



February 22, 2013

## Medicaid Expansion Would Save Missouri Money

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Beginning next year, Missouri has the opportunity to reduce its uninsured by one-fourth and provide health care coverage to an estimated 267,000 Missourians<sup>1</sup> while actually increasing state general revenue available to fund a variety of other services.

A recent analysis by the Missouri Office of Administration's Division of Budget & Planning of expanding Medicaid eligibility to 138 percent as called for in federal law indicates that **expansion would provide \$46 million in cost savings and new tax revenue for Missouri's general revenue fund in fiscal year 2014, increasing to \$125 million in the following year.**<sup>2</sup>

Expanding Medicaid accomplishes these savings due to three main factors:

- 1.) Missourians who are currently eligible for Medicaid through specific Medicaid categories would transition to the new Medicaid eligibility category, reducing state costs;
- 2.) Some state-financed services for uninsured Missourians will decrease as those individuals become eligible for services provided through the Medicaid expansion; and
- 3.) Jobs produced by increased federal health care spending in the state would result in new tax revenues.<sup>3</sup>

### Financing of the Medicaid Expansion

Missouri currently restricts eligibility for Medicaid to low income children, pregnant women, people with disabilities who are unable to work, seniors, and very low-income parents. Eligibility is limited for low income parents to those earning less than 19 percent of the federal poverty level, or approximately \$292 per month for a family of three. Eligibility for Missourians with disabilities ends at 85 percent of the poverty level.<sup>4</sup> Existing Medicaid programs are financed through a combination of state and federal dollars. Approximately 40 percent of the total cost is funded through the state budget and 60 percent by federal funds.

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<sup>1</sup> Missouri Budget Project, Washington University and Saint Louis University School of Law, "The Missouri Medicaid Expansion: Good for All Missourians; Most Critical Impact in Rural Missouri, Reducing Uninsured by Up to 31 Percent," January 2013

<sup>2</sup> Missouri Office of Administration, Division of Budget & Planning, "Medicaid Restructuring Budget background," February 2013

<sup>3</sup> Manatt Health Solutions, Center for Health Care Strategies (CHCS), and State Health Access Data Assistance Center (SHADAC), "Medicaid Expansion: Framing and Planning a Financial Impact Analysis," September 2012

<sup>4</sup> Missouri Medicaid also has special coverage for low income women with breast or cervical cancer, or people in need of family planning services. Kaiser Commission on Medicaid and the Uninsured, "Medicaid: A Primer 3," June 2010

The Medicaid expansion would extend eligibility to 138 percent of the federal poverty level for working parents, working adults without children, and Missourians with disabilities.<sup>5</sup> The expansion is fully federally funded for the first three years of implementation and requires only a 10 percent state match when fully phased in. As a result, when fully implemented, the new eligibility category would be funded by a 90-10 percent match rate, or 90 percent from the federal budget and 10 percent from the state.

Medicaid expansion becomes available to states in January 2014. Because Missouri’s state fiscal year begins July 1, expansion would take effect several months into fiscal year 2014, and the first full year of implementation would be state fiscal year 2015. As a result, in its analysis, **the Office of Administration estimates that Missouri will receive \$900 million in federal funding in FY 2014 to support the expanded eligibility requirements and \$1.8 billion in FY 2015.**

Because Missouri’s financial commitment is phased in over time, the extent of the cost for the newly expanded Medicaid is more appropriately viewed in 2021, when fully phased in. In that year, the expanded Medicaid eligibility is projected to cost Missouri \$143 million. However, even at this point, the Office of Administration analysis projects that Missouri revenue will continue to benefit from the expansion, receiving a net \$4 million in fiscal year 2021. That analysis is similar to those found in other states, which demonstrate a net cost benefit to the states’ budgets. A summary of the cost compared to savings is detailed in the table below.

