



TESTIMONY

June 30, 2020

FISCAL IMPLICATIONS OF MEDICAID EXPANSION

By Elias Tsapelas

Testimony Before the Missouri House Budget Committee

TO THE HONORABLE MEMBERS OF THE COMMITTEE:

Thank you for the opportunity to testify today. My name is Elias Tsapelas, and I am a senior analyst at the Show-Me Institute, a nonprofit, nonpartisan, Missouri-based think tank that advances sensible, well-researched, free-market solutions for state policy. The ideas presented here are my own and summarize the research I've done related to the fiscal implications of Medicaid Expansion on Missouri's budget.

As Missourians prepare to make their decision regarding Medicaid Expansion on August 4, it's important to recognize that the policy represents a significant financial burden for state taxpayers. Even conservative estimates of the proposal's costs suggest it will increase the size of Missouri's program by more than a billion dollars per year; the question now is, how will it be paid for?

At its most basic level Medicaid expansion would extend program coverage to able-bodied adult Missourians who make up to 138 percent of the federal poverty level, and the federal government has currently agreed to pay 90 percent of the cost for their care. But when it comes to the portion that the state will pay—and how it will be accounted for in Missouri's budget—the details are complicated.

FISCAL NOTE 2020-063

The Auditor's fiscal note lays out two separate estimates for the cost of expansion, but neither shows the complete budgetary picture.

Estimates from the Department of Social Services suggest that implementing the proposed ballot initiative will cost in excess of \$200 million in state General Revenue. But this projection does not account for what will happen to the cost of the current Medicaid program. It also fails

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to predict how spending on expansion could impact the state's budget in the years following implementation.

The second estimate in the fiscal note comes from a study by researchers at Washington University, which paints a much rosier picture for Medicaid expansion in Missouri. This model shows more than \$30 million in immediate state savings and suggests the total savings are projected to grow toward \$1 billion annually after 4 years. One glaring issue with the study is that for budgeting Medicaid, it projects a major difference between the state-share obligation and General Revenue spending. Further, the estimates used in the study calculate savings in relation to a baseline of traditional Medicaid program spending, which is projected to increase over the same period. In other words, the Washington University researchers still expect an expanded Medicaid program to cost more than it does today, but they project that the cost of the expanded program would grow by less than it would if expansion were rejected.

Since the two estimates in the Fiscal Note were created using very different methods, their conclusions are nearly impossible to compare. That is not to say that modeling the budgetary impact of Medicaid expansion is an easy or simple task, but doing so requires a variety of assumptions that can be misleading. In an effort to illustrate the wide range of outcomes that could result from the Medicaid expansion, I will discuss some of the included assumptions and what could happen to the budget if those assumptions are flawed.

ENROLLMENT

One of the primary drivers of Medicaid cost is program enrollment. Today, Missouri's Medicaid program has roughly 920,000 people enrolled, approximately 565,000 of which are children. Conservative estimates for the ballot initiative suggest that expanded eligibility would make at least 230,000 additional Missourians eligible for the program. Additionally, Missouri should expect a substantial "woodwork effect," which is when currently eligible individuals who are currently unenrolled sign up for the program once eligibility is expanded.

For those who become eligible for the Medicaid program as a result of expansion, the federal government has agreed

to cover 90 percent of the cost for their care, though the woodwork population would still be covered with the standard match rate of around 65 percent. It follows that the potential budgetary costs or savings from Medicaid expansion rely heavily on the number of each group that comes onto the program.

To arrive at the savings estimated in the Washington University model, the researchers assumed that 230,881 newly eligible adults would enroll. But what happens if newly eligible enrollment exceeds their assumption? With all else held equal, if Missouri saw expansion enrollment just 35 percent higher than the researchers' projections, the expected savings would disappear entirely. And this outcome is certainly possible. The majority of states that have already expanded have seen immediate enrollment that far exceeded their projections. States like Illinois and California saw enrollment close to double their best projections. Needless to say, covering even 10 percent of the cost for thousands of new enrollees would put a major strain on Missouri's budget.

Higher enrollment from the woodwork effect could have an even larger impact on the budget. This is because Missouri would be responsible for paying a higher percentage of their associated health care costs. In accounting for the woodwork effect, the Washington University researchers assume that only 40,447 new children will enroll, which excludes any potential growth among the rest of the currently eligible populations. In fact, their estimates predict enrollment among disabled Missourians will actually decrease with Medicaid expansion.

