

Update for the Economic and Rural Development Committee: Affordable Care Act Impact on New Mexico

Affordable Care Act:

- Starting on January 1, 2014 all adult residents with incomes up to 138 percent of the federal poverty level (about \$15,864 for a single person) will be eligible for Medicaid under the Affordable Care Act (ACA). HSD projects expansion-related enrollment of almost 137 thousand in FY15, including newly eligible adults and transfers from the state coverage initiative insurance program. Total additional enrollment due to ACA is expected to approach 167 thousand by 2020. Total Medicaid enrollment (including regular program growth) is expected to increase from 578 thousand in FY13 to up to 800 thousand in FY20.
- The federal match for newly-eligible adults is 100% from 2014 to 2016, 95% in 2017, 94% in 2018, 93% in FY19 and 90% in FY20 and future years.
- LFC analysis presented at the January joint legislative session showed that increases in ACA related revenues including PIT, GRT, premium taxes (as well as savings in the Medical insurance pool) outweigh expenditures for new Medicaid enrollees in the first six years as the federal Medicaid match is phased down from 100% down to 93%. When the program is fully implemented in FY20 the state may incur additional costs (the federal match will be 90%).

| Table 3. Revenues and Expenditures from Medicaid Expansion | | | | | | | |
|---|-------------|-------------|-------------|-------------------------------|-------------|-------------|-------------|
| (General fund in millions of dollars) | | | | | | | |
| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
| Total Revenues | 18.7 | 72.6 | 79.9 | 83.2 | 84.6 | 87.0 | 88.3 |
| Total Expenditures | (13.9) | (25.2) | (35.0) | (12.4) | 22.9 | 42.5 | 113.4 |
| State Gain/(Loss) * | 32.5 | 97.7 | 114.9 | 95.6 | 61.7 | 44.5 | (25.2) |
| * Revenues minus expenditures | | | | Sources: BBER, HSD, LFC Files | | | |

- The total gain to the state in the LFC January scenario is \$421.8 million over the 7 year period. Note that these numbers will be updated in the future based on revised enrollment and cost data from HSD.

FY14 Budget Impact:

