

**DATE:** March 4, 2013  
**TO:** House Appropriations Committee  
**FROM:** Steve Stauff, Associate Director  
**RE:** Medicaid Expansion – FY 2013-14 Executive Budget Recommendation

This memo provides information on the Governor's proposal to expand Medicaid eligibility in Michigan under the federal Patient Protection and Affordable Care Act of 2012.

### **Affordable Care Act and Supreme Court Decision**

The federal Patient Protection and Affordable Care Act of 2012, also referred to as the Affordable Care Act (ACA), included a requirement that states extend Medicaid eligibility to all qualified citizens and United States residents who have family incomes at or below 133% of the Federal Poverty Level (FPL) (138% with the 5% income disregard). This particular component of the Act has been referred to as the "Medicaid expansion".

In 2012, 133% of FPL equates to gross yearly income of \$14,856 for an individual and \$20,123 for a household of two. Generally, the current level of coverage for the basic program is up to 100% of the FPL, although the FPL threshold varies by category.

On June 28th, the U.S. Supreme Court upheld the constitutionality of most of the provisions of the ACA but ruled that requiring states to expand Medicaid income eligibility or not participate in the Medicaid program was too great a penalty and was coercive. The ruling makes Medicaid expansion under the ACA voluntary, rather than effectively mandatory, for states.

The individual mandate of the ACA requires that most people maintain a minimum level of health insurance coverage for themselves and their dependents beginning in 2014. The mechanisms included in the ACA to access coverage are expanded Medicaid coverage (up to 133% of the FPL) and health insurance exchanges (with federal subsidies available only for individuals at 100% of the FPL or higher).

### **Michigan's Current Medicaid Program**

The Michigan Medicaid program currently provides physical and mental health medical services to 1.9 million residents, or 1 in 5 individuals. In FY 2012-13, Medicaid expenditures will exceed \$12.0 billion Gross, of which \$1.9 billion is state GF/GP funds.

Medicaid is a means-tested program that considers an applicant's income and assets in determining who qualifies for coverage. Various factors are used in determining qualifying levels. Generally, the current Medicaid population is made up of families with children, pregnant women, aged persons, and disabled persons. A relatively small number of childless adults (under 33% of the FPL) receive a limited Medicaid benefit through the Adult Benefits Waiver.

Low-income families are the largest component of the Medicaid population, but they are the least expensive to cover at only 35% of Medicaid costs. Medical services to aged, blind, and disabled

persons account for 65% of all Medicaid expenditures despite making up only 23% of the Medicaid population.

## **Medicaid Expansion**

The Governor's FY 2013-14 Executive Budget Recommendation includes a fiscal plan to expand Medicaid program eligibility level to 133% of the FPL pursuant to the ACA. On net, an estimated \$206.0 million GF/GP would be saved in the first year of the expansion. The plan calls for one-half of the GF/GP savings in FY 2013-14 and each year thereafter to be deposited to a new Health Savings Fund, which would provide funding in future years when direct expansion costs begin to exceed indirect savings from the expansion. The attached table and charts provides detail regarding the calculations.

## **Direct Medicaid Expansion Costs**

The direct costs of the Medicaid expansion would be reimbursed by the federal government at a higher rate than current Medicaid costs (66.39% in FY 2012-13):

- The federal government will pay the complete cost for the Medicaid expansion for three years beginning in 2014: 100% of the costs for enrolling the newly eligible population.
- Beginning in 2017, the federal government's match rate drops to 95%.
- Beginning in 2020, the match rate drops to 90%.

As a result of the Medicaid expansion the proposed FY 2013-14 budget includes a projection of an additional \$1.5 billion of federal funds for the State. This number reflects a program start date of January 1, 2014, or three-quarters of FY 2013-14. The estimated new federal revenue increases to \$2.3 billion in FY 2014-15 on a full-year basis.

