

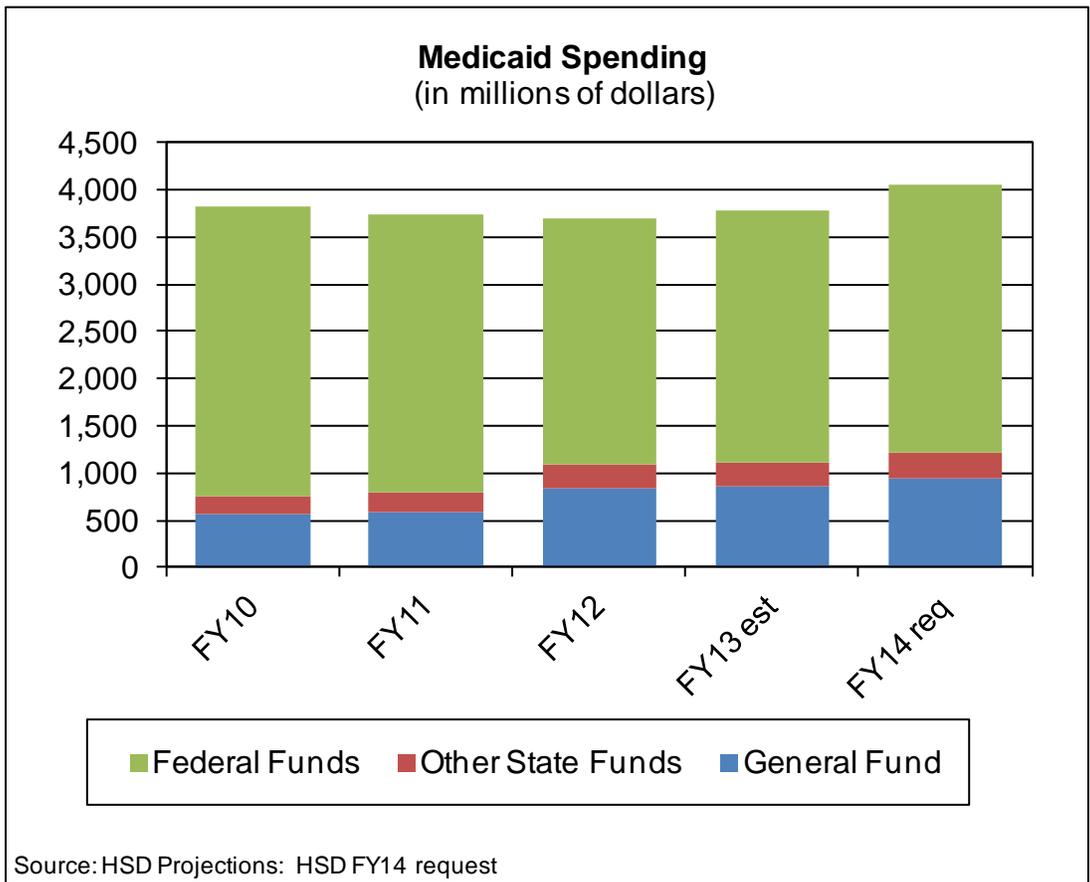
Update for Legislative Health & Human Services Committee: Medicaid and Affordable Care Act

FY14 Budget Outlook:

- The Human Services Department's (HSD) FY14 budget request is \$5.1 billion from all revenue sources, a 3.7 percent increase over the FY13 operating budget. Requested FY14 general fund of \$1.06 billion represents a \$56.7 million increase, or 5.7 percent, over FY13. Almost all of general fund increase is for Medicaid and Income Support programs.
- HSD requested a general fund increase of \$53.6 million for the Medicaid program, but requested no funding for expansion of Medicaid for low-income adults as authorized by the Affordable Care Act (ACA). Key components of the increase include \$19.2 million to replace the tobacco revenue set-aside, \$10 million for base program growth (enrollment, FMAP, utilization, etc) and \$22.3 million in ACA related costs.
- The general fund increase of \$22.3 for ACA related costs includes \$8.2 million for a federal insurer fee, \$1.9 million for state share of primary care provider rate increase; \$7.6 million for increased woodwork effect enrollment, and \$4.6 million to cover enrollment increases for children due to a change in Medicaid eligibility methodology (possibly increasing income eligibility from 235% of poverty to 350%). ACA regulations are still in flux; these estimates are subject to change.
- For the past two fiscal years ending in FY12, HSD essentially held Medicaid program growth flat, with total managed care expenditures declining from \$2.57 billion in FY10 to \$2.42 billion in FY12. Key factors included provider rate reductions, slower enrollment growth, funding the managed care organizations (MCOs) near the lowest range on the actuarial rate schedule and freezing SCI enrollment. HSD also benefited from an overall lessening of medical cost growth and demand in recent years.
- Representing only 7.6 percent of enrollment, the Coordination of Long-Term Services program (CoLTS) was almost 24 percent of all Medicaid expenditures in FY12. The average annual premium for 39,748 CoLTS clients in FY12 was

\$21,492, compared to \$3,156 for 335,358 physical health clients (predominately kids). Over time, especially if the state does not expand eligibility for low-income adults in 2014, expenditures for CoLTS may exceed physical health expenditures.

