

Difficult Choice: Expanding Adult Medicaid Coverage

The expansion of Medicaid coverage for low-income adults provides an opportunity to reinvest Arizonans' federal tax dollars here at home rather than in competing states

WITH THE FORMATION of the Arizona Health Care Cost Containment System (AHCCCS) in 1982, Arizona became the last state to establish a Medicaid program for low-income citizens. Using the best practices of the private health insurance sector, AHCCCS was based almost entirely on a managed care model. This approach has allowed the State to take advantage of competition among health plans to provide quality services at low cost, with the federal government paying the majority of the expense. Over the last 20 years, the federal match has varied between 64.98% and 67.45% of the cost of providing healthcare to AHCCCS enrollees.

Since shortly after its creation, AHCCCS has been lauded as the "gold standard" for state Medicaid programs. According to the Kaiser Family Foundation, a non-partisan research organization, AHCCCS per-member costs are less than 88% of the national average.

Over the last 30 years, AHCCCS coverage has been expanded a number of times and, as can be seen in the first chart on the next page, Arizona's current program includes coverage up to:

- 140% of the federal poverty level (FPL) for children younger than age 1;
- 133% of FPL for children ages 1 through 5;
- 100% of FPL for children ages 6 through 19;
- 100% of FPL for parents of these children;
- 150% of FPL for pregnant women;
- 100% of FPL for aged, blind and disabled people who are not enrolled in long-term care;
- 230% of FPL for aged, blind and disabled people who *are* enrolled in long-term care (not shown in the chart)
- 100% of FPL for "childless adults," i.e., people without children in the home¹; and
- 200% of FPL for the Children's Health Insurance Program (CHIP), known locally as "KidsCare"² (not included in the chart, as they are covered by SCHIP, a non-Medicaid program).

FPL for 2012 was \$11,170 in annual income for single people and \$23,050 for a family of four.

Childless Adults. In 2000, Arizona voters passed Proposition 204, expanding coverage to all Arizona citizens with incomes below 100% of FPL. The State subsequently received waiver approval from the federal government to provide Medicaid coverage for childless adults under 100% of FPL and, for the first time, received a federal match for doing so.

¹ New applicants have not been accepted (frozen) since July 2011.

² Eligibility has been frozen since January 2010.

HIGHLIGHTS

- The cost of restoring adult eligibility and expanding to 133% of FPL is \$154 million General Fund in the first full year of implementation.
- Arizona will receive almost \$1.6 billion in federal funds.
- This funding would allow the State to provide health insurance for an additional 240,000 Arizonans and continue insuring 50,000 childless adults.
- The General Fund costs of Prop. 204 will be shifted to a statewide provider assessment that replaces the City of Phoenix provider tax.
- If the federal match for Arizona's childless adult population is cut below 80%, the expansion of coverage for childless adults would be automatically repealed.

As childless adults have not historically been a federally mandated Medicaid population, the State's budget-balancing efforts during the recent recession included the freezing of eligibility. Any member who was eligible on July 8, 2011, and maintains eligibility may remain on the program, but no new enrollment is being approved. To date, enrollment has dropped by 141,000 people, from 227,000 to 86,000. It is expected that, by the beginning of calendar year 2014, only about 50,000 childless adults will remain enrolled.

The freeze, as well as federal waiver authority to cover the childless adults, is effective through December 31, 2013. Extension of the program beyond that date would require federal approval, and on January 1, 2014, Arizona could be required to cut from the program its approximately 50,000 remaining childless adults.

The Economy

From December 2007 to December 2009, during the most severe economic downturn since the Great Depression, the Arizona economy lost over 300,000 jobs — almost 12% of the state's pre-recession employment base.

In every preceding recession, Arizona has returned to pre-recession employment levels within two years; in contrast, five years after the beginning of the most recent recession, the state's economy has restored only about a third, or 100,000, of its lost jobs.

At the same time, other indicators of social stress, such as long-term unemployment, CPS caseloads and AHCCCS membership, remain above historical highs and in some cases have grown at alarmingly high rates.

It is the Executive's position that, in recognition of these harsh realities, the State must take advantage of all available opportunities to help Arizona's economy remain competitive.