The administration's estimate of the number of individuals who would become eligible for Medicaid at the higher poverty threshold in FY 2013-14, a large proportion of whom would be childless adults with incomes below \$20,123, is 321,000. In FY 2014-15, the estimated number of individuals eligible under the expansion increases to 460,000.

## **Indirect State Savings**

The Executive Budget identifies existing state GF/GP support for physical and mental health programs that would be reduced due to the Medicaid expansion:

- Non-Medicaid Mental Health
- Out-prison healthcare for incarcerated individuals (Corrections budget)
- The Adult Benefits Waiver
- PlanFirst! Family Planning Waiver
- Transitional Medical Assistance-Plus
- Various Public Health programs

The non-Medicaid Mental Health program would experience the largest amount of savings. Approximately \$153.0 million GF/GP would no longer be necessary to support the program as more individuals would qualify for Medicaid under the expanded FPL and would be 100% federally covered beginning in 2014. Including savings from the other programs listed, total estimated indirect GF/GP savings would be \$205.2 million GF/GP in FY 2013-14.

Due to the additional volume of health care claims generated by the Medicaid expansion, the budget includes an estimated increase in Health Insurance Claims Assessment revenue of \$10.7 million, which also reduces the need for state GF/GP funding.

### **Administrative Costs**

As stated above, the State is not required to provide matching funds for the expansion population in the first three years. However, the Executive Budget recognizes the need for additional staffing and information technology. The Gross cost estimate is \$20.0 million, of which \$10.0 million is GF/GP at the 50/50 federal match rate for these types of activities.

### **Health Savings Fund**

The Executive Budget's projections provide that one-half of the net GF/GP savings each year be deposited in a new Health Savings Fund. For FY 2013-14, the deposit to the fund would be \$103.0 million, one-half of the net GF/GP savings of \$206.0 million. The Governor's Medicaid expansion recommendation is based on various assumptions regarding program growth rates and costs projected out to 2040. Under the long-term projections:

- From FY 2013-14 through FY 2019-20, the state would continue to experience net budget savings. Those savings would decline as the federal match rate decreases. In FY 2019-20, the Health Savings Fund would have an accumulated balance of \$574.9 million.
- Beginning in FY 2020-21, the direct Medicaid expansion costs would begin to exceed the indirect savings realized in other programs. The Health Saving Fund balance would be available to fund a portion of those costs.
- The fund's balance would be exhausted after roughly 20 years (FY 2034-35) under the Governor's plan where half of the net GF/GP cost is offset by the fund. If the fund were to offset all of the net GF/GP cost, the fund balance would be exhausted in roughly 16 years (FY 2030-31).

