



The Waterfall Effect: Transformative Impacts of Medicaid Expansion on States

Frequently Asked Questions

This document can be used by behavioral health organizations if you field questions from the media, state officials, state associations, and consumers about the findings of *The Waterfall Effect* report and Medicaid expansion issues, in general.

Medicaid Expansion and State Budgets and Economies

Q. How will the New Medicaid expansion program benefit state budgets?

A. The Medicaid expansion is an exceptionally generous deal for the states. States will receive 100 percent federal funding for the expansion population for the first three years, to be gradually reduced to 90 percent thereafter.

States will see budget gains of over \$300 billion between 2014 and 2023 if all 50 states choose to opt in to the new Medicaid expansion in the Affordable Care Act (ACA).

Budget gains are primarily due to transfer of several Medicaid health insurance initiatives by the states – that have voluntarily expanded health coverage to lower-income uninsured people – to the federal government who will now incur significant costs for the expanded coverage through “enhanced” match rates

The federal government will also save money overall despite the Medicaid expansion due to reductions in financial liability dedicated to treating previously uninsured people.

Q. What are some of the key factors that result in significant budget gains to the states?

A. The Medicaid expansion will help free up state and local spending that now goes to uncompensated care. State and local governments help offset the cost of care that is provided to uninsured patients who cannot afford to pay – paying an estimated 30% of the cost of uncompensated care. The ACA will roughly halve state spending on uncompensated care, generating budget gains of \$70 to \$85 billion.

Q. Are there other factors that have not been well publicized?

A. The Medicaid expansion will increase state budgets as a result of the federal government picking up substantial costs associated with mental health services for lower-income, uninsured patients. This includes spending on state mental hospitals, hospital emergency rooms and community health clinics.

This spending has been growing over time, with state and local governments covering 42 percent of the cost of state mental health expenditures. Full Medicaid expansion is estimated to increase state budgets by nearly \$40 billion in funds that states would otherwise spend on mental health programs from 2014-2019.

Q. How will the Medicaid expansion help the economies of individual states?

A. The Medicaid expansion will have a deep and broad impact on the state economy.

New federal Medicaid dollars will travel through the state economy, improving employment, labor income, and capital income. New federal dollars will turn over multiple times in the state economy.

The Medicaid expansion will generate revenue. State and local revenues will increase when state residents pay income, sales, and other taxes generated by the federal funding for the Medicaid expansion.

Q. How will the expansion affect the use of tax dollars?

A. The Medicaid expansion will keep residents' federal taxes flowing into the State. Almost every state resident pays federal taxes, and federal dollars will fund the Medicaid Expansion. Taxpayers residing in states that do not implement the expansion will be paying out dollars to states that do expand.

Q. Are there other factors that make states financially attractive if they choose to opt in to the Medicaid expansion?

A. The Medicaid expansion will attract high-tech firms as the expansion will require expertise on building and managing large data-bases, paying claims and enrolling individuals.

The Medicaid expansion will attract managed care to the state. Medicaid managed care companies are experiencing some of the fastest growth among U.S. managed care firms. They are aggressively seeking to move into states that implement the Medicaid expansion, as states have been actively seeking to move more of their Medicaid populations into managed care.

Medicaid Expansion and Health Care Providers

Q. How does the Medicaid expansion affect hospitals?

A. The Medicaid expansion will help hospitals caring for a disproportionate share of low-income and uninsured people.

Many community and public hospitals have been receiving enhanced federal funding, called Medicare and Medicaid disproportionate share hospital (DSH) funding, to compensate them for some of the costs associated with treating large numbers of the uninsured. On the assumption that the number of uninsured people will fall dramatically beginning in 2014 when the individual mandate and Medicaid expansion take effect, the ACA decreases DSH payments.

In states that do not expand Medicaid, the need for uncompensated care may remain relatively stable but likely increase, while the amount of DSH funds that can be used to subsidize some of that care will fall substantially. This may result in severe financial hardship for hospitals, meaning that they will increase costs to paying patients or provide less uncompensated care to uninsured residents.

Q. Are there specific provisions that will help people with behavioral health conditions?

A. The Medicaid expansion will avoid discrimination against people with mental health disorders. When it enacted the expansion, Congress included a provision that requires newly eligible individuals to receive mental health and substance use services at parity with other benefits.

The Medicaid expansion will help individuals with mental illness. Approximately one in six currently uninsured adults with income below 138 percent of poverty has a severe mental illness. Many others have less serious mental health conditions.

The Medicaid expansion will help homeless individuals. Half of the newly eligible individuals have incomes at 50 percent or less of the poverty line. Many of these very-low income people are homeless, and approximately one in four have a serious mental illness. Medicaid expansion will mean more comprehensive care for these homeless individuals, allowing them to obtain chronic care management and preventive services.

Medicaid will allow the state to leverage numerous service options, such as health homes, to provide these new beneficiaries with care management services linked to supportive housing.

Q. Will the Medicaid expansion address the needs of the most vulnerable people?

A. The new expansion will ensure that 17 million people – the poorest of the poor – are not left out in the cold. Under the ACA, individuals with incomes below 100 percent of the federal poverty line will not be able to obtain premium tax support for insurance products available through the exchange. These individuals are likely to remain uninsured

if states do not expand Medicaid.

The Medicaid expansion will provide tailored coverage for lower-income people, including coverage that is particularly relevant to adults and couple, such as family planning services and supplies, and to individuals with chronic conditions, such as prescriptions and home health care.

Overall, 13.4 million uninsured people with behavioral health disorders will receive coverage under the new Medicaid expansion and health insurance exchanges between 2014 and 2019.

Q. Will the Medicaid expansion add costs to the states as more people who are eligible under the current Medicaid program become aware that they are eligible and enroll?

A. The Medicaid expansion and ACA will produce cost savings to states even as individuals who are currently eligible but not enrolled in Medicaid come forward to enroll.

Some states are concerned that the federal government will not really be paying the entire bill in the first three years because individuals who are already eligible for Medicaid will take advantage of the coverage “welcome mat” and “come out of the woodwork” to enroll. The states will receive their regular federal matching funding for these already-eligible individuals. The estimates of state costs already include the costs associated with these potential new enrollees who are currently eligible.

Equally important, the “welcome mat” effect will occur whether or not the state implements the expansion. Beginning in 2014, the opportunity for uninsured people to purchase health insurance with federal subsidies will drive adults to insurance exchanges to obtain the health insurance, and upon arrival, their eligibility for Medicaid will automatically be determined – whether or not the state has expanded Medicaid.

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