CHRT

ISSUE BRIEF

Issue Brief October 2012

The ACA's Medicaid Expansion: Michigan Impact

State Budgetary Estimates and Other Impacts

While the U.S. Supreme Court's decision on June 28, 2012, largely upheld the constitutionality of the Affordable Care Act (ACA), one provision was not upheld: penalties for states that opt out of the law's Medicaid expansion. This left the decision to expand Medicaid—or not—to individual states, and as a result, it is now uncertain whether or not Medicaid will be available to all individuals below 138 percent of poverty in 2014 as the law intended.

Policy makers in each state must analyze the implications of the Medicaid expansion and determine whether or not the expansion makes sense for their state, taking into account state budgetary considerations, federal financial incentives, human service priorities, and the anticipated effects of the expansion on the general economy and population health.

This issue brief is intended to provide Michigan policy makers and the public at large with a useful tool to consider this question by projecting the likely 10-year economic impacts in our state. Wherever possible, the issue brief uses publicly available and independently validated information and sources; the analysis was based on conservative assumptions. A companion paper to this issue brief models three different scenarios: high, medium, and low rates of Medicaid enrollment as a result of the expansion. The paper is available online at **www.chrt.org**. This issue brief reports on the middle scenario.

Key Impacts of Medicaid Expansion

The Center for Healthcare Research & Transformation (CHRT) illuminates best practices and opportunities for improving health policy and practice. Based at the University of Michigan, CHRT is a non-profit partnership between U-M and Blue Cross Blue Shield of Michigan to promote evidence-based care delivery, improve population health, and expand access to care.

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Suggested citation: Udow-Phillips, Marianne; Fangmeier, Joshua; Buchmueller, Thomas; Levy, Helen. *The ACA's Medicaid Expansion: Michigan Impact*. October, 2012. Center for Healthcare Research & Transformation. Ann Arbor, MI.

Special thanks to Marvin Espinoza, Research Associate.

Coverage

In August 2012, 1.9 million Michigan residents had Medicaid coverage.[1] According to the Urban Institute and the State Health Access Data Assistance Center (SHADAC), if Michigan opts to expand Medicaid, another 1.2 million will become eligible in 2014, about half of whom are currently uninsured.[2]

Not everyone who is eligible for a public program actually enrolls. Of the potential Medicaid pool (those newly eligible in 2014 under the expansion), our middle scenario assumes that 36.3 percent (204,732) of those who are uninsured and 14.2 percent (83,496) of those who are privately insured would actually enroll ("take-up rates," based on Urban Institute analyses). We also assume that over time, as information about the Medicaid expansion becomes more widely disseminated, these percentages would increase—to 72.6 percent (409,464) and 35.5 percent (208,740), respectively, by 2020.[3] FIGURE 1

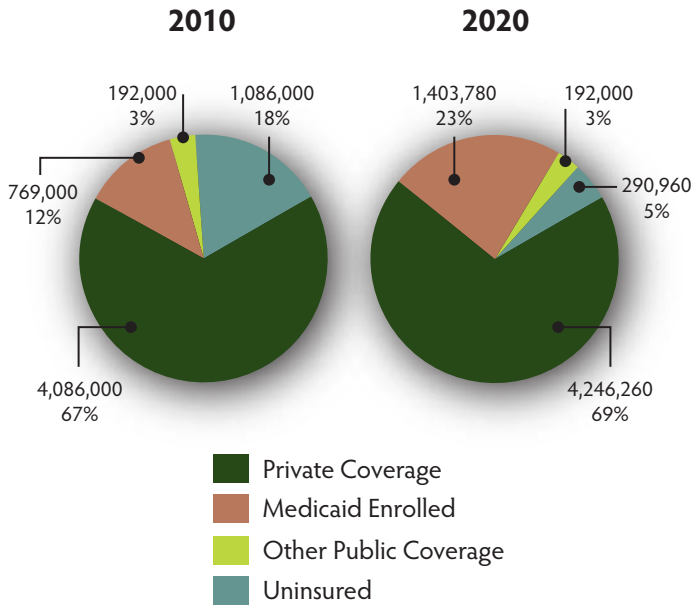
Whether or not it implements the Medicaid expansion, Michigan should see an increase in enrollment among those who are already eligible for Medicaid resulting from publicity about the Affordable Care Act, the individual mandate, and eligibility simplification. If Michigan implements the Medicaid expansion, this "woodwork effect" should be even stronger, increasing enrollment among those who are currently eligible but not enrolled by one percentage point (1,160) in 2014 and growing to 1.5 percentage points (1,658) by 2020.

