Prevention Alliance

## *POLICY BRIEF: THE AFFORDABLE CARE ACT AND MEDICAID EXPANSION*

*Revised December 12, 2016*

**GOAL:** To provide an understanding of the potential impacts if Medicaid expansion under the Patient Protection and Affordable Care Act is repealed, defunded or amended at the federal level.

**BACKGROUND**

Before the Patient Protection and Affordable Care Act (ACA) there were essentially no Medicaid coverage options for low-income individuals except for children, some parents, pregnant women, and individuals with disabilities. Adults who did not have children, no matter how poor, were ineligible for Medicaid coverage. This left some of the most vulnerable members of society without access to preventive care or medical treatment, which often resulted in more emergency room visits with serious medical conditions and an increased likelihood for poor health outcomes. Hospitals and providers also had to absorb the cost of uncompensated care. The ACA sought to change this trend by extending Medicaid coverage to nearly all non-elderly individuals with incomes at or below 138% of the federal poverty level ($16,394 for an individual; $33,534 for a family of four).

Under the ACA all states were required to expand their Medicaid program. However, the U.S. Supreme Court ruled in 2012 that the federal government could not force states to expand Medicaid. This ruling effectively made Medicaid expansion optional for states. Despite not being required, many states still leapt at the opportunity to cover their lowest-income residents. As of November 2016, thirty-one states and the District of Columbia have moved forward with expansion. Of these expansion states, sixteen were led by Republican Governors. The cost of expanding Medicaid is largely covered by the federal government. The ACA established that federal funding would pay for 100% of Medicaid expansion through 2016, and then it would gradually decline to a 90% federal share in 2020 and beyond with states covering the balance. Between January 2014 and June 2015 alone, the federal government spent $4.751 billion on the Medicaid expansion population in Washington.[1] If that number is walked out to a two-year estimate, the cost of Medicaid expansion in Washington is over $6.3 billion per biennium.

While the cost of funding Medicaid expansion is significant, in Washington it was a major contributing factor to the uninsured rate dropping from 16% in 2012 down to 7% in 2015.[2]

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[1] Kaiser Family Foundation, What Coverage and Financing is at Risk Under a Repeal of the ACA Medicaid Expansion?, December 6, 2016, http://kff.org/report-section/what-coverage-and-financing-is-at-risk-under-a-repeal-of-the-aca-medicaid-expansion-appendix/

[2] Kaiser Family Foundation State, Health Insurance Coverage of the Total Population in WA, http://kff.org/other/state-indicator/total-population/?currentTimeframe=0&selectedRows=%7B%22nested%22:%7B%22washington%22:%7B%7D%7D%7D

Nationwide we have seen that states who opted into Medicaid expansion have seen a 9.2% reduction in their uninsured rate between 2013 and 2016, whereas non-expansion states saw a 6% reduction.[3]

Washington also made the decision to implement an integrated system that offers one door for access to both public and private insurance. This is done through the health benefit exchange, Washington Healthplanfinder. Not all states who implemented Medicaid expansion chose to do an integrated system, but it has proved very successful in Washington including reducing confusion and administrative burden for people who churn between private insurance and Medicaid eligibility as their income fluctuates.

In addition to Medicaid expansion, the ACA also created a robust private insurance market and made great progress in improving the quality of insurance. Given the depth and complexity of the ACA, this brief will focus exclusively on Medicaid expansion and the potential impact if Congress moves forward with repealing, defunding, or amending the existing Medicaid expansion program. *Please see the Prevention Alliance brief, 'The Affordable Care Act and the Private Individual Insurance Market' (2016) for more information on the impact of potential repeal or amendment of ACA components relating to private insurance.*

**VALUES STATEMENT**

The current Medicaid expansion population in Washington is over 600,000 people.[4] These individuals and families essentially had no ability to get health insurance prior to expansion. Gaining coverage has allowed them to access preventive services and medical treatment, some for the first time. In addition to the improved health outcomes of patients having coverage, having more people covered has resulted in uncompensated care costs in Washington decreasing from $2.35 billion in 2013 to $1.2 billion in 2014.[5]

It is vital that we continue to ensure all Washingtonians have access to quality, affordable health coverage. Health advocates, insurance carriers, agencies, providers, and patients in Washington will all need to work together to either adapt if Congress passes an alternative approach or find state-level solutions to keep people covered if no replacement option comes to fruition.