Strains on Healthcare System

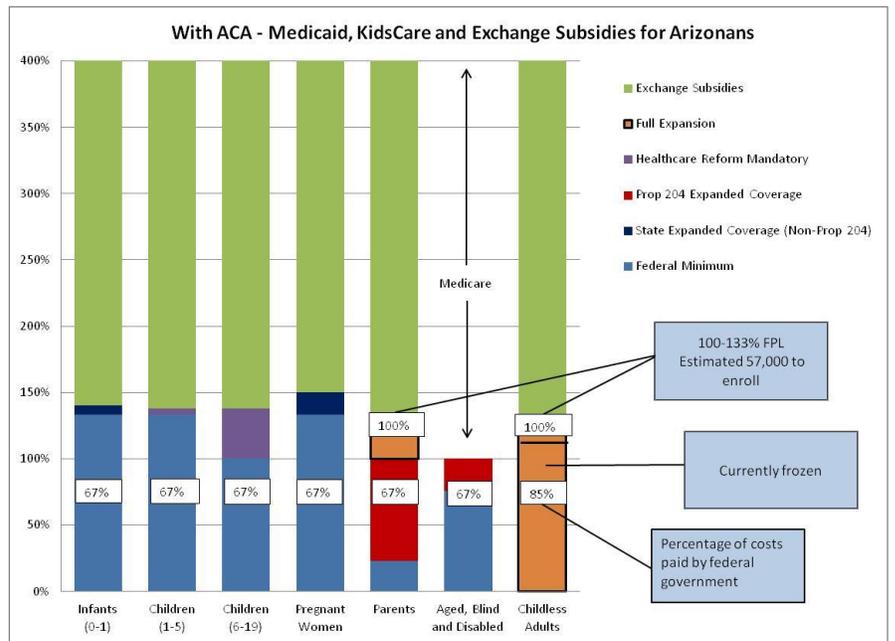
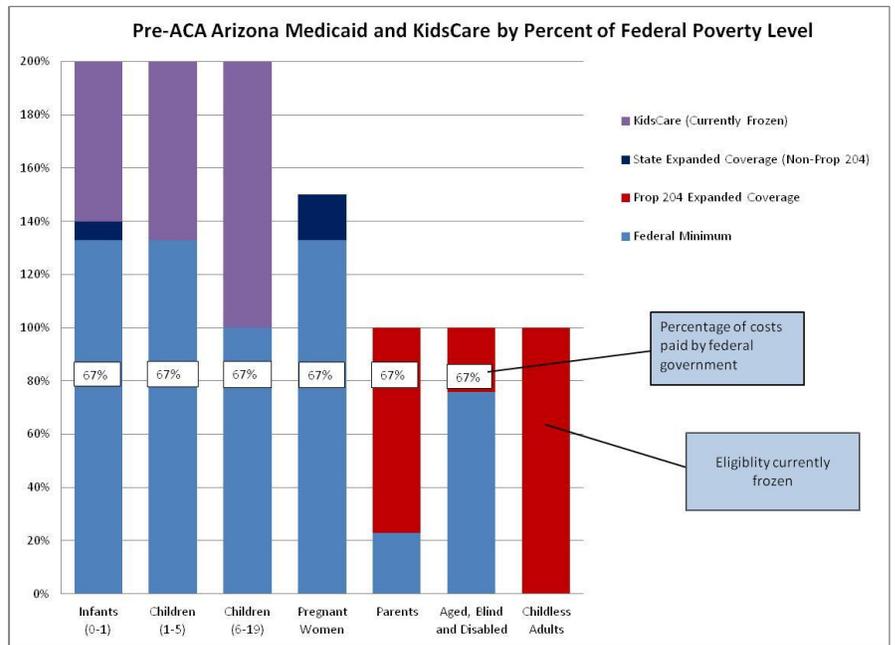
Arizona's healthcare system has suffered significant financial hardships since the economic downturn, including hardships stemming from actions taken by the State to address recession-related revenue shortfalls. From AHCCCS cuts alone — including population freezes and provider rate and benefit cuts — the Arizona healthcare system has endured over \$1.8 billion in reductions.

Arizona hospitals report that their average uncompensated care for the last six months of available data has grown by 81% compared with the two quarters prior to the childless adult freeze in July 2011.

State Efforts to Help Hospitals. To help hospitals bridge the financing gap until the implementation of the federal Patient Protection and Affordable Care Act (ACA) in FY 2014, the State has taken a number of actions, including the following:

- **SNCP.** The Safety Net Care Pool allows local governments to provide the state match to draw down federal matching funds to provide over \$250 million per year in special payments to safety-net hospitals to offset uncompensated care costs.
- **KidsCare II.** As a condition of federal approval of SNCP, the State opened KidsCare to an additional 21,700 children.
- **Graduate Medical Education.** To provide assistance to hospitals that incur extra costs for training medical residents, the State has allowed local governments to furnish a match for reimbursement payments to training hospitals, providing more than \$100 million annually in hospital payments.
- **Indian Health Service/638.** AHCCCS is authorized to provide supplemental payments to facilities that are 100% federally funded (IHS or tribal 638 facilities). To date over \$40 million has been paid to these facilities.
- **DSH Voluntary Contributions.** AHCCCS has allowed local governments to provide the state match for federal Disproportionate Share Hospital (DSH) supplemental payments for private hospitals totaling roughly \$40 million.
- **Federal Match for Trauma Center Funding.** AHCCCS has obtained a federal match for Gaming Trauma and Emergency Services funds, providing an additional \$13 million to offset the extraordinary costs of Arizona hospital trauma centers and emergency departments.