Overall, we estimate that if Michigan does opt for the Medicaid expansion, the state will have an additional 289,000 Medicaid recipients in 2014; and 620,000 over current enrollment by 2020. FIGURES 2 AND 3

FIGURE: 1
Projected Adult Medicaid Take-up Rates, 2014 and 2020

	2014		2020	
	#	%	#	%
Newly eligible, uninsured	204,732	36.30%	409,464	72.60%
Newly eligible, privately insured	83,496	14.20%	208,740	35.50%
Currently eligible, uninsured (due to expansion)	1,160	1.04%	1,658	1.48%

FIGURE: 2
Michigan Non-Elderly Adult Coverage, 2010 v. 2020 Projection



[1] Michigan Department of Human Services. *Green Book Report of Key Program Statistics*. August 2012. **http://www.michigan.gov/documents/dhs/2012_08_GreenBook_397962_7.pdf**

[2] Kenney, G., et al. Opting in to the Medicaid Expansion under the ACA: Who are the Uninsured Adults Who Could Gain Health Insurance Coverage? Urban Institute. August 2012. Available at: **http://www.urban.org/publications/412630.html**. SHADAC analysis of private coverage in Michigan via its data center at **shadac.org**

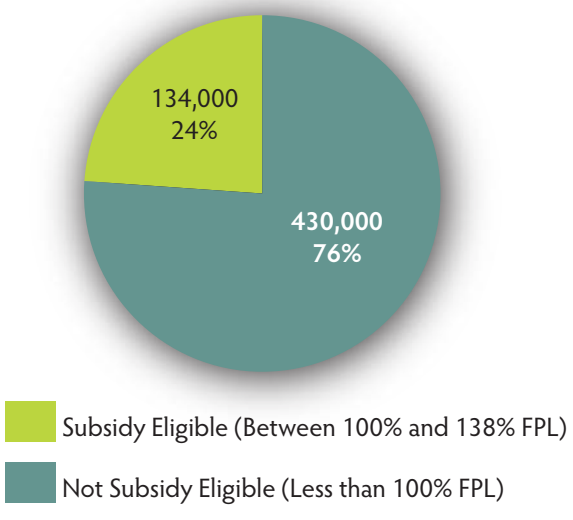
[3] Take-up rates from the Urban Institute's June 2012 report on the ACA Medicaid Expansion in Washington State, available at **http://www.urban.org/health_policy/url.cfm?ID=412581**.

It is important to note that if the state decides not to expand Medicaid eligibility, uninsured adults with incomes between 100 and 138 percent of the federal poverty level would be eligible for federal subsidies to purchase private health coverage on the health insurance exchange; however, only 24 percent of the uninsured who would be newly eligible under the expansion have incomes in this range. The other 76 percent have incomes below 100 percent of the federal poverty level; the ACA does not provide subsidies for purchase of private coverage for those below 100 percent of poverty. FIGURE 4

FIGURE:3
Michigan Non-Elderly Adult Coverage, 2010 Actual, 2014 and 2020 Projected