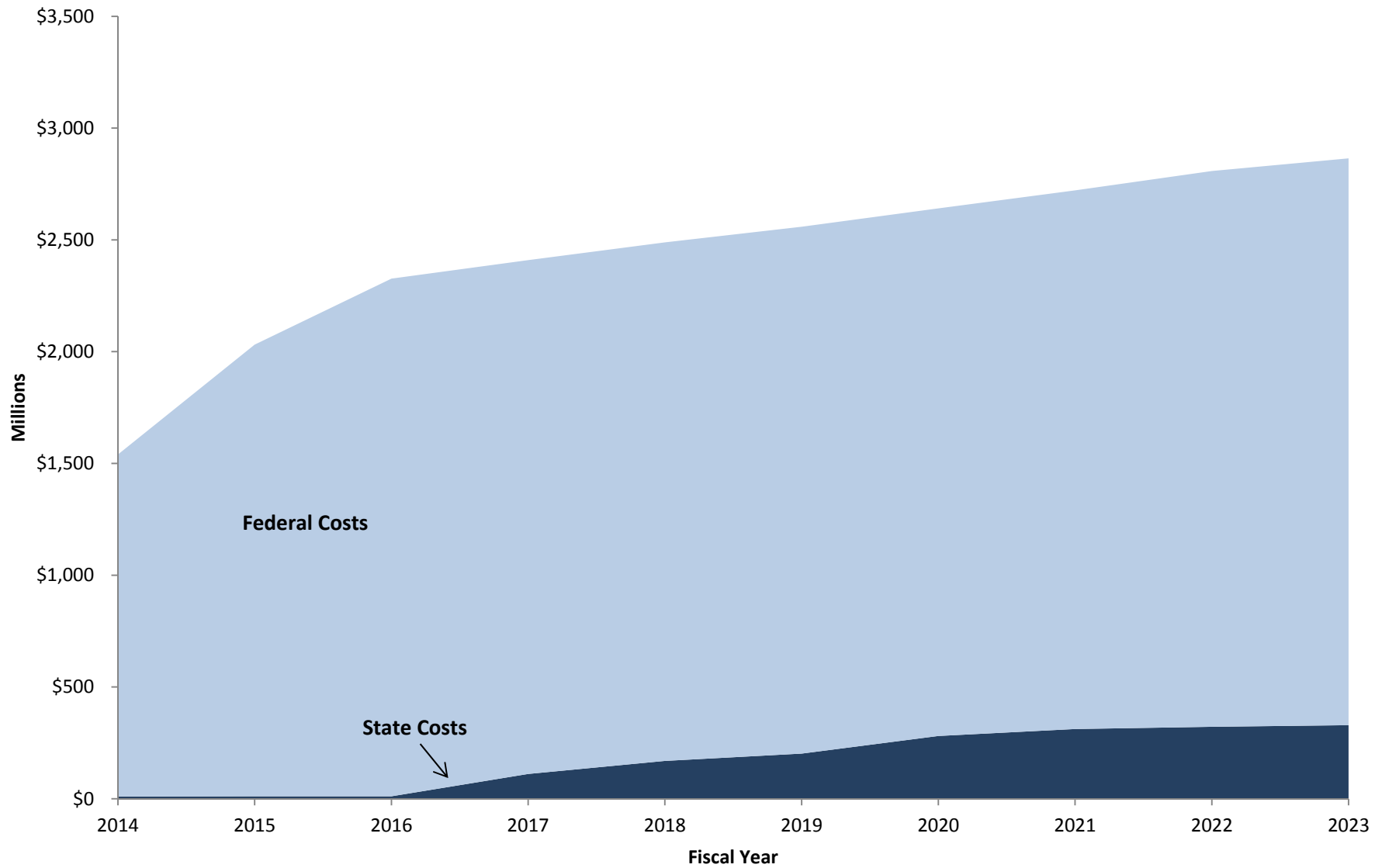
Please call if you have any questions regarding this information.

Attachments (3)

**Table - ACA Medicaid Expansion Costs and Savings - 10 Years**  
Administration Estimates: FY 2013-14 Executive Recommendation