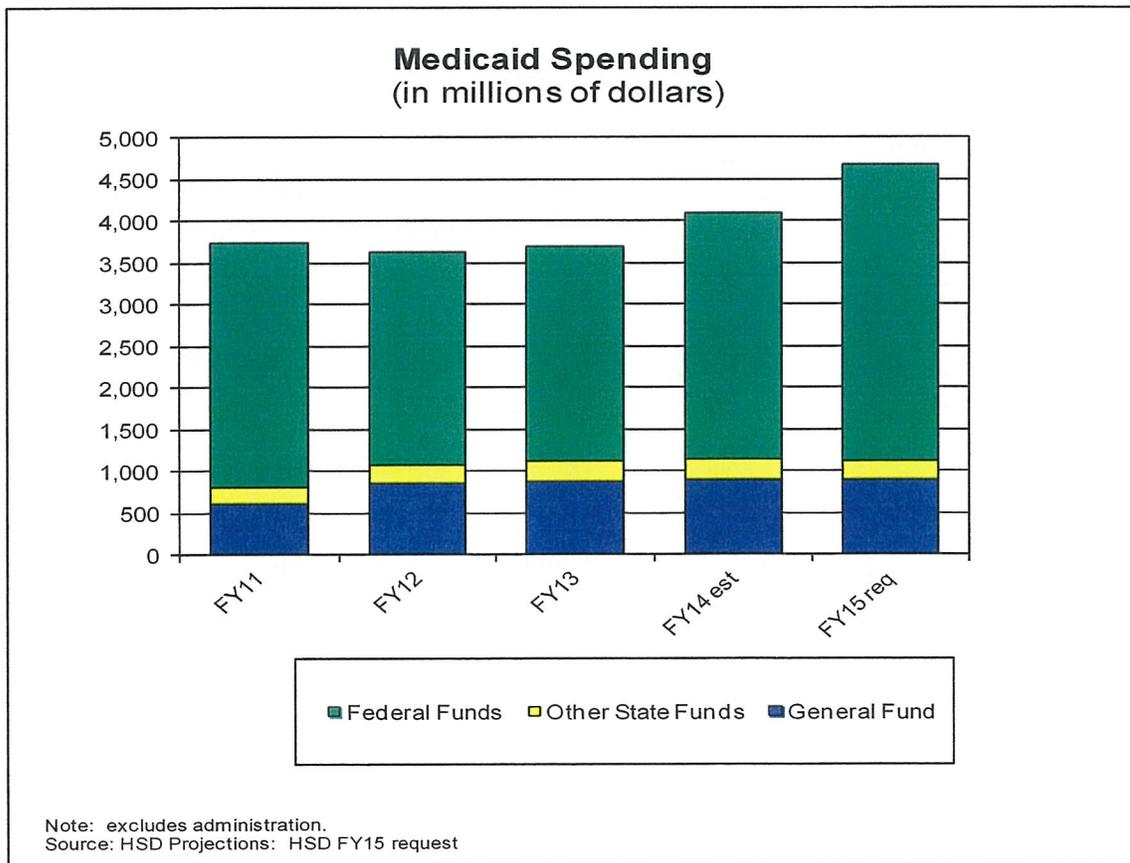
- FY14 reflects 6 months of ACA impact. The FY14 appropriation from the general fund for Medicaid programs (including Medicaid behavioral health) was \$929 million, a \$24.3 million, or 2.7 percent, increase over FY13. The appropriation level reflects \$23.2 million in savings from Medicaid expansion in 2014 as approximately 37 thousand individuals currently covered by the State Coverage Initiative program move into Medicaid at a 100 percent federal match rate in FY14. The total appropriation is \$4.37 billion, an increase of 7.9% over FY13.
- Major increases in the Medicaid budget included \$19.2 million to replace the expiring tobacco revenue set-aside and \$14.8 million for costs related to the Affordable Care Act, including \$8.2 million for a federal insurer fee, \$1.9 million for the state share of a primary care provider rate increase, and \$4.7 million for increased enrollment. Also funded was \$1.2 million for the department's behavioral health home initiative and almost \$7 million in base Medicaid program increases. The governor vetoed funding of \$500 thousand to implement a Medicaid evidence-based home-visiting model.

FY15 Budget Impact:

- The total Medicaid budget increases by \$374.3 million to \$4.67 billion, primarily due to Medicaid expansion at a 100 percent federal match and an increased amount of Medicaid behavioral health services. The general fund request for Medicaid and Medicaid behavioral health is \$908 million. General fund for Medicaid alone declines \$24 million due to lower cost trend growth, additional drug rebate revenue and a better FMAP rate. However, some of that decrease is offset by a \$4.9 million increase for behavioral health and a \$1.675 million general request for contractual support for auditing, quality review, actuarial analysis and IT system modifications for the Medicaid program.
- HSD has over-projected expenditures the past 4 years due to slower enrollment and a lower rate of growth in expenditures (in part due to HSD provider rate reductions). HSD's latest forecast update for FY14 projects a \$24 million general fund surplus.
- The FY15 request of \$4.67 billion is approximately \$200 million less than the FY15 estimate of \$4.9 billion shown in HSD's January ACA multi-year

forecast. As a result, we expect some changes (probably decreases) in the out-year forecast for Medicaid expenditures to FY20.

- For the past three fiscal years ending in FY13, HSD essentially put the brakes on Medicaid growth, with total managed care expenditures remaining flat at \$2.57 billion from FY10 to FY13. Key factors leading to this outcome include provider rate reductions, funding the MCOs near the lowest range on the rate schedule determined by actuaries, freezing SCI enrollment, and reducing enrollment outreach efforts in prior years. HSD also benefited from an overall lessening of medical cost growth and demand in recent years.
- Moving forward key questions remain, in particular the pace of expansion enrollment and the ability of medical providers to absorb the surge of new Medicaid clients. Cost pressure on rates is likely to occur due to increased demands for services but HSD is maintaining fairly optimistic projections. Cost growth in the coordinated long-term services (CoLTS) population (currently about 40,000) has slowed in recent years, but is a major risk area going forward with average client costs exceeding \$22 thousand annually.