**Table 1: Missouri Medicaid Expansion Cost Savings**

*Dollars in Millions*

	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2021</b>
<b>Cost for Newly Eligible Medicaid Participants</b>			
State General Revenue Cost	0.00	0.00	-143.26
<b>Savings for Existing General Revenue Programs</b>			
Pregnant Women	14.00	42.26	52.26
Ticket to Work	0.52	1.36	1.52
Breast/Cervical Cancer	1.36	4.92	8.17
Spenddown	16.23	33.14	31.30
Women's Health	0.52	1.07	1.37
Blind Pension	0.63	1.28	1.48
Corrections	1.56	3.12	3.12
Mental Health Care	11.30	22.60	22.60
<b>TOTAL Savings</b>	<b>46.12</b>	<b>109.74</b>	<b>121.81</b>
<b>TOTAL Savings from State General Revenue</b>	<b>31.05</b>	<b>71.36</b>	<b>77.98</b>
<b>Increased Tax Revenue</b>	<b>15.53</b>	<b>53.56</b>	<b>69.57</b>
<b>Net Impact on General Revenue</b>	<b>46.57</b>	<b>124.91</b>	<b>4.28</b>

<sup>5</sup> The expansion applies to people with disabilities who are not also eligible for Medicare.

## Medicaid Expansion Reduces Existing General Revenue Costs

Expanding Medicaid would reduce Missouri’s general revenue costs for existing programs in two main ways:

- 1.) Many Missourians will transition from existing Medicaid programs to the newly expanded Medicaid eligibility category where the federal budget takes on a larger portion of financing responsibility (the 90-10 match rate as compared to the 60-40 rate); and
- 2.) Missouri will be able to reduce costs associated with other currently existing state-funded services for the uninsured as individuals receive health services through Medicaid coverage.

For example, Missouri currently provides medical assistance for pregnant women who have incomes up to 185 percent of the federal poverty level. Between FY 2014 and FY 2021, a projected 20,892 pregnant women who would have been eligible for medical care under the medical assistance for pregnant women program will instead be eligible for the newly expanded Medicaid eligibility, receiving the much higher federal match rate. Similarly, Missouri currently provides “Medicaid Spenddown,” which allows people with disabilities to qualify for Medicaid if they demonstrate that they have “spent down” a portion of their income in health care costs so that their remaining income falls below 85 percent of the poverty level. Instead of accessing Medicaid through the Spenddown program, a projected 3,118 individuals will be eligible for the new Medicaid expansion at the much higher federal matching rate.

In addition, savings are expected in a variety of additional state-financed programs for the uninsured as Missourians become eligible for Medicaid. These services include mental health care for the uninsured and in-patient hospital care for prisoners in the state corrections system. The savings are summarized in the table below, which indicates the number of people who would move into the new Medicaid eligibility from specific existing programs and the reduction in state cost as a result of that transition.

**Table 2: Savings in Existing Services**

*FY 2014 - FY 2021, dollars in millions*

	<b>Number of People</b>	<b>Savings in 2021</b>
<b>Savings Due to Transition to New Eligibility</b>		
Pregnant Women	20,892	52.26
Ticket to Work	225	1.52
Breast/Cervical Cancer	1,093	8.17
Spenddown	3,118	31.30
Women's Health	63,107	1.37
<b>Savings in State-Financed Programs due to New Eligibility</b>		
Blind Pension	121	1.48
Corrections - Inpatient Hospital Care Number of Days covered per month	150	3.12
Mental Health Care	33,829	22.60
<b>TOTAL Savings</b>		<b>\$ 121.81</b>
<b>TOTAL Savings from State General Revenue</b>		<b>\$ 77.98</b>

## **The Medicaid Expansion Increases Jobs and Related State Tax Revenue**

In addition to cost savings, the Medicaid expansion will substantially increase federal funding in Missouri available for health care services. That funding will flow directly to health service providers, including hospitals, doctors and nurses, pharmacies, and others in order to provide treatment to the eligible individuals. As a result, the funding will directly provide for jobs within the healthcare industry. **Based on the direct impact of these jobs, the Office of Administration estimates that Missouri will receive an additional \$15.5 million in sales and income tax revenue in fiscal year 2014, increasing to \$69.57 million by fiscal year 2021.**

The Office of Administration estimate does not include any indirect impact of the funding on additional job growth and tax revenue. However, a recent University of Missouri analysis estimates that the increase in federal funding would generate an additional 24,000 jobs throughout Missouri through its direct, indirect and induced impact. The University analysis projects further that that impact will **generate an additional \$856 million in state and local taxes from 2014 through 2020.**<sup>6</sup>

Overall, the combination of cost savings and increased tax revenues would benefit all services in Missouri by freeing up revenue to meet other needs in the state budget, such as education, higher education, and public safety.

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<sup>6</sup> University of Missouri School of Medicine and Dobson DaVanzo & Associates, LLC , The Economic Impacts of Medicaid Expansion in Missouri,” November 2012