

Economic Analysis

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THE CONGRESSIONAL HEALTH CARE REFORM BILLS WILL DRAMATICALLY EXPAND MEDICAID COVERAGE AND INCREASE COST-SHIFTING TO PRIVATE SECTOR PAYERS

*Medicaid Coverage Will Likely Expand By Over 50 Percent And
Medicaid Cost-Shifting Will Increase By Over 13 Percent*

By D. Mark Wilson

The House health care reform bill, America's Affordable Health Choices Act of 2009 (H.R. 3200), would expand Medicaid to cover all nonelderly people with incomes at or below 133 percent of the federal poverty level (FPL), or \$29,500 for a family of four.¹ Under the House bill, the federal government would pay all the costs for those who were newly eligible.

- The Congressional Budget Office (CBO) estimates that under the House bill 11.0 million more people would receive coverage through Medicaid and would account for 29.7 percent of those who gain coverage.²
- However, The Lewin Group has estimated that the House bill would expand Medicaid coverage by 16.0 million people.³ Moreover, an analysis of Census Bureau data suggests that the House bill would expand coverage by at least 18.9 million people.⁴ This would be a 44.1 percent to 52.1 percent increase in nonelderly Medicaid coverage.
- The CBO estimates that under the House bill federal Medicaid spending would increase by \$43.8 billion per year, or \$438 billion over 10 years, and would account for 42.0 percent of the net increase in costs for health care reform.⁵
- Expanding Medicaid eligibility to 133 percent of the Federal Poverty Level will shift an additional \$5.3 billion to \$9.1 billion per year in costs to private-sector payers and increase the current amount of cost shifting from \$66.2 billion to up to \$75.3 billion per year, or 13.7 percent.⁶

The Senate HELP Committee health care reform bill, the Affordable Health Choices Act, assumes that the Senate will enact legislation to expand Medicaid eligibility to individuals with incomes up to 150 percent of poverty, or \$33,300 for a family of four.⁷ The states will receive 100 percent of the additional in cost of enrolling newly covered beneficiaries from the federal government until 2015. After that, federal Medicaid assistance to states will phase down to its current percentage (on average 57 percent) and states will have to pick up 43 percent of the cost of covering the additional Medicaid beneficiaries.

- An analysis of Census Bureau data suggests that the Senate HELP bill will expand Medicaid coverage by at least 22.0 million people.⁸

- Under the Senate HELP bill, federal Medicaid spending would increase by \$87.6 billion per year, or \$876 billion over 10 years.⁹ Moreover, after 2015 the states would be required to pick up a portion of this additional cost.
- Expanding Medicaid eligibility to 150 percent of the federal poverty level will shift an additional \$10.6 billion per year in costs to private payers, and increase the current amount of cost shifting from \$66.2 billion to \$76.8 billion per year, or 16.0 percent per year.¹⁰

Expanding Medicaid coverage by nearly 50 percent before significantly improving the program's internal controls and addressing the variations in state administrative and control systems will only increase the level of Medicaid's improper payments that are already \$33.0 billion per year, or more than 10 percent of total expenditures.

¹ Available at: <http://waysandmeans.house.gov/media/pdf/111/AAHCA09001xml.pdf>.

² Congressional Budget Office, *Preliminary Analysis of H.R. 3200, the America's Affordable Health Choices Act of 2009, as introduced on July 14, 2009*, available at: www.cbo.gov/ftpdocs/104xx/doc10464/hr3200.pdf.

³ John Sheils, *The Impact of the House Health Reform Legislation on Coverage and Provider Incomes*, Testimony before the Energy and Commerce Committee, U.S. House of Representatives, The Lewin Group, June 25, 2009.

⁴ Applied Economic Strategies estimate based on Census Bureau data. This includes 16.1 million nonelderly with no health insurance and incomes below 133 percent of the federal poverty level (FPL), plus 2.8 million nonelderly with privately purchased health insurance who would be prohibited from buying private insurance through the health insurance exchanges because their incomes are below 133 percent of the FPL. The estimate is "at least" because some of the 7.0 million individuals with employer-based health insurance whose incomes are below 133 percent of the FPL will likely have their coverage dropped by their employer, particularly if they work for small businesses that are not covered by the "pay-or-play" mandate in the House bill. The difference between the CBO, Lewin, and Census estimates may be related to how illegal immigrants are treated in the analysis.

⁵ Congressional Budget Office, *Preliminary Analysis of H.R. 3200, the America's Affordable Health Choices Act of 2009*.

⁶ Applied Economic Strategies (AES) estimates utilizing estimates of the changes in coverage by the CBO and AES analysis of Census Bureau data, and per capita cost estimates developed utilizing data from Will Fox and John Pickering, Hospital & Physician Cost Shift, *Payment Level Comparison of Medicare, Medicaid, and Commercial Payers*, Milliman, December 2008; 2004 data for Medicaid in Fox and Pickering adjusted for medical cost inflation to 2008.

⁷ See http://help.senate.gov/BAI09A84_xml.pdf and http://help.senate.gov/BAI09F54_xml.pdf.

⁸ Applied Economic Strategies estimate based on Census Bureau data. This includes 18.8 million nonelderly with no health insurance and incomes below 150 percent of the FPL, plus 3.2 million nonelderly with other private health insurance who would be prohibited from buying private insurance through the health insurance exchanges because their incomes are below 150 percent of the FPL. The estimate is "at least" because some of the 9.5 million individuals with employer-based health insurance whose incomes are below 150 percent of the FPL will likely have their coverage dropped by their employer, particularly if they work for small businesses that are not covered by the "pay-or-play" mandate in the Senate bill.

⁹ Applied Economic Strategies estimate based on the CBO average per person estimate in their *Preliminary Analysis of H.R. 3200, the America's Affordable Health Choices Act of 2009*, times the 22.0 million persons from the Census Bureau data.

¹⁰ Applied Economic Strategies (AES) estimates utilizing Census Bureau data, and per capita cost estimates developed utilizing data from Will Fox and John Pickering, Hospital & Physician Cost Shift, *Payment Level Comparison of Medicare, Medicaid, and Commercial Payers*, Milliman, December 2008; 2004 data for Medicaid in Fox and Pickering adjusted for medical cost inflation to 2008.