As helpful as these actions are, they primarily help urban hospitals. Also, most of these provisions will expire on December 31, 2013, and, in light of the financing provided in the ACA for Medicaid coverage, it is unlikely that the federal government will extend them.



Additional Efforts to Help Hospitals. The Phoenix City Council has adopted a 6% hospital assessment on net patient revenue that is intended to be used as a state match, under provisions of the Safety Net Care Pool, to draw down federal funds to make special payments back to Phoenix hospitals to offset uncompensated care costs. The assessment would be matched at about 2-to-1 with federal funds, and Phoenix estimates that the entire program would provide about \$400 million to these hospitals for five quarters until the tax expires on December 31, 2013.

Other cities have discussed similar proposals.

Affordable Care Act

ACA makes numerous changes to the healthcare system, with an overarching goal of expanding health insurance coverage.

A major ACA component is an expansion of the adult Medicaid eligibility to 133% of the FPL. If Arizona were to expand, the State would receive:

- a 100% federal match for expanding coverage for parents and childless adults, from 100% to 133% of FPL; and
- an 85% federal match (growing to 90%) for restoring eligibility for childless adults below 100% of FPL.

As noted above, Proposition 204 already requires coverage for childless adults below 100% of FPL, depending on available funds. The new expanded population (100% of FPL to 133%) is estimated to be only about 57,000 people, or approximately 5% of Arizona's total Medicaid population of 1.2 million people.

State Choice

After the ACA was signed into law, Arizona joined 25 other states in a lawsuit opposing the ACA as an unconstitutional usurping of states' rights. On June 28, 2012, the U.S. Supreme Court effectively upheld most of the ACA's provisions, finding as unconstitutional only the provision that pulled all federal Medicaid funding for states that refused to expand Medicaid coverage for adults to 133% of FPL.

Expansion of coverage for children is treated in statute separately from the adult expansion; thus, the children's expansion to 133% of FPL is not optional.

Because of the Supreme Court decision, states are faced with a choice of whether to expand adult Medicaid coverage to 133% of FPL, without facing the risk of losing their entire federal Medicaid match.

Funding and Population. As seen in the table at right, the Executive estimates that the cost of restoring adult eligibility, and expanding eligibility to 133% of FPL, is \$154 million General Fund in the first full year of implementation (FY 2015), while Arizona would receive almost \$1.6 billion in federal funds. In FY 2016, as the federal match improves, the Executive estimates that the General Fund cost would shrink to \$105 million, while the federal match would grow to \$1.7 billion.

This funding would allow the State to:

- provide health insurance for an additional 240,000 Arizonans, and
- continue insuring the remaining 50,000 childless adults, and receive an enhanced federal match for doing so.

Executive Recommendation

While the Governor has consistently opposed the ACA as it worked its way through the Congress and Supreme Court, the Supreme Court and the voters have spoken.

The Executive estimates that, for a state match of a little over \$154 million in FY 2015, the State can draw into its healthcare sector \$1.6 billion in federal funds — a return on investment of more than 10-to-1.

Given the continued struggles of many Arizonans, including hospitals, physicians and other healthcare providers, the Executive recommends accepting this opportunity.

However, the Executive is very mindful of the need to balance the General Fund budget and the importance of adequately funding education and public safety. The Executive proposes that,

Impact of Medicaid Expansion

	FY 2014	FY 2015	FY 2016
State Match Increase	\$27 million	\$154 million	\$105 million
General Fund Savings per Provider Tax	(\$82 million)	(\$256 million)	(\$224 million)
Add'l. Insurance Premium Tax	(\$7 million)	(\$34 million)	(\$36 million)
Net Cost (Savings)	(\$62 million)	(\$136 million)	(\$155 million)
Federal Funds Received	\$337 million	\$1.556 billion	\$1.712 billion
Newly Insured	101,900 persons	239,200 persons	247,300 persons

All figures are in comparison to a continuation of the childless adult freeze

starting January 1, 2014, the provider assessment adopted by the City of Phoenix be (a) redirected to the State and (b) expanded statewide in order to lift the burden of the Proposition 204 expansion from the General Fund, consistent with the stated intent of the ballot measure when it was presented to Arizona voters. As part of this proposal, on January 1, 2014 cities would no longer be permitted to levy their own provider taxes.

The provider assessment would not be an unprecedented step, as Arizona already charges a 2% insurance premium tax, which also applies to AHCCCS plans. Further, as recently as 2012, the State adopted a provider tax on nursing homes in order to draw federal funds for special payments to the homes.