	2010		2014		2020	
	#	%	#	%	#	%
Private Coverage, Total	4,086,000	66.60%	4,371,504	71.30%	4,246,260	69.20%
Private Coverage, Existing	4,086,000	66.60%	4,002,504	65.30%	3,877,260	63.20%
Eligible for Private Coverage Tax Credits	-	0.00%	369,000	6.00%	369,000	6.00%
Medicaid Enrollment, Total	769,000	12.50%	1,068,831	17.40%	1,403,780	22.90%
Medicaid Enrolled, Existing[4]	769,000	12.50%	769,000	12.50%	769,000	12.50%
Medicaid Enrolled, Due to Expansion	-	0.00%	289,388	4.70%	619,862	10.10%
Medicaid Enrolled, Not Due to Expansion	-	0.00%	10,443	0.20%	14,918	0.20%
Other Public,[5] Total	192,000	3.10%	192,000	3.10%	192,000	3.10%
Uninsured, Total	1,086,000	17.70%	500,665	8.20%	290,960	4.70%
Uninsured but Medicaid Eligible	112,000	1.80%	100,397	1.60%	95,424	1.60%
Other Uninsured	974,000	15.90%	400,268	6.50%	195,536	3.20%
Total	6,133,000	100.00%	6,133,000	100.00%	6,133,000	100.00%

FIGURE:4
2014 Subsidy Eligibility Without the Expansion



[4] Approximately 57% of those covered by Medicaid are children or elderly dual eligibles. Those coverage numbers are not reflected in this table.

[5] Other public includes those with other public coverage that will not be directly affected by the Affordable Care Act (e.g. Tricare, VA, pre-65 Medicare). For purposes of this analysis, enrollment in those programs was kept constant.

Financial Impacts

Increased Federal Match

The federal government provides 100 percent of the funding for the newly eligible Medicaid population in the first three years of the expansion. Starting in 2017, the federal share of funding begins to drop, and states are expected to provide matching funds for the expansion population. In 2020 and all subsequent years, the federal match is 90 percent and the state share is 10 percent.

Unlike the current Medicaid program, the Affordable Care Act provides a stable 90 percent federal match rate on an ongoing basis, regardless of a state's financial circumstances. In the existing program, the federal match rate varies from year to year based on the state's per capita income. Fiscal year 2013 federal matching rates range from a low of 50 percent (the lowest match rate allowed under federal law) to a high of 73.43 percent (for Mississippi). Michigan's 2013 federal match rate for those in the existing Medicaid program is 66.39 percent, a rate far lower than the rate that would apply to the newly covered population under the ACA.

Cost Savings

There will also be savings resulting from the ACA's broader scope of Medicaid eligibility. If the state chooses to go forward with the Medicaid expansion, many people will become eligible for Medicaid coverage (and the attendant federal financing) who today receive some or all of their health care through state-funded programs. This includes many who receive mental health care through the community mental health system, prisoners who receive inpatient medical care in non-correctional facilities, and adults who are covered today under the Adult Benefit Waiver program. In addition, the state is expected to receive revenues for the newly eligible Medicaid population from various provider taxes in existence today.

Finally, the state, like other employers that provide health coverage to employees, is projected to realize savings in health care premiums. With a reduction in the number of uninsured individuals and attendant uncompensated care hospital costs, there should be a reduction in the transfer of such costs to employers who provide health coverage (often referred to as the "cost shift"). FIGURE 5

FIGURE:5
Cost Savings to the State from the Medicaid Expansion, 2014-2023[6], in Millions

	First 5 Years (2014-2018)	Second 5 Years (2019-2023)	Total 10 Years (2014-2023)
Increase in Provider Tax Revenue	$183	$262	$444
Elimination of Adult Benefit Waiver Program	$188	$207	$395
Reduction in Non-Medicaid Mental Health	$885	$977	$1,861
Reduction in Prisoner Inpatient Medical Services	$234	$271	$504
Savings in State Employee Health Care Costs	$9	$13	$23
Total State Budget Savings due to Expansion	$1,499	$1,730	$3,228

[6] Savings amounts may not add up to total savings due to rounding.

