. However, some of the analyses that have been published are based on assumptions that lead to overstated costs.

Here are some points to consider when looking at any assessment of a state's costs of expanding Medicaid.

Administrative Costs

States will see some increase in administrative costs associated with the Medicaid expansion, but states will incur some additional administrative costs whether they expand Medicaid or not. The costs attributed to the Medicaid expansion should not be overstated.

- **States will need to make some administrative changes even if they don't expand Medicaid.**
  Regardless of whether states expand Medicaid, the Affordable Care Act requires that they use a new, simpler standard for Medicaid eligibility for most applicants under the age of 65, beginning in 2014. Moving to this standard will require state Medicaid programs to make some changes that will entail administrative costs and may possibly require systems upgrades.[1]

- **States need to streamline their application processes.**
  The law also requires states to use streamlined application and enrollment procedures in Medicaid, whether or not they expand their Medicaid programs.[2] The costs of these eligibility system changes should not be attributed to the Medicaid expansion.[3]

- **The federal government is helping states upgrade systems.**
  Under the Affordable Care Act, the federal government is providing states with 90 percent federal matching funds for developing new or improved eligibility systems. The Centers for Medicare and Medicaid Services (CMS) is also working with states to help them lower upgrade costs and reduce ongoing administrative costs.[4] Estimates should accurately reflect the actual costs to the state.

- **Streamlined eligibility should reduce per-applicant costs.**
  The simpler and more streamlined eligibility systems that will be in place after the required administrative changes should be much less costly, on a per-application basis, than the current processing. Therefore, estimates of future per-application processing costs should be lower than current processing costs.

- **Enrollment estimates should be realistic.**
  Administrative costs should be based on a realistic estimate of program enrollment. Not everyone who is eligible for Medicaid signs up. This is true in the current Medicaid program, and it will be true for the expansion. We discuss assumptions about enrollment in more detail below.

- **Some enrollment activities will take place outside of the Medicaid program.**
  A federally operated data services hub will verify some enrollment information, like Social Security number, citizenship, immigration status, and tax information.[5] These verification services will be available for state Medicaid programs, which will reduce administrative costs for states. Assumptions about administrative costs should account for these savings.

Costs of the Expansion Population

Beginning in 2017, states will have to start assuming a small but increasing share of the costs of covering the expansion population. By 2020 and thereafter, states will be responsible for 10 percent of those costs. Analyses should be based on reasonable estimates of what those costs will likely be.

- **Enrollment assumptions should be realistic.**
  Not all of those eligible for expanded Medicaid will enroll, certainly not in the first year or two of the expansion. Take-up in the traditional Medicaid program is far from 100 percent, and that will be true for the expansion as well. In a particular state, take-up will depend on a number of factors particular to the population in that state, such as educational level and ethnic and racial make-up. It will also depend on the level of public outreach and education about the expansion. Nationally, the average take-up rate is estimated to be 60.5 percent of those newly eligible for Medicaid because of the expansion.[6] The Kaiser Family Foundation has released a report with take-up assumptions by state. If a state is estimating considerably higher enrollment, advocates might want to question the state's assumptions.

- **Costs of the expansion population should also be realistic.**
  Health care costs for this group are projected to be less, on average, than costs for current adult enrollees.[7] Costs will increase over time, based on inflation. Any inflation factor that the state includes in its cost estimate should be based on historic increases in Medicaid. Medicaid spending typically grows more slowly than medical spending in general.[8]

Costs of Increased Enrollment in an Existing Medicaid Program

Some people who are currently eligible for Medicaid are not enrolled. Some of those people will sign up for Medicaid if a state expands the program. However, states' cost estimates should not overstate this effect.

- **There will be some increase in Medicaid enrollment even if a state doesn't expand.**

  Starting in late 2013, as full implementation of the Affordable Care Act approaches, health care will be in the news. This will include news reports about the requirement for people to have insurance. Increased news coverage will lead some people who are Medicaid-eligible but not enrolled to sign up for the existing Medicaid program. This increase in enrollment in the existing Medicaid program will happen whether a state expands Medicaid or not.

- **Only an incremental increase in enrollment should be counted as an expansion cost.**

  In states that do expand Medicaid, this increase in enrollment in the existing program will be slightly greater, but not wildly so. Arguably, news about the requirement to have health coverage will drive more of those who are currently eligible but not enrolled to seek Medicaid coverage than will news that Medicaid is expanding.[9]

- **Many of these new enrollees will be children; cost estimates should reflect that.**

  Children make up the largest percent of enrollees in the traditional Medicaid program, accounting for nearly half of all those with Medicaid.[10] Just as they make up the largest percent of current enrollees, they will make up the largest percent of those who are currently eligible but not enrolled who sign up for Medicaid in 2014.[11] Children are also the least costly enrollees on a per-person basis. On average, covering a child in Medicaid costs $2,305 a year, while covering an adult (adults are the second least costly group per enrollee) costs an average of $2,900.[12] States' per-enrollee cost estimates for increased enrollment in the existing Medicaid program should take that into account.