There are certainly reasons to believe that actual enrollment among children could be underestimated in the Washington University model, since Missouri has seen a significant drop in their enrollment over the past two years. But if even 80,000 of those same children re-enroll, the entire savings from expansion are gone. And if enrollment increases at all in the other eligibility categories like the aged, blind, and disabled, the budgetary impact could be significant, because the cost of their care is so much higher than it is for children.

PER-MEMBER COSTS

Along with the number of people enrolled, the cost for covering each person can have an enormous budgetary impact. For example, the average monthly cost of providing Medicaid coverage for a child is a little more than \$300, but for people with disabilities the cost is closer to \$2,500. And for those covered under managed-care plans the monthly costs are fairly consistent, whereas costs for those covered under fee-for-service can vary greatly depending on the amount of care they receive.

In general, it is reasonable to expect that the newly eligible enrollees under Medicaid expansion (mostly able-bodied adults) would be less costly than the adults already enrolled in the program. For that reason, the Washington University study assumed their monthly cost would be \$425 per month even though currently enrolled adults cost around \$650. But if the cost of the expansion population ends up being closer to \$650 than \$425, the model's savings disappear.

The same can be said for children coming onto the program, where the Washington University model projects their monthly cost at \$250. The problem is that Medicaid expansion does nothing for children's eligibility, so there's no reason to assume their cost will be less than those who are already enrolled. Simply bringing the monthly cost for children in line with the Missouri's past experience reduces the projected savings for expansion by more than \$10 million.

ELIGIBILITY

Perhaps the most questionable assumption in the model is what they call PTD (permanently and totally disabled) shifting. To derive the majority of its projected savings, the model assumes that the current enrollment of disabled Missourians will fall by more than 20 percent over the next four years. It is important to note that the researchers are not claiming disabled Missourians would go without health coverage; instead, the assumption is that these individuals would start enrolling in Medicaid as part of the expansion population.

People with disabilities often deal with a variety of complex medical issues, which also makes them the

costliest group to cover under today's Medicaid program. It follows that reducing this group's enrollment would lower costs. The idea behind PTD shifting is that if disabled persons who were formerly enrolled in the current Medicaid program re-enroll under expansion, the federal government would pick up 90 percent of the cost of their coverage as opposed to the current 65 percent. This shift would, hypothetically, result in significant savings—the problem is that type of maneuver is not allowed.

The enhanced federal matching funds are reserved for those who become eligible for Medicaid as a result of the program being expanded, so states cannot enroll people who are currently eligible via another path. Missouri wouldn't be the first state to try such a move, as the federal Office of Inspector General recently cited a similar issue in the state of New York's Medicaid program.

Removing the PTD shifting assumption from the models blows a hole of nearly a billion dollars in the expansion cost estimates. If Medicaid expansion is approved by the voters and moves forward, it will be up to the legislature to decide whether PTD shifting will be worth the risk."

CONCLUSION

Missourians are facing a very consequential decision about whether or not to expand Medicaid, and the legislature will be charged with finding a way to budget for the costs incurred. Medicaid expansion could substantially impact the state's budget because Missouri's Constitution does not allow the spending of more tax dollars than are taken in, and it provides each voter a say at the ballot box before their taxes can be raised.

Models estimating the cost of Medicaid expansion offer a wide range of potential outcomes, but one thing is certain: It certainly will not "save" money. Approval of the ballot initiative would increase the total cost of Missouri's already-growing Medicaid program by more than a billion dollars per year. And since Missouri taxpayers are also federal taxpayers, the cost of expanding Medicaid will be paid out of the salaries of Missourians one way or another.

It is also important to recognize that even though the federal government has agreed to pay 90 percent of expansion's costs today, the remaining 10 percent can still

have a significant impact on Missouri's budget now and in the future. And if the federal government decides to change its current funding arrangement, it is certain that other state priorities or Missouri taxpayers will suffer as a result of the additional costs.

Medicaid is already Missouri's single largest government-run program, and its costs are all but certain to keep growing. As we have seen during the current economic downturn, when state revenues are down, Medicaid enrollment goes up. This is an effect that will only be exacerbated by an expanded Medicaid program.

In conclusion, expanding Medicaid will have a significant impact on Missouri's budget. Given the wide range of projected costs, preparing for the proposal will certainly not be easy. If Missouri expands Medicaid, it is essential that the legislature has a plan in place for covering the costs, whatever they may be.

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