- Moving forward there is much uncertainty for the Medicaid program leading up to January 1, 2014. HSD has a new waiver request (Centennial Care) into the federal government and is awarding new MCO contracts to fewer providers (who will provide all services for Medicaid clients). If a decision is made to expand Medicaid eligibility for uninsured adults, an additional 89 thousand new adults could join the program starting in 2014. Enrollment growth and cost per-client assumptions for FY14 (below 2%) are on the low side; changes in actual enrollment and medical costs could have a material impact on overall costs.



- HSD’s November Medicaid forecast update reflected a higher FY14 FMAP rate of 69.2% (up from 68.79%); the overall impact of the updated forecast is a decrease in FY14 general fund need by \$3.4 million.

- The Medicaid cash balance issue has stabilized for the time being in part due to lower than projected expenditures and supplemental appropriations of \$41.6 million from the legislature in 2011 and 2012. Another \$19.7 million is available to HSD, contingent on a federal denial of appeal on audit findings.

Affordable Care Act:

- Using HSD’s May 2012 cost estimates, LFC analysis presented at the September LFC hearing (and updated below) showed that increases in ACA related revenues including PIT, GRT, premium taxes (as well as NMMIP savings) 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 match will be 90%).
- 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 \$20 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
Total Revenues	19.0	74.2	82.8	86.6	88.5	91.6	93.4
Total Expenditures	(13.9)	(25.2)	(35.0)	(12.4)	22.9	42.5	113.4
State Gain/(Loss) *	32.8	99.3	117.8	99.0	65.6	49.1	(20.0)

* Revenues minus expenditures Sources: BBER, HSD, LFC Files

- Total savings to the state in the LFC scenario is \$443.6 million. BBER has recently reported new estimates which show a net gain to the state of \$523 million.
- It remains to be seen if HSD will release revised ACA estimates alone or as part of a decision from the Governor on whether or not to implement expansion of Medicaid for low-income adults.

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October 24, 2012

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. On September 27, 2012 LFC staff and Human Services Department (HSD) presented their cost and benefit analysis of the impact of the Medicaid Expansion to the LFC. This memo is in response to a request from the committee to explain the methodology used in the analysis presented at the hearing and the differences between LFC and HSD estimates. It is likely that HSD will provide new ACA cost estimates to the LFC in November; the LFC healthcare brief will be updated at that time.

Revenues (table 1). As mentioned in the hearing brief ¹, the HSD provided their estimated cost of the Medicaid expansion. The LFC staff used these costs to estimate 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 high-enrollment scenario to estimate that personal income could increase 0.6 percent by FY20 due to the additional funding and employment impacts from the Medicaid expansion (see table 4). 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

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

dollars spent on Medicaid, 1,195 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 estimate of the impact on wages and salaries was used to estimate the revenue impact on the 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 \$9.8 million additional revenues in FY14 and \$38.7 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.

HSD staff did not estimate the impact of revenues from PIT or GRT. HSD factors in NMMIP savings as a 2 percent capitation rate savings or a reduction in expenditures--not an increase in revenues. HSD includes the premium tax revenues from the woodwork effect while LFC does not.

Compared to the HSD estimate, LFC revenues are greater by \$8.1 million in FY14, \$46.7 million in FY15, and almost \$50 million from FY16 to FY20.

Expenditures (table 2). Coverage of newly eligible adults from the Medicaid expansion causes additional expenditures for the HSD. In FY14 this expenditure is \$6.4 million, rising to \$118.8 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 that HSD included in their presentation to the LFC on September 27, 2012. 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 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 physician fee increase, and the MAGI woodwork effect, which may increase the number of children eligible for Medicaid.

It should be noted that HSD does not assume full 100 percent federal coverage for newly eligible the first three years; they assume a lower federal match for about 8 percent of the newly eligible adults which they project will have kids and be moved into a “parents” category of eligibility. As a result, HSD is including \$42.2 million in general fund costs for newly eligible during FY14-FY16. The LFC numbers reflect the lower reimbursement rate for now; additional justification for this methodology has been requested from HSD.

Compared to the HSD estimate, revised LFC expenditures are lower by \$19.6 million in FY14, \$42.2 million in FY15, \$43 million in FY16, \$45.5 million in FY17, \$50.4 million in FY18, \$55.9 million in FY19, and \$64.1 million in FY20.

