

The Uncertainty of Medicaid Expansion

Major differences in cost and enrollment projections make Medicaid expansion a giant unknown for Florida

EXECUTIVE SUMMARY

As a result of the U.S. Supreme Court decision upholding the federal Affordable Care Act, Florida policymakers are forced to decide whether or not they should expand the state's Medicaid program to cover individuals earning up to 138 percent of the federal poverty level.

Whichever decision they reach will impact the state's long-term finances, overall patient health, and taxpayers' bottom line. The decision is made even more difficult due to a lack of consistent projections related to costs (both short and long term), participation rates, and per person spending.

Myriad academic and advocacy groups have generated projections on the impact of Medicaid expansion in Florida. However, the projections lack consistency—varying widely from one another. This should be a red flag to policymakers.

- Over the next ten years, Florida will spend \$270 billion on Medicaid if the state does not expand. Spending climbs to \$341 billion over the decade if expansion occurs.
- In other states, providing Medicaid coverage for childless adults costs anywhere from 67 percent to four times the cost of providing coverage to parents.
- Looking at expansion scenarios for Florida given the actual experiences in other states leads to a wide range of possible costs for the expansion population ten years out—from a lowest cost projection of \$3.7 billion to a highest cost projection of \$19.5 billion.

Without a clear understanding of how Medicaid expansion will affect patients and taxpayers, the best decision for Florida policymakers would be to reject expansion. At the very least, they should delay their decision until they can see the results of expansion in other states.

AUTHORED BY

Jonathan Ingram, *Director of Research*

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Florida lawmakers are faced with a choice. The federal Affordable Care Act (ACA) urges states to expand their Medicaid programs to those earning up to 138 percent of the federal poverty level. However, a recent decision by the U.S. Supreme Court makes the expansion voluntary for Florida, and all states.

The Urban Institute predicts the optional Medicaid expansion would add 1.3 million people to Florida’s Medicaid program by 2022.¹ Expanding eligibility would increase the Medicaid program’s costs by \$71.5 billion between 2013 and 2022.²

	Total spending	State spending	Federal spending
2003-2012 (actual)	\$155 billion	\$67 billion	\$89 billion
2013-2022 (without expansion)	\$270 billion	\$115 billion	\$154 billion
2013-2022 (with expansion)	\$341 billion	\$121 billion	\$220 billion

Sources: Florida Agency for Health Care Administration; Urban Institute

Notes: The 2003-2012 spending lines represent actual expenditures, adjusted to exclude the temporary enhanced matching rates from the American Recovery and Reinvestment Act. The 2013-2022 spending lines represent future projections of spending, with and without expansion.

Future projections depend entirely on assumptions of participation rates and costs per person. Many studies have attempted to quantify the impact of optional expansion, each with different results. The varied results illustrate how even minor changes to assumptions can result in widely different estimates.

PARTICIPATION RATES AND POPULATION BASE

Accurately estimating the number of people who will enroll in Medicaid is critical to predicting potential costs. Estimating this number hinges on the participation rates of people who are eligible. A number of factors can cause rates to vary, including current insurance status.

The estimated participation rates for previously uninsured individuals has typically ranged anywhere from 57 percent to 95 percent for newly eligible individuals.^{3,4,5,6,7,8,9} The gap between the lower estimates and the higher estimates is nearly 500,000 uninsured individuals in Florida who would become eligible under the optional expansion.

Predicted participation rates for previously uninsured, newly eligible individuals

Study	Assumed participation rates
Georgetown Health Policy Institute (2012)	57% - 75%
Harvard School of Public Health (2011)	62%
Lewin Group (2011)	74%
Urban Institute (2012)	74%
Social Services Estimating Conference (2012)	80%
RAND Corporation (2012)	82%
Centers for Medicare and Medicaid Services Office of the Actuary (2012)	95%

Uninsured Florida residents are not the only people who would enroll in Medicaid under the optional expansion. Expanding Medicaid eligibility has historically shifted a large share of people from private insurance to Medicaid.¹⁰ The crowd-out effect on working adults is expected to be even greater.¹¹ Participation rates for all groups are likely to be high, given the fact that the government is streamlining eligibility determinations and the insurance exchange is required by law to automatically enroll eligible users without additional paperwork.

The estimated participation rates for the privately insured vary widely. Georgetown, for example, predicts that no one with private insurance will switch to Medicaid.¹² The Urban Institute, on the other hand, predicts roughly 11 percent of individuals with employer-sponsored insurance and 85 percent of individuals with nongroup insurance will transition to Medicaid.¹³

The Urban Institute’s estimate of the combined participation rate for all newly eligible individuals is roughly 60.5 percent.¹⁴ The CMS Office of the Actuary predicts a combined participation rate for all newly eligible individuals of upward of 87 percent.¹⁵

Predicted population growth can also have a huge impact on estimates. Florida’s population grew by 18 percent last decade and is expected to grow by another 12 percent this decade.^{16,17} Some estimates predict minor population growth, some track expected growth and others predict no growth at all. Because Medicaid enrollment is a function of population and participation, these differences lead to substantial variances in predicted enrollment.