FIGURE:6
Net Cost Impacts to the State of the Medicaid Expansion, 2014-2023[7]

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Cumulative 2014-2023
Gross Costs $ millions	$3	$4	$5	$173	$216	$259	$378	$390	$402	$414	$2,245
Budget Offsets	$271	$288	$302	$315	$323	$330	$338	$346	$354	$362	$3,228
Net Costs (Savings)	$(268)	$(283)	$(297)	$(142)	$(106)	$(71)	$41	$44	$48	$52	$(983)
Net Costs (Savings) per Expansion Enrollee	$(925)	$(653)	$(553)	$(232)	$(172)	$(115)	$65	$71	$77	$83	

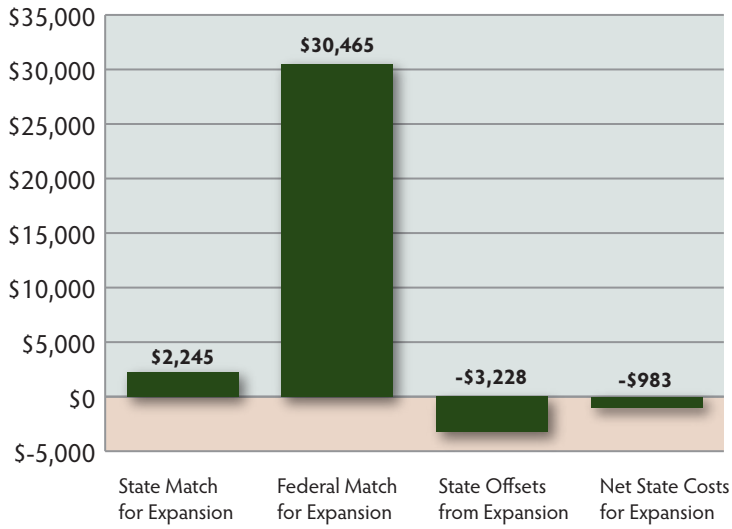
Net Cost

The net cost, not costs or savings in isolation, is the most important number for policy makers to understand in deciding whether or not to expand Medicaid under the provisions of the Affordable Care Act. In our projections:

- The state would save money every year from 2014 through 2019 for a total of $1.17 billion in net savings through 2019.
- In 2020, when the federal match goes to 90 percent, the state begins to experience a net cost rather than net savings. The net cost to the state in 2020 is projected to be approximately $41 million ($65 per covered individual per year), growing to $52 million by 2023 ($83 per covered individual per year).
- The total impact of the Medicaid expansion to the state of Michigan over 10 years is a net savings of approximately $1 billion. FIGURE 6 AND 7

These estimates are based on a set of assumptions that seem most likely to occur, based on research and prior experience. As a sensitivity test, we also calculated the expected net cost under alternative scenarios, which vary primarily according to assumptions regarding enrollment behavior. In our low take-up scenario, the net savings to the state are even greater ($1.4 billion) because the state's direct cost of covering the newly insured is lower. By the same logic, a higher take-up rate yields smaller net savings over the 10-year period ($840 million). The full analysis with all three scenarios is available at **CHRT.org**.

FIGURE:7
Summary of Fiscal Impacts of Medicaid Expansion, 2014-2023, in Millions



[7] Gross costs and budget offsets may not add up to net costs due to rounding.

Other Impacts

When it comes to important policy decisions, policy makers and the public are interested in more than budget impacts. When deciding whether or not to expand the Medicaid program, policy makers will also want to consider health impacts, impacts to the broader economy, and impacts to particular sectors of the economy.

Health Impacts

First and foremost, the public and policy makers will want to consider the health benefits of expanding Medicaid. A substantial body of research confirms what would seem to be common sense: not having health insurance is bad for your health. This work is summarized in a 2009 study by the Institute of Medicine.[8]

A more recent study analyzed outcomes in Oregon, which in 2008 made Medicaid benefits available to a group of approximately 10,000 previously uninsured, low-income adults, chosen by lottery from among almost 90,000 who applied for coverage.[9] One year later, the study group was compared with a control group of applicants who did not gain coverage through the lottery. The results were clear: those who gained Medicaid coverage enjoyed significantly better physical and mental health than the control group. In addition to health benefits, Medicaid coverage also conferred financial benefits on the newly enrolled, who had lower medical debt—including fewer bills sent to collection—than the control group.

