



Medicaid Expansion Saves State General Revenue in FY 2022

Savings & Revenue Growth Increase Over Time

States that were early adopters of Medicaid expansion have demonstrated the state budget savings and increased revenue that can result from expanding Medicaid eligibility. While Governor Parson’s budget proposal for Fiscal Year 2022 accounts for some of these savings, other opportunities for savings and revenue were not included. This paper illustrates how the cost of expansion in Missouri is offset by: 1) savings to existing health programs, and 2) the increased state tax revenue that will result from the influx of federal funds to Missouri.

Under Medicaid expansion, the federal government will pay 90 percent of the cost for a variety of health services that are currently funded either entirely with state general revenue tax dollars, or with a larger portion of state general revenue than expansion will require. Some of these savings will occur in the first year of expansion, and some will accrue over time, as Missourians who apply for coverage are enrolled as adults in the expansion category rather than in existing categories of coverage. For example:

- Some mental health services for uninsured Missourians are currently provided using only state funds. Under expansion, Missouri will see a 90% federal match for these services.
- Some Missourians living with disabilities will enroll in the new expansion category based on income, rather than going through the arduous and lengthy process of applying for a disability determination. Their care will receive a 90% federal match rather than the traditional 65%.
- Similarly, people who would now access Medicaid coverage through “spend-down” provisions will be able to enroll in the expansion category. The higher income eligibility limit will negate the need for “spend-down,” and their care will be

matched at the 90% federal match rate instead of the traditional 65%.

Immediate Reductions in State General Revenue Costs

Governor Parson’s budget proposal for Fiscal Year 2022 accounts for some of the savings that will be achieved immediately, particularly in mental health (see table).ⁱ The Governor reinvests those savings in priorities such as expansion of Crisis Stabilization Centers, which will expand access to urgent mental health care.

However, the Governor’s budget proposal does *not* include certain key areas of savings, some of

Expansion Savings in Governor’s Budget for FY 2022

	Budget Bill Section Number	General Revenue Savings
DSS – Pharmacy	11.700	(\$2,207,611)
DSS- Physician Related	11.715	(\$875,398)
DSS- Managed Care	11.760	(\$1,630,023)
DSS – Hospital	11.765	(\$2,914,172)
DMH-ADA Treatment	10.110	(\$10,174,293)
DMH- Adult Community Programs	10.210	(\$8,986,282)
TOTAL		(\$26,787,779)

which are specific to the current public health emergency (PHE).

In response to the pandemic, Congress approved a temporary increase in the federal Medicaid match rate. That increase applies to Missouri’s existing Medicaid program and will continue until the end of the PHE.ⁱⁱ The enhanced federal support comes with a “maintenance of effort” provision, which means that the state cannot cut Medicaid eligibility or services, and is prohibited from terminating Medicaid coverage for individuals during the PHE.

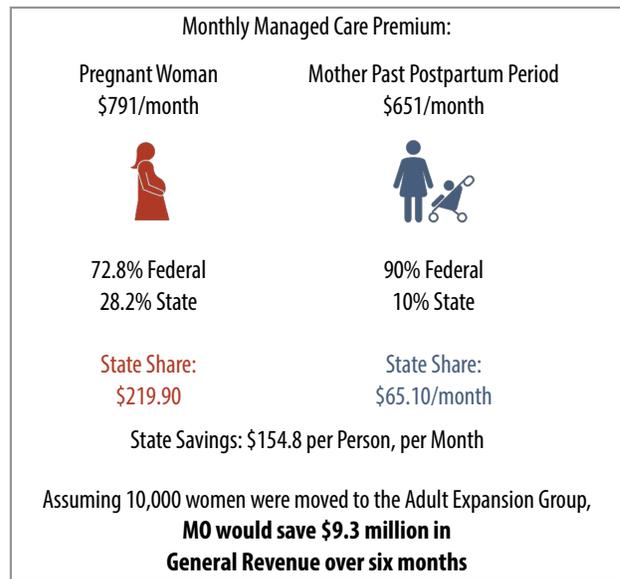
As a result, a significant number of mothers remain covered by Medicaid for Pregnant Women – even though they have already had their babies and completed postpartum coverage.

- In a normal year, Missouri covers about 23,000 moms per month under Medicaid for Pregnant Women. As of January 2021, 47,000 moms were covered under this category.ⁱⁱⁱ
- While some of this increase in enrollment may be a result of the economic crisis, the magnitude of the increase indicates it is at least partially related to the prohibition on removing coverage.

While not all the mothers that have exceeded their postpartum period will be eligible under the new expansion category, several thousand likely will be. When expansion is implemented on July 1st, these women can be moved immediately from the Medicaid for Pregnant Women category to the adult expansion group. They will then be covered under the higher 90% federal matching rate for Medicaid - reducing state general revenue costs.