Circuit Breaker. It is probable that, at some point, the federal government will choose to reduce reimbursements to the states as a consequence of its own fiscal challenges. The Executive proposes that, if the federal match for Arizona's childless adult population is cut below 80%, the expansion of coverage for childless adults would be automatically repealed.

Federal Deficit. While the Executive acknowledges the gravity of the enormous federal budget deficit, denying Medicaid coverage to 57,000 Arizona residents will not solve the problem. Instead, as a leader among the states in administering the nation's most efficient Medicaid program, Arizona can demonstrate real solutions for solving the deficit.

Because the federal government covers 100% of the cost of expansion, the practical effect for states that choose *not* to expand is the sending of their taxpayer dollars to the states that *do* choose to expand. If Arizona chooses not to expand, Arizona taxpayer money will benefit the healthcare systems of California, Illinois, Connecticut and many other states.

State Reforms. In addition to the Executive's proposal to expand the Medicaid program, AHCCCS has initiated a number of efforts to change the way in which providers and plans are paid and, thus, incentivized. The Executive is pursuing integration efforts for a number of populations to decrease fragmentation in the healthcare system and to improve both quality and efficiency. Further, AHCCCS is implementing payment reform efforts, including health plan and provider partnerships to enhance quality and performance.

Finally, the Executive is pursuing provider reimbursement models that improve the healthcare delivery system. The Executive recommends that AHCCCS be allowed to incorporate the best practices of the private sector and continue these efforts by shifting from a hospital reimbursement system which rewards longer

hospital stays to a per-diagnosis system that rewards quality and efficiency.

Health Exchange Impact on Medicaid. If Arizona chooses not to expand, childless adults below 100% of FPL will have no health insurance assistance, while people above 100% of FPL will receive significant Federal subsidies.

Under the ACA, people over 100% of FPL who do not receive health insurance through employer groups can apply for health insurance through a Federal Health Exchange. Federal assistance amounts vary by income levels:

% of FPL	Max Premium a Person Will Pay as a Percent of Income
100-133	2%
133-150	3%-4%
150-200	4%-6.3%
200-250	6.3%-8.05%
250-300	8.05%-9.5%

To take an extreme example, with the Exchange subsidies, a childless single adult earning \$11,200 per year would have to pay a maximum of \$224 per year, while someone in the same situation earning \$100 less, or \$11,100, would have to pay the full cost of their health insurance. If they could purchase health insurance at the AHCCCS rate, the cost to them would be \$4,950 per year, or 45% of their total income.

Legal Aliens. Because the ACA assumes that states would expand Medicaid coverage, the only provision for a subsidy below 100% of FPL is for aliens who are in the country legally but are ineligible for Medicaid because of their alien status. The ACA allows them to receive a federal health insurance subsidy as though they had an income of 100% of FPL. Thus, if Arizona does not expand, for poor Arizonans below 100% of FPL, only legal immigrants, but not citizens, would be eligible for subsidies.

Economic Competitiveness. The influx of federal dollars triggered by Arizona's expansion to 133% of FPL would have nearly the economic impact of an additional Luke Air Force Base, another Intel facility, or three Cactus Leagues. In competing with other states for jobs and business, it is important that Arizona offers a competitive, low-cost, efficient and effective healthcare delivery system.

Employers will be looking closely at the cost of healthcare as they make decisions about where to locate. States that adopt the Medicaid expansion will be at a competitive advantage, since the employers in that marketplace will not need to underwrite the cost of uncompensated care for this population.

People will get hurt and sick, and they will receive medical care. The question is whether (a) Arizona hospitals, doctors and other providers will be directly paid for providing that care or (b) businesses will encounter that cost in their health insurance bills.

Summary

Arizona faces the following situation:

- an economy in recovery from the worst recession since the Great Depression;
- hospitals suffering financially under the load of uncompensated care;
- current law that mandates Medicaid coverage to all adults, as funding is available, below 100% of FPL;
- an offer from the federal government:
 - to provide 240,000 more people with health insurance, allowing the State to comply with its own law;
 - to pay \$1.6 billion in additional federal funds for their health insurance;
 - for a state match of just over \$150 million;
- the use of Arizona tax dollars to fund Medicaid growth in other states, if Arizona does not expand; and
- the use of Arizona tax dollars by the participating states to enhance their economic competitiveness against Arizona.

Given the ongoing financial struggles of Arizona and its health sector, the Executive contends that the responsible choice is to accept this offer.

However, the Executive also proposes to offset the General Fund cost and moderate the State's risk by offloading the Prop. 204 General Fund cost onto a statewide provider assessment, and setting a circuit breaker that repeals the expansion in case the federal government lowers the enhanced federal match. •