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January 23, 2013

MEMORANDUM

TO: Legislative Finance Committee

THRU: Mr. David Abbey, Director

FROM: Ms. Elisa Walker-Moran, Chief Economist
Mr. Greg Geisler, Principal Analyst

SUBJECT: Methodology of Costs and Benefits of Medicaid Expansion

Expansion of Medicaid coverage for adults under the Affordable Care Act (ACA) will be implemented on January 1, 2014. Expansion of eligibility for low-income adults is optional for states, but other mandatory aspects of ACA will impact the state. New Mexico is one of the states that have chosen expansion, and HSD projects that up to 144 thousand low-income adults may enroll in Medicaid by 2020. On September 27, 2012 LFC staff and the Human Services Department (HSD) presented their cost and benefit analysis of the impact of the Medicaid Expansion to the LFC¹. This analysis was updated in response to new cost estimates received from HSD following the governor's decision to expand Medicaid.

Revenues (table 1). The LFC staff used HSD's cost estimates to determine the additional state revenues generated by the Medicaid expansion. At the request of LFC staff, the Bureau of Business and Economic Research (BBER) used the HSD cost estimates to determine that statewide personal income could increase 0.6 percent by FY20 due to the additional funding and employment impacts from the Medicaid expansion. Wages and salaries could increase 1 percent by FY20 due to the Medicaid expansion. BBER assumed that the employment multiplier from the Medicaid expansion is about 1.85. For every \$100 million dollars spent on Medicaid, 1,195

¹ LFC Hearing Brief, Implementation of Affordable Care Act - Costs and Benefits of Expansion of Medicaid Eligibility - September 2012

total jobs are created - 646 direct jobs, and 550 indirect/induced jobs. Total employment could increase almost 1 percent each year.

LFC staff used the personal income impact from BBER to roughly estimate the total revenue impact on personal income taxes. PIT liabilities could increase about 0.4 percent in FY14 and 0.6 percent in FY20. The state could collect an additional \$2.6 million in FY14, and \$8.3 million in FY20 when fully implemented. BBER’s estimate of the impact on wages and salaries was used to estimate the revenue impact on gross receipts taxes. The state could collect an additional \$6.6 million in FY14, and \$12.5 million in FY20 when fully implemented. Premiums from the additional children and adults enrolled due to the woodwork effect are not included—it is the view of LFC staff that these are not an expansion related-cost. Also, premiums received from the existing State Coverage Initiative (SCI) insurance program, at the current federal match rate, are not included.

The largest revenue increase comes from additional premium taxes due to expansion, which could generate \$9.5 million in additional revenues in FY14 and \$33.6 million in FY20 when fully implemented. Also, LFC staff assumed that 80 percent of the individuals in the New Mexico Medical Insurance Pool (NMMIP) for high cost patients will move to the exchange. The NMMIP reduction is about \$33.9 million per year starting in FY15.

Table 1. REVENUES

| LFC Revenues from Medicaid Expansion only | | | | | | | |
|---|--------------|-------------|-------------|-------------|-------------|-------------|-------------|
| (Includes Induced Effects, general fund in millions of dollars) | | | | | | | |
| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
| PIT Increase | 2.6 | 6.1 | 7.7 | 8.4 | 8.6 | 8.5 | 8.3 |
| GRT Increase | 6.6 | 9.3 | 11.0 | 11.7 | 12.0 | 12.3 | 12.5 |
| NMMIP Reduction * | | 33.9 | 33.9 | 33.9 | 33.9 | 33.9 | 33.9 |
| Premium Tax: | | | | | | | |
| Woodwork only | Not included | | | | | | |
| Expansion only | 9.5 | 23.3 | 27.2 | 29.2 | 30.2 | 32.3 | 33.6 |
| Total LFC Revenues | 18.7 | 72.6 | 79.9 | 83.2 | 84.6 | 87.0 | 88.3 |
| * 80% of pool moves to exchange. | | | | | | | |
| Sources: BBER, HSD, LFC Files | | | | | | | |