If even 10,000 women were transferred to coverage through Medicaid expansion in July, Missouri would save almost \$9.3 million in General Revenue over the first six months of the next budget year.^{iv}

Missouri Can Achieve Immediate Savings After July 1st



In addition, Missouri currently provides health care coverage using state-only dollars for inmates in state-operated corrections facilities. Medicaid expansion will allow the state to provide a portion of that health care using federal funds. New data provided by the Department of Social Services indicates that this will reduce general revenue costs by \$3.17 million. These savings do not appear to be incorporated into the budget.^v

Although the Governor’s budget accounted for some cost savings, those numbers understate the actual state general revenue savings that Missouri is likely to experience immediately upon the implementation of expansion.

Growing Savings Over Time Due to Changes in How Individuals Apply

In addition to immediate savings, Medicaid expansion results in even larger state general revenue savings over time as a result of changes in how Missourians seek coverage. Individuals who enroll in Medicaid after expansion will be more likely to apply based on income, than to seek coverage based on a disability. As the Kaiser

Family Foundation noted, many people with disabling health conditions will gain coverage through expansion eligibility instead of seeking a disability determination in order to gain coverage:

“The median share of nonelderly Medicaid adults with a disability but not SSI is higher in expansion states compared to non-expansion states (68% vs. 53%). The availability of the ACA Medicaid expansion pathway contributes to this difference. Studies assessing the impact of the Medicaid expansion have identified coverage gains for people with disabilities as well as those with specific medical conditions or needs such as prescription drug users, people with substance use disorders including opioid use disorders, people with HIV, low-income adults who screened positive for depression, adults with diabetes, cancer patients/survivors, and adults with a history of cardiovascular disease or two or more cardiovascular risk factors.”^{vi}

This shift in enrollment patterns will result in increased state general revenue cost savings over time, as more people enroll through Medicaid expansion (with a 90% federal match rate) rather than the disability category of coverage (with a 65% federal match).

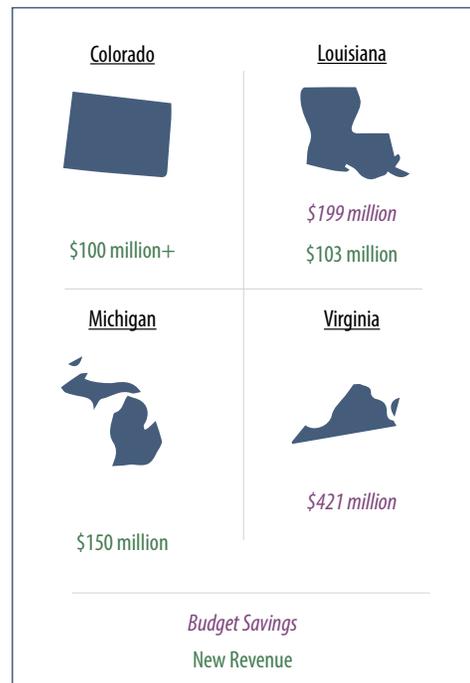
Missouri Will Realize State Savings & New Revenue Similar to Those Shown in Other States

States that have already expanded Medicaid eligibility have repeatedly demonstrated these types of savings.^{vii,viii}

- The Georgetown Center for Children and Families compiled studies in five states (Michigan, Montana, Virginia, Louisiana & Colorado) and showed that federal dollars, cost savings, and new revenues covered all the costs associated with expansion.^{ix}

- Virginia alone reduced state costs by \$421 million - funding that was then allocated to other budget priorities like education.”^x
- Similarly, a Louisiana annual report showed that expansion saved the state \$199 million in FY 2017 due to multiple factors, including the higher federal match rate for Medicaid populations that were previously funded at the regular state match rate.^{xi}

Other States Have Demonstrated Cost Savings & New Revenue Through Medicaid Expansion



In addition to savings, the influx of new federal funding to Missouri for Medicaid will support jobs in the health and mental health care fields and ancillary industries. Those jobs will result in increased state sales and income tax revenue as people spend their incomes in the local economy. Similar increases have been documented in states that have already expanded.

- A study by the Louisiana Department of Health found that in Fiscal Year 2017 Medicaid expansion provided an additional \$103.2 million in state tax receipts (which exceeded the state dollars budgeted for the

Medicaid expansion program by close to \$50 million) and local governments derived an additional \$74.6 million in local tax receipts.^{xii}

- A Colorado analysis found that increased income, sales, and use taxes resulting from expansion totaled more than \$100 million in fiscal year 2016 and would exceed \$150 million by fiscal year 2025.^{xiii}

Based on analysis done by REMI, which models the economic impact of proposals, federal funding to support expansion will increase personal income in Missouri by \$545 million in the first year.^{xiv}

The increase in taxable income in Missouri will generate an additional \$27 million in income tax revenue and \$5.8 million in state sales tax in the first year. Tax revenue will grow even further over time as federal dollars related to expansion generate economic activity - thereby increasing personal income in Missouri.^{xv}

Increase in Hospital Provider Tax FRA and DSH Payments

Missouri uses provider taxes to fund a significant portion of the state Medicaid match. State law and regulation require each hospital to pay a provider tax, which is levied as a percentage of its net revenues, roughly 5.5%. The provider tax is put forward as a General Revenue equivalent towards state Medicaid expenditures and leverages federal matching funds, in the same way that state general revenue leverages the federal match.