COSTS PER PERSON

The Urban Institute predicts newly eligible individuals will cost approximately \$505 per month in 2016.¹⁸ The Congressional Budget Office estimates these individuals will cost upward of \$500 per month.¹⁹ Florida’s Social Services Estimating Conference, on the other hand, predicts the newly eligible individuals will cost approximately \$316 per month in 2014 and remain flat for the next ten years.²⁰ This estimate is less than the \$343 per month that current low-income parents cost the Medicaid program.²¹

In states that have already expanded Medicaid eligibility, however, the costs to cover the expansion population has typically been much higher than the costs to cover low-income parents.²² In Arizona, for example, the cost to cover the expansion population was \$613 per month in 2010, compared to \$233 per month for low-income parents. In Arizona, Delaware, Oregon and Washington, D.C., the expansion populations have had a very large cost multiplier when compared to low-income parents.²³

Median spending per month for expansion population vs. low-income parents population in 2007

	Childless adults (expansion population) costs	Low-income parent population costs	Childless adults (expansion population) cost multiplier
Arizona (2010)	\$613	\$233	2.63
Delaware	\$550	\$290	1.89
Maine (2012)	\$422	\$97-\$205	2.06-4.34
Oregon	\$512	\$307	1.67
Washington, D.C.	\$723	\$323	2.24

Source: Arizona Health Care Cost Containment System; Centers for Medicare and Medicaid Services; Maine Department of Health and Human Services

Note: Delaware and Washington, D.C. offered standard Medicaid benefits to the expansion population, while Oregon offered only partial Medicaid benefits.

Future cost projections are also heavily influenced by projected growth in per-person costs. The Urban Institute and the Congressional Budget Office predict per-person spending will rise by approximately 5 percent per year for the expansion population.^{24,25} Over the past two decades, Florida’s spending per person has risen by roughly 5.1 percent per year.²⁶

Florida’s annual Medicaid spending on uninsured newly eligible individuals in 2022 (in millions), by participation rates, cost growth, and the cost multiplier for the expansion population, assuming zero population growth

	No cost growth			5% annual cost growth		
	70% participation	80% participation	90% participation	70% participation	80% participation	90% participation
1.0 cost multiplier	\$3,733	\$4,266	\$4,799	\$5,515	\$6,303	\$7,091
1.5 cost multiplier	\$5,599	\$6,399	\$7,199	\$8,272	\$9,454	\$10,636
2.0 cost multiplier	\$7,465	\$8,532	\$9,598	\$11,030	\$12,605	\$14,181
2.5 cost multiplier	\$9,332	\$10,665	\$11,998	\$13,787	\$15,757	\$17,726

Florida’s annual Medicaid spending on uninsured newly eligible individuals in 2022 (in millions), by participation rates, cost growth, and the cost multiplier for the expansion population, assuming 1 percent annual population growth

	No cost growth			5% annual cost growth		
	70% participation	80% participation	90% participation	70% participation	80% participation	90% participation
1.0 cost multiplier	\$4,106	\$4,693	\$5,279	\$6,066	\$6,933	\$7,800
1.5 cost multiplier	\$6,159	\$7,039	\$7,919	\$9,100	\$10,399	\$11,699
2.0 cost multiplier	\$8,212	\$9,385	\$10,558	\$12,133	\$13,866	\$15,599
2.5 cost multiplier	\$10,265	\$11,731	\$13,198	\$15,166	\$17,332	\$19,499

GREAT UNCERTAINTIES LIE AHEAD

Even minor changes to assumptions can have a huge impact on cost projections, leaving policymakers with great uncertainty of what to expect. Experiences from other states demonstrate how the projected per-person costs and participation rates are often dramatically underestimated for this population.

Unexpected cost increases force policymakers to make painful choices. Arizona, unable to reduce eligibility levels for the expansion population, was forced to eliminate coverage for organ transplants in its traditional Medicaid program.

Given President Obama’s proposal to shift more expansion costs onto the states and the potential for a future maintenance of effort requirement for states choosing to expand, Florida lawmakers should carefully consider the wide variance in current projections. They should also look heavily to the experiences in other states that have already implemented a large portion of Medicaid expansion, including Arizona and Maine.

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Jonathan Ingram | *Director of Research*
239.244.8808 - office | jingram@TheFGA.org

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