Expenditures (table 2). Coverage of newly eligible adults from the Medicaid expansion causes additional expenditures for the HSD starting in FY17. The federal match is 100 percent in the first three years, declines to 95 percent in 2017, and continues at 90% in 2020 and beyond. Starting in FY17 this expenditure is \$19 million for new enrollees, rising to \$75 million in FY20. The SCI population is newly eligible under ACA but the entire costs, \$16 million by FY20, have not been included in this analysis because HSD is currently incurring the cost of the SCI program. There will be a higher federal match for the SCI population due to ACA, which will save the state money. The reduced general fund need or cost savings to the state is \$22.2 million

in FY14 and \$7.9 million in FY20. According to the HSD, administrative costs relating to the expansion will be about \$2.8 million per year.

LFC staff's original estimate has been modified to include additional impacts provided by HSD. Per HSD, the estimate for Medicaid without SCI under healthcare reform contains a new insurer's fee and a higher modified inflator (the base assumes CPI growth). This new tax is estimated at minimum to have a 1.9 percent impact on costs. In addition, they use a modified inflator to account for a potential increase in costs due to unknown risks of the uninsured population. This additional cost to the base program as well as the woodwork effect is not included in the LFC revised estimate.

The revised LFC estimate does include additional savings from the enhanced Children's Health Insurance Program (CHIP) rates, and potential savings (subject to legislature approval) from decreasing spending in behavioral health spending as clients served by other non-Medicaid programs move to Medicaid. Additional expenditures include the ACA-mandated physician fee increase, and the modified adjusted gross income (MAGI) woodwork effect, which may increase the number of children eligible for Medicaid.

Table 2. EXPENDITURES

| LFC Expenditures on Medicaid Expansion only | | | | | | | |
|--|---------------|---------------|---------------|---------------|-------------|-------------|--------------|
| (General fund in millions of dollars) | | | | | | | |
| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
| Newly Eligible Adults | - | - | - | 19.2 | 43.8 | 55.3 | 75.1 |
| SCI Add. match | (22.2) | (42.0) | (38.1) | (29.7) | (20.8) | (15.4) | (7.9) |
| Admin. Costs | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 |
| Total LFC Expenditures | (13.1) | (23.0) | (15.7) | 14.1 | 49.6 | 69.5 | 113.7 |
| <i>Additional costs added to original analysis:</i> | | | | | | | |
| Enhanced CHIP Rate | - | - | (11.5) | (15.6) | (15.8) | (16.1) | (4.1) |
| Physician Fee Increase | 1.9 | 4.1 | 6.3 | 6.3 | 6.3 | 6.3 | 6.3 |
| MAGI Woodwork | 4.6 | 10.9 | 3.1 | - | - | - | 14.7 |
| Behavioral Health | (5.9) | (17.2) | (17.2) | (17.2) | (17.2) | (17.2) | (17.2) |
| Admin Diff | (1.4) | - | - | - | - | - | - |
| Woodwork & Other ACA Effects Not Included | | | | | | | |
| Revised Expenditures | (13.9) | (25.2) | (35.0) | (12.4) | 22.9 | 42.5 | 113.4 |

Sources: HSD, LFC Files

Summary (table 3). On January 8 Governor Martinez announced that New Mexico will expand Medicaid. LFC analysis shows the revenues outweigh the expenditures in the first six years as the match is phased down. When the program is fully implemented in FY20 the state may incur additional costs. The benefits minus the costs are presented in the table below. Under this high-level scenario the state will gain \$32 million in FY14 but will begin to pay an additional \$25 million in FY20. Six years after implementation, when the state has to pay 10 percent of the costs in FY20, the direct costs start to outweigh the revenues.

| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
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* Revenues minus expenditures Sources: BBER, HSD, LFC Files