

LR546

Interim study to examine the potential impact of implementing the federal Patient Protection and Affordable Care Act on the state budget in upcoming years.

Health & Human Services Committee
and Appropriations Committee of the Nebraska Legislature
Interim Hearing
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Comments by

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I am Jim Stimpson, director of the UNMC Center for Health Policy. I was invited to testify today to report on the studies I have conducted relevant to today's hearing. I am not representing the University of Nebraska.

There are 232,000 Nebraskans without health insurance. The Affordable Care Act (ACA) has several provisions that could reduce the number of Nebraskans without health insurance by about half, including the expansion of the Medicaid program to adults earning less than 139% of the federal poverty level. One of the primary concerns with the size of the uninsured population is the level of uncompensated care that is provided by hospitals and other providers. Typically, the providers, and local and federal government finance these costs. Regardless of whether a state decides to expand Medicaid, the federal government will phase out Disproportionate Share Hospital (DSH) payments beginning in 2014. Currently, Nebraska receives over \$28 million annually in Medicaid DSH allotments, but the ACA cuts these payments over 10 years starting in 2014. The cost of uncompensated care is also shifted to individuals and employers in the form of higher insurance premiums, sometimes referred to as the "silent" tax. A recent report calculated that without Medicaid expansion, there would be

more than \$1 billion in uncompensated care provided in Nebraska from 2014-2019. However, if Nebraska opted for expansion of Medicaid, the amount of uncompensated care provided would be reduced to \$419 million. The reduction in uncompensated care spending would aid hospitals and other care providers and also have the potential to reduce (or hold constant) health insurance premiums.

The participation rate in the current Medicaid program in Nebraska is approximately 57%. However, it is reasonable to expect that the Medicaid participation rate will be higher than historical averages starting in 2014 in part because of the individual mandate for insurance coverage, simplification of Medicaid eligibility, and a more efficient enrollment system that will be in operation under the health insurance exchange. Therefore, regardless of whether Nebraska decides to expand Medicaid or not, there will be increased enrollment in Medicaid. According to the 2011 Nebraska Medicaid Annual Report, there were 235,000 recipients of Medicaid in Nebraska at a cost of nearly \$1.6 billion. Even without expansion, my estimate of the current Medicaid enrollment for 2014-15 is 315,000 Nebraskans based on the assumption of a 25% increased participation rate, sometimes referred to as the “woodwork effect,” and Medicaid expenditures could climb as high as \$2 billion by 2014.

The persons eligible for the Medicaid expansion represent a very different population and federal match rate. This expanded population has been shown in peer-reviewed research to be healthier and as a result they are less expensive to cover than currently enrolled adults. The match rate from the federal government will be 100% for the first three years and then gradually decline to 90%, (compared to the 57% Nebraska currently receives). My analysis indicates at least 100,000 Nebraskans would be enrolled under the expanded Medicaid

program at a cost of about \$158 million for the state and \$3.4 billion for the federal government from 2014-2020. Therefore, compared to the non-expansion scenario, the expansion of Medicaid in Nebraska represents a 24% increase in enrollment, a 1.1% increase in state spending and a 13.5% increase in federal funding.

In addition to cost, it is important to factor in potential offsets to the state budget. In this case, we can expect tax revenue for the State of Nebraska to increase by more than \$23 million annually due to the federal spending on Medicaid expansion. My analysis indicates that the State of Nebraska can expect at least \$168 million in new tax revenue resulting from the federal spending on Medicaid expansion as those federal dollars ripple through the state economy from 2014-2020. This revenue will have a positive net impact on the state budget for the first three years of expansion. Starting in 2017, as the federal reimbursement rate begins its gradual decline to a 90 percent reimbursement, there will be reduced state spending on other existing programs that may be sufficient to offset the ongoing cost of Medicaid expansion. For example, under a provision of the ACA that will be implemented in 2014, insurance companies will not be allowed to deny coverage to adults with pre-existing conditions. Therefore, there may be no future need for the Nebraska Comprehensive Health Insurance Pool (NECHIP) program after 2014. Depending on the benefit structure of the expansion program, another source of savings for the Medicaid budget would occur by transitioning adults from the current Medicaid program into the expansion program with the higher federal match rate (a 33% difference). Additional savings to the state's general fund will result from reduced payments for mental health services as more citizens gain health insurance coverage through Medicaid or health insurance exchanges that cover mental health services.

The impact on other financial and public health outcomes should be included in the discussion about whether states should participate in the Medicaid expansion. For example, a recent study in the New England Journal of Medicine found that for every 176 adults covered under expanded Medicaid, one death per year would be prevented; in Nebraska, this could mean about 500 deaths would be prevented. Another study found that a 10% expansion of Medicaid eligibility has been shown to reduce bankruptcies by 8%; in Nebraska, this could mean about 1,200 fewer bankruptcies. Finally, spending by the federal government on Medicaid expansion would generate at least \$700 million in new economic activity every year in Nebraska, which could have a substantial impact on job growth in Nebraska. All of these factors should be considered as the state weighs this very important decision.

Thank you for this opportunity.