And Don't Forget the Savings!

Advocates should look carefully at the assumptions that state cost estimates are based on. They should also push to make sure that state financial projections are fair. That means including benefits, as well. And the benefits of an expansion can be substantial. They include reduced state spending on uncompensated care, reductions in cost for state-funded services for the uninsured, increased economic activity resulting from new federal funding that the expansion will bring to the state, and an associated increase in state revenue.[13] These are some of the financially measurable benefits. There is also the benefit of having a healthier and more productive workforce, as many who would otherwise be uninsured gain coverage.

Just as it would be foolish and short-sighted to look only at costs when evaluating whether to enter into a business venture, it would be foolish and short-sighted for states to look only at the potential costs of the Medicaid expansion and neglect a full evaluation of the potential benefits.

Endnotes

[1] Families USA, *The Medicaid Upgrade: Required and Optional Medicaid Eligibility Changes for 2014* (Washington: Families USA, November 2012), available online at http://familiesusa2.org/assets/pdfs/medicaid/Eligibility-Changes.pdf.

[2] Kaiser Family Foundation, *Implementing the ACA's Medicaid-Related Health Reform Provisions after the Supreme Court's Decision* (Washington: Kaiser Family Foundation, August 2012), available online at http://www.kff.org/healthreform/upload/8348.pdf; Families USA, op. cit.

[3] In any analysis of Affordable Care Act costs, states should not overstate the cost of system changes that will be necessary to meet the law's requirements. The law provides generous (90 percent) federal matching funds for new or improved Medicaid eligibility systems that states must develop. These funds are available whether states expand Medicaid or not. Centers for Medicare and Medicaid Services, *Frequently Asked Questions on Exchanges, Market Reform, and Medicaid* (Washington: Department of Health and Human Services, December 10, 2012), available online at http://www.familiesusa2.org/assets/pdfs/CMS-FAQ-December-2012.pdf.

[4] Centers for Medicare and Medicaid Services, op. cit.

[5] Centers for Medicare and Medicaid Services, *Medicaid/CHIP Affordable Care Act Implementation Answers to Frequently Asked Questions* (Baltimore: Department of Health and Human Services, November 19, 2012), available online at http://www.medicaid.gov/State-Resource-Center/Frequently-Asked-Questions/Downloads/Eligibility-and-Enrollment-Systems-FAQs.pdf.

[6] John Holahan et al., *The Cost and Coverage Implications of the ACA Medicaid Expansion: National and State-by-State Analyses* (Washington: Kaiser Family Foundation, November 2012), available online at http://www.kff.org/medicaid/upload/8384.pdf.

[7] Ibid.

[8] John Holahan and Alshadye Yemane, "Enrollment Is Driving Medicaid Costs but Two Targets Can Yield Savings," *Health Affairs* 28, no. 5 (September/October 2009): 1,453-1,465, available online at http://content.healthaffairs.org/content/28/5/1453.full.

[9] For state-by-state estimates of increased enrollment in the existing Medicaid program with and without an expansion, see John Holahan et al., op. cit.

[10] Kaiser State Health Facts.org, *Distribution of Medicaid Enrollees by Enrollment Group, FY2009*, available online at http://www.statehealthfacts.org/comparemaptable.jsp?ind=200&cat=4, accessed on December 21, 2012.

[11] John Holahan et al., op. cit.

[12] Kaiser State Health Facts.org, *Medicaid Payment per Enrollee, FY 2009,* available online at http://www.statehealthfacts.org/comparemaptable.jsp?ind=183&cat=4, accessed on January 2, 2013.

[13] There are several publications that outline potential benefits. See Families USA, *Assessing State Costs for the Medicaid Expansion: A Checklist* (Washington: Families USA, January 2013), available online at http://www.familiesusa2.org/assets/pdfs/medicaid-expansion/State-Costs-Checklist.pdf; Stan Dorn, *Considerations in Assessing State-Specific Fiscal Effects of the ACA's Medicaid Expansion* (Washington: The Urban Institute, August 2012, revised September 2012), available online at http://www.urban.org/UploadedPDF/412628-Considerations-in-Assessing-State-Specific-Fiscal-Effects-of-the-ACAs-Medicaid-Expansion.pdf; Center on Budget and Policy Priorities, *Guidance on Analyzing and Estimating the Cost of Expanding Medicaid* (Washington: Center on Budget and Policy Priorities, August 9, 2012), available online at http://familiesusa2.org/assets/pdfs/CBPP-Medicaid-Expansion-Costs.pdf.

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