Summary (table 3). If the state does choose to 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 \$20 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
Total Revenues	19.0	74.2	82.8	86.6	88.5	91.6	93.4
Total Expenditures	(13.9)	(25.2)	(35.0)	(12.4)	22.9	42.5	113.4
State Gain/(Loss) *	32.8	99.3	117.8	99.0	65.6	49.1	(20.0)

* Revenues minus expenditures Sources: BBER, HSD, LFC Files

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	9.8	24.9	30.2	32.6	34.1	36.9	38.7
Total LFC Revenues	19.0	74.2	82.8	86.6	88.5	91.6	93.4
* 80% of pool moves to exchange.							
Sources: BBER, HSD, LFC Files							

HSD Revenues from Medicaid Expansion, Woodwork, and Other ACA							
(General fund in millions of dollars)							
	FY14	FY15	FY16	FY17	FY18	FY19	FY20
PIT Increase	Not included						
GRT Increase	Not included						
NMMIP Reduction	Not included *						
Premium Tax:							
Woodwork only	1.1	2.6	3.1	3.7	4.3	5.1	5.5
Expansion only	9.8	24.9	30.2	32.6	34.1	36.9	38.7
Total HSD Revenues	10.9	27.5	33.3	36.3	38.5	42.0	44.2
* Per HSD this provides a 2 percent capitation rate savings.							

Total Revenues LFC vs. HSD							
	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Total LFC Revenues	19.0	74.2	82.8	86.6	88.5	91.6	93.4
Total HSD Revenues	10.9	27.5	33.3	36.3	38.5	42.0	44.2
Difference (LFC-HSD)	8.1	46.7	49.5	50.3	50.1	49.5	49.2
Difference is in PIT, GRT, NMMIP, and Woodwork Premium Tax.							

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	6.4	16.2	19.6	41.0	67.6	82.1	118.8
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 LFC Expenditures	(13.9)	(25.2)	(35.0)	(12.4)	22.9	42.5	113.4

Sources: HSD, LFC Files

HSD Expenditures on Medicaid Expansion, Woodwork, and Other ACA							
(General fund in millions of dollars)							
	FY14	FY15	FY16	FY17	FY18	FY19	FY20
New Medicaid	3.8	16.5	24.5	56.7	97.2	122.6	175.0
Admin. Costs	1.4	2.8	2.8	2.8	2.8	2.8	2.8
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)
Total HSD Expenditures	5.8	17.0	7.9	33.0	73.3	98.4	177.5

Total Expenditures LFC vs. HSD							
	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Revised LFC Expenditures	(13.9)	(25.2)	(35.0)	(12.4)	22.9	42.5	113.4
Total HSD Expenditures	5.8	17.0	7.9	33.0	73.3	98.4	177.5
Difference (LFC-HSD)	(19.6)	(42.2)	(43.0)	(45.5)	(50.4)	(55.9)	(64.1)

Difference is in woodwork and other ACA effects not included in LFC analysis.

Table 4

BBER Estimates	2013	2014	2015	2016	2017	2018	2019	2020
Based on Data Received from HSD:								
Based on Data from IMPLAN:								
Employment Multiplier is 1.8								
Multiplier 1.8 Total Employment Assuming 7 worker/million\$	0	4,237	5,860	6,866	7,071	7,277	7,472	7,486
Private Wage & Salary								
Baseline Private W&S per FOR-UNM Forecast (and FY18-20 estimates)	\$27,399	\$28,657	\$30,014	\$31,475	\$32,911	\$33,955	\$35,309	\$36,700
Addition to Private Wage&Salary from Medicaid Expansion	\$0	\$191	\$268	\$319	\$337	\$346	\$355	\$362
Private W&S Plus Addition due to Medicaid Expansion	\$27,399	\$28,848	\$30,282	\$31,794	\$33,248	\$34,301	\$35,664	\$37,062
W&S - Percentage Higher Due to Expansion	0.0%	0.7%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%
Personal Income Computations								
High Uptake without SCI NEW NET FEDERAL SHARE (Medicaid)	\$0	\$336	\$465	\$545	\$561	\$578	\$593	\$594
Personal Income With Medicaid Increases ONLY								
Baseline Personal Income per FOR-UNM Forecast (and FY18-20 estimates)	\$77,254	\$80,786	\$84,752	\$89,073	\$93,019	\$96,028	\$99,998	\$103,748
Additions to Personal Income (Compared to FOR-UNM Baseline)	\$0	\$336	\$465	\$545	\$561	\$578	\$593	\$594
Personal Income	\$77,254	\$81,122	\$85,217	\$89,618	\$93,580	\$96,605	\$100,592	\$104,342
Personal Income - Percent Increase due to higher W&S	0.0%	0.4%	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%
Note: These numbers DO NOT include the Woodwork Effect From BBER on 9/25/2012								