The Governor's budget request estimates that expansion will increase the FRA by \$129.8 million in the first year. This funding can be used to offset state general revenue costs for expansion.

Medicaid expansion is also expected to reduce the need for "DSH" payments. Federal law requires states to make "disproportionate share payments," known as DSH, to hospitals that serve a large percentage of uninsured patients. As more patients become covered under Medicaid expansion, the DSH payments will be able to decrease. That funding could then be redirected to offset state general revenue costs in Medicaid. The budget does not appear to adjust for DSH savings.

Conclusion

Other states have repeatedly shown the budget benefits of Medicaid expansion. Many of these benefits can accrue to Missouri immediately after expansion is implemented (such as the shifting coverage of mothers past their postpartum period to the adult expansion group). Other savings and increased state revenue will begin in the coming budget year and grow over time. Combined, the implementation of Medicaid expansion will enhance Missouri's general revenue budget by creating savings and generating new revenue that can be used to support other budget priorities.

Notes

- i. [Missouri Executive Budget, Fiscal Year 2022](#)
- ii. The Missouri Department of Social Services estimated that the enhanced federal match for Medicaid due to the public health emergency will result in \$752.8 million in additional federal funds for Missouri in FY 2021 (email communication with Jennifer Tidball, Acting Director, Missouri Department of Social Services on 2/8/2021).
- iii. Data from the Missouri Department of Social Services Caseload Counter, downloaded on 2/20/2021
- iv. Data provided by the Missouri Department of Social Services to the Missouri Legislature, House Budget Committee on 2/17/2021
- v. Data provided by the Missouri Department of Social Services to the Missouri Legislature, House Budget Committee on 2/17/2021
- vi. Kaiser Family Foundation, “People with Disabilities Are At Risk of Losing Medicaid Coverage Without the ACA Expansion,” November 2, 2020, downloaded on 2/21/2021 at <https://www.kff.org/medicaid/issue-brief/people-with-disabilities-are-at-risk-of-losing-medicaid-coverage-without-the-aca-expansion/>
- vii. Deborah Bachrach, Patricia Boozang, Avi Herring, and Dori Glanz Reyneri, [“States Expanding Medicaid See Significant Budget Savings and Revenue Gains.”](#) (Manatt Health Solutions, prepared by the Robert Wood Johnson Foundation’s State Health Reform Assistance Network, March 2016)
- viii. Benjamin Sommers and Jonathan Gruber, “Federal Funding Insulated State Budgets From Increased Spending Related To Medicaid Expansion,” Health Affairs, (May 2017) <https://www.healthaffairs.org/doi/10.1377/hlthaff.2016.1666>
- ix. Adam Searing, “Actual State Budget Impacts in Five States that Expanded Medicaid,” (Georgetown University Health Policy Institute, Center for Children and Families, November 2, 2018) at <https://ccf.georgetown.edu/2018/11/02/actual-state-budget-impacts-in-five-states-that-expanded-medicaid/>
- x. Ibid
- xi. Louisiana Department of Health, Medicaid Expansion 2016/17 (Baton Rouge, Louisiana Department of Health, June 2017), http://dhh.louisiana.gov/assets/HealthyLa/Resources/MdcdExpnAnnRprt_2017_WEB.pdf
- xii. James Richardson, Jared Llorens, and Roy Heidelberg, Medicaid Expansion and the Louisiana Economy (Louisiana Department of Health, March 2018), <http://gov.louisiana.gov/assets/MedicaidExpansion/MedicaidExpansionStudy.pdf>
- xiii. The Colorado Health Foundation, “Assessing the Economic and Budgetary Impact of Medicaid Expansion in Colorado”, (The Colorado Health Foundation, March 2016), <http://www.coloradohealth.org/studies.aspx>
- xiv. REMI, “The Economic Impacts of Increased Federal Funding in Missouri Associated with and Expansion of its MO HealthNet Program”, downloaded on 2/25/21 at <https://mffh.org/wp-content/uploads/2020/06/MFH-MOHN-Expansion-Federal-Funding-Impact-Report-web2.pdf>
- xv. Missouri Budget Project estimate of tax revenue based on REMI economic projection