	FY 2014 (3/4)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
<i>Federal Match Rate (Calendar Year)</i>	100%	100%	100%	95%	94%	93%	90%	90%	90%	90%
# of Eligibles Covered	320,956	401,316	450,987	455,969	460,666	463,816	467,892	472,237	477,667	477,667
Additional Earned Federal Funds	\$1,530,051,900	\$2,020,373,500	\$2,315,844,500	\$2,298,696,300	\$2,319,600,700	\$2,356,896,200	\$2,360,143,000	\$2,409,621,000	\$2,486,074,500	\$2,535,796,000
<b>GF/GP Costs</b>										
Expansion Match	\$0	\$0	\$0	\$99,800,000	\$158,000,000	\$190,800,000	\$269,700,000	\$300,800,000	\$311,000,000	\$317,900,000
Administration & IT	<u>10,000,000</u>	<u>11,000,000</u>	<u>11,000,000</u>	<u>11,000,000</u>	<u>11,000,000</u>	<u>11,000,000</u>	<u>11,000,000</u>	<u>11,000,000</u>	<u>11,000,000</u>	<u>11,000,000</u>
<b>GF/GP Cost Total:</b>	<b>\$10,000,000</b>	<b>\$11,000,000</b>	<b>\$11,000,000</b>	<b>\$110,800,000</b>	<b>\$169,000,000</b>	<b>\$201,800,000</b>	<b>\$280,700,000</b>	<b>\$311,800,000</b>	<b>\$322,000,000</b>	<b>\$328,900,000</b>
<b>GF/GP Savings</b>										
Adult Benefits Waiver	(\$26,104,500)	(\$34,806,000)	(\$34,806,000)	(\$34,806,000)	(\$34,806,000)	(\$34,806,000)	(\$34,806,000)	(\$34,806,000)	(\$34,806,000)	(\$34,806,000)
Mental Health, Non-Medicaid	(152,931,100)	(203,908,800)	(203,908,800)	(203,908,800)	(203,908,800)	(203,908,800)	(203,908,800)	(203,908,800)	(203,908,800)	(203,908,800)
Corrections Health Services	(24,212,200)	(32,282,900)	(32,282,900)	(32,282,900)	(32,282,900)	(32,282,900)	(32,282,900)	(32,282,900)	(32,282,900)	(32,282,900)
PlanFirst! Family Planning Waiver	(1,072,200)	(1,429,600)	(1,429,600)	(1,429,600)	(1,429,600)	(1,429,600)	(1,429,600)	(1,429,600)	(1,429,600)	(1,429,600)
TMA-Plus	(150,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
Public Health	<u>(750,000)</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>
Program Subtotal:	(\$205,220,000)	(\$273,627,300)	(\$273,627,300)	(\$273,627,300)	(\$273,627,300)	(\$273,627,300)	(\$273,627,300)	(\$273,627,300)	(\$273,627,300)	(\$273,627,300)
Additional HICA Revenue	<u>(\$10,712,700)</u>	<u>(\$11,896,700)</u>	<u>(\$14,000,000)</u>	<u>(\$14,500,000)</u>	<u>(\$14,900,000)</u>	<u>(\$15,300,000)</u>	<u>(\$15,800,000)</u>	<u>(\$16,200,000)</u>	<u>(\$16,700,000)</u>	<u>(\$17,100,000)</u>
<b>GF/GP Savings Total:</b>	<b>(\$215,932,700)</b>	<b>(\$285,524,000)</b>	<b>(\$287,627,300)</b>	<b>(\$288,127,300)</b>	<b>(\$288,527,300)</b>	<b>(\$288,927,300)</b>	<b>(\$289,427,300)</b>	<b>(\$289,827,300)</b>	<b>(\$290,327,300)</b>	<b>(\$290,727,300)</b>
<b>Total NET GF/GP (Savings)/Cost:</b>	<b>(\$205,932,700)</b>	<b>(\$274,524,000)</b>	<b>(\$276,627,300)</b>	<b>(\$177,327,300)</b>	<b>(\$119,527,300)</b>	<b>(\$87,127,300)</b>	<b>(\$8,727,300)</b>	<b>\$21,972,700</b>	<b>\$31,672,700</b>	<b>\$38,172,700</b>
<b>Health Savings Fund</b>										
Deposit (50%)/(Withdrawal)	\$103,000,000	\$137,262,000	\$138,313,700	\$88,663,700	\$59,763,700	\$43,563,700	\$4,363,700	(\$11,000,000)	(\$15,800,000)	(\$19,100,000)
Year-End Balance	103,000,000	240,262,000	378,575,700	467,239,400	527,003,100	570,566,800	574,930,500	563,930,500	548,130,500	529,030,500
Current-year GF/GP Savings Realized	(\$102,932,700)	(\$137,262,000)	(\$138,313,600)	(\$88,663,600)	(\$59,763,600)	(\$43,563,600)	(\$4,363,600)	\$10,972,700	\$15,872,700	\$19,072,700

**CHART 1**  
**Direct Costs of Medicaid Expansion under ACA**  
Administration Long-Term Estimates



**CHART 2**  
**State Costs/(Savings): Medicaid Expansion Under ACA**  
 Administration Long-Term Estimates