The population of very low-income adults covered in Oregon's expansion is similar to the population that would be affected by the expansion decision facing Michigan today. The evidence is clear and convincing, therefore, that the Medicaid expansion would significantly improve the health of low-income Michiganders.

Policy makers may also want to weigh whether the state's investment in the Medicaid expansion could be used in other ways to improve health and reduce mortality; there is less clear evidence on the effectiveness of alternative approaches to improving the health of low-income adults.

[8] Institute of Medicine. America's Uninsured Crisis: Consequences for Health and Health Care. February 2009. Available at **http://www.iom.edu/Reports/2009/Americas-Uninsured-Crisis-Consequences-for-Health-and-Health-Care.aspx**

[9] Finkelstein, A., et al. The Oregon Health Insurance Experiment: Evidence from the First Year. The Quarterly Journal of Economics. Vol. 127, Issue 3. August 2012. Available at: **http://economics.mit.edu/files/8139**

Economic Impacts

The Medicaid expansion would have direct economic effects on hospitals, and on employers who offer health coverage.

In 1986, Congress passed the Emergency Medical Treatment and Active Labor Act. This law requires most hospitals to treat or appropriately transfer any patient presenting at its emergency department until the patient is stable, regardless of insurance status. Most health plans provide some payment to hospitals to offset the costs of treating the uninsured. Some of this cost is transferred—through higher premiums—to employers who provide (and individuals who purchase) health insurance coverage. While there is much debate about the extent of these costs, an analysis of one large payer's hospital payment policies indicates the Medicaid expansion—by reducing the amount of uncompensated care hospitals must provide—is likely to result in savings to employers and individuals who purchase health coverage. On a statewide basis, 10-year aggregate savings in the range of $640 to $985 million could accrue to employers and individuals who purchase private health insurance as a result of the expansion of the state's Medicaid program.

Finally, the state's decision will have considerable impact on hospitals. In 2010, Michigan hospitals provided nearly $2.4 billion in uncompensated care, a 33 percent increase since 2007.[10] Under current hospital reimbursement policy, hospitals that treat high rates of uninsured and publicly insured patients receive extra compensation called disproportionate share hospital (DSH) adjustment payments. The Affordable Care Act includes provisions to reduce DSH payments from the federal Medicare program. to hospitals nationally by $17.1 billion between 2014 and 2020, based on the assumption that the number of uninsured patients would decline during this period. The state-specific formula for that reduction has not yet been published; however, if Michigan opts out of the Medicaid expansion, Michigan hospitals would likely experience both an increase in uncompensated care costs, and a reduction in the DSH payments that have helped many hospitals mitigate that loss.

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Conclusion

Our analysis of the impacts on the state of Michigan shows a 10-year savings to the state under all scenarios. In our middle scenario, the state would save almost $1 billion net of the cost of the Medicaid expansion over 10 years. In that scenario, the Medicaid expansion would bring an additional 620,000 people—most of whom are uninsured today—into the state's Medicaid program, at an average annual savings of $176 per enrollee, with no net costs to the state until the year 2020. In 2020, the net cost to the state would be $65 per covered enrollee.

Other effects are harder to quantify with reliable data, but the Medicaid expansion is likely to have a favorable impact on the economy in general and hospital finances in particular.

Finally, compelling research tells us that having health insurance significantly improves health, quality of life, and mortality rates. Human costs may be harder to measure than budgetary impacts, but they are likely to be the most important reasons for the state to consider moving forward on the Medicaid expansion as enacted in the Affordable Care Act.

CHRT

Center for Healthcare Research & Transformation

2929 Plymouth Road, Suite 245 • Ann Arbor, MI 48105-3206

Phone: 734-998-7555 • chrt-info@umich.edu • **www.chrt.org**