**PROBLEM STATEMENT**

President-elect Trump and several Republicans in Congress have suggested putting in place limits on the federal government's spending on Medicaid. While it is not definitively known what a replacement approach would be if current Medicaid expansion were to be repealed or amended, the options most frequently discussed by Republicans are block grants and per capita cap financing. Many health care advocates have concerns with such approaches because they

[3] Key Medicaid Questions Post-Election – November 2016, Kaiser Commission on Medicaid and the Uninsured, http://files.kff.org/attachment/Fact-Sheet-Key-Medicaid-Questions-Post-Election

[4] Washington Healthplanfinder, Federal Transition Discussion Presentation, December 1, 2016, http://www.wahbexchange.org/wp-content/uploads/2016/08/HBE_EB_161201_Federal_Transition_Discussion.pdf

[5] Ibid.

set a formula of fixed funding without factoring in the actual costs of providing care. The current Medicaid program is structured so that the federal matching payments are based on actual expenditures. Under the proposed alternatives, states would be given flexibility in how they set up their Medicaid program, but because actual cost of care is not accounted for, states will likely have to fund gaps in costs or set limits on who is eligible and what is covered. While state flexibility in designing programs can provide some opportunity for innovation and creativity, but it also opens the door for limiting coverage, changing eligibility, and charging premiums.

***Block Grants***

Block Grants to states is one of the most commonly discussed alternatives to the existing Medicaid program. Under this approach, states would receive a set amount of funds for their Medicaid program. The amount would likely be determined by a base year level and would include a pre-determined growth rate. The block grant does not reflect changes in enrollment. States would have flexibility in how they set up their program's eligibility and overage, but federal funds would be limited to the set amount. Entitlement to coverage under current Medicaid would be eliminated along with the federal matching payment. Among other concerns, the block grant approach does not account for changing program needs that come with recessions, epidemics, or disasters.

***Per Capita Cap Financing***

Another approach to reforming federal funding for Medicaid that has been discussed is per capita cap financing. While block grants provide a set amount of federal funding, per capita cap financing provides federal funding in the form of a fixed amount per enrollee with a federally-determined annual growth rate. Under this approach, payments to states would reflect changes in enrollment. However, it still does not account for the actual costs per enrollee. Like block grants, states would have flexibility in how they structure their Medicaid program. Such flexibility has some benefits for states, but at the same time raises similar concerns to those mentioned above.

**PREVENTION STRATEGIES**

Specific prevention strategies are largely still to be determined. The initial strategy is to oppose congressional efforts to repeal or defund Medicaid expansion under the Affordable Care Act. Rather than a full elimination of Medicaid expansion, we are likely to see defunding of the current system (possibly through the budget reconciliation process) followed by proposals for replacement options such as block grants or per capital cap financing. Health and prevention advocates will need to monitor such replacement efforts and work with state and federal officials to ensure people do not lose coverage and that the quality of coverage is maintained.

The timing of potential changes to Medicaid expansion is difficult to determine. Several members of Congress have said they will act swiftly in 2017 to repeal the ACA, so engaging in federal level discussions is an immediate need. If current Medicaid expansion is defunded, there will likely be a delay in when the changes goes into effect in order to allow time to implement an alternate approach.

Because there is so much uncertainty in the timing, stakeholders will need to be prepared to act quickly, communicate the impact of repealing Medicaid expansion on the people currently covered, and start exploring solutions in anticipation of federal action. While the alternate approaches to Medicaid that have been proposed raise many concerns and potential issues, the question must be asked whether a less ideal version of Medicaid is better than no coverage at all for these lowest-income and most vulnerable members of society.

**RESOURCES**

Key Medicaid Questions Post-Election (2016) – The Kaiser Commission on Medicaid and the Uninsured
The Uninsured: A Primer – Key Facts about Health Insurance and the Uninsured in the Wake of National Health Reform (2016) – Kaiser Family Foundation
Implications of a Federal Block Grant for Medicaid (2011) – The Kaiser Commission on Medicaid and the Uninsured
Overview of Medicaid Per Capita Cap Proposals (2016) – The Kaiser Commission on Medicaid and the Uninsured
Block Grants and Per Capita Caps: The Problem of Funding Disparities Among States (2016) – The Urban Institute

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