Smart, Affordable and Fair

Why Texas Should Extend Medicaid Coverage to Low-Income Adults

A report by Billy Hamilton Consulting

analyzing state and local impacts of extending Medicaid under the Affordable Care Act
prepared for

Texas Impact and
Methodist Healthcare Ministries of South Texas, Inc.

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METHODIST HEALTHCARE MINISTRIES
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"Serving Humanity to Honor God"

TEXAS IMPACT
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Texas is at a crossroads. The 2013 Texas Legislature must decide whether or not to extend Medicaid health coverage to low-income adults. Under the Affordable Care Act (ACA), Texas could cover adults aged 18 to 64 whose incomes are below 138 percent of the federal poverty level (FPL)—$15,415 for a single adult and $31,809 for a family of four. The federal government would pay 90 percent of the cost of coverage for low-income adults over the next ten years.

Extending Medicaid coverage to low-income adults is **smart**.

Fewer than half of all low-income Texas adults have health insurance today. When they need care, they receive it through high-cost, inefficient delivery systems. Medicaid managed care would provide a more economical and sensible approach. Bringing low-income adults under Medicaid coverage would inject significant new funding into Texas' health care system and generate economic activity, resulting in new jobs and state revenue.

Extending Medicaid coverage to low-income adults is **affordable**.

Texas state programs, local governments and hospitals already spend enough on health care for low-income people to more than cover the state match necessary for the ten-year period. By the most conservative estimates, local governments and hospitals spend more than six times as much on low-income care as the annual state match would be for low-income adult Medicaid coverage. In addition, new health care spending would generate new state revenue that the state could use for match.

Extending Medicaid coverage to low-income adults is **fair**.

Even uninsured people get sick, and local governments and the private sector spend billions on health care services for them. In 2011, local unreimbursed health care costs, mostly met by hospital district taxes, totaled $2.5 billion, while in 2010 (most recent data), hospital charity costs reached $1.8 billion. Covering low-income adults under Medicaid would relieve pressure on taxpayers and hospital charity programs. It will also be fair to low-income Texans: under the ACA, people under 100 percent FPL are excluded from receiving subsidies to buy private insurance, so Medicaid coverage will be their only realistic option.

Passing up this opportunity would **not** be smart, affordable or fair.

Texans would receive no benefit from withholding Medicaid from low-income adults. It would have no impact whatsoever on our federal tax burden, and the state would lose the benefits in jobs and investment that increased federal spending would spread through the economy. Local taxpayers and hospitals would have to keep paying 100 percent of the cost for the uninsured, and low-income Texans would stay sicker and less productive than they should be.

Texas has an extraordinary opportunity to expand health care coverage that would benefit up to 2 million of its citizens. The federal government would pay about $100 billion toward this expansion over 10 years, with the state responsible for only about $15 billion under a moderate enrollment scenario.

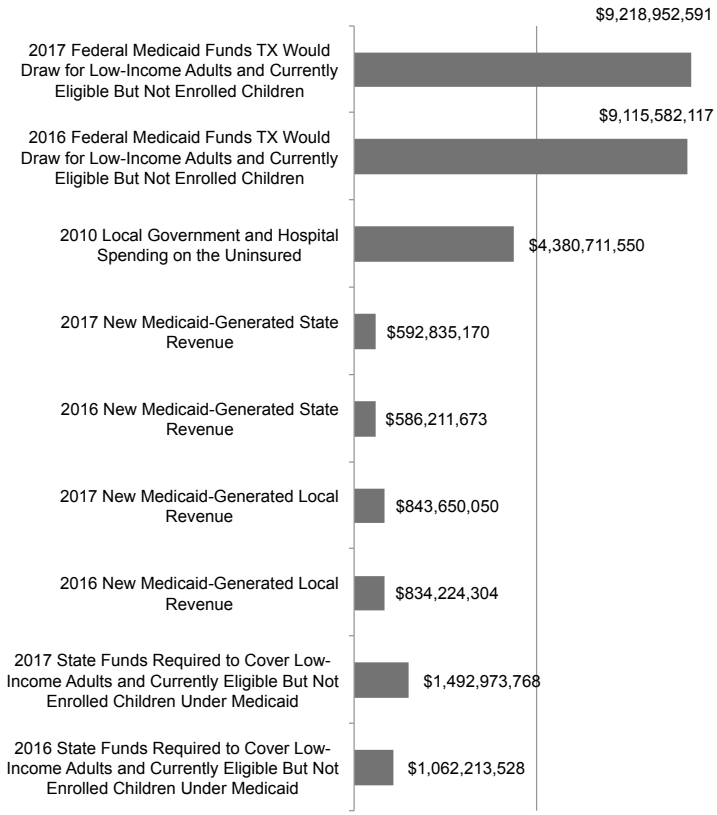
Extending Medicaid to low-income adults certainly would benefit the newly eligible. It also would benefit the wider economy and reduce demands on local indigent health programs and hospital charity care.

To estimate the potential fiscal impacts of Medicaid coverage for low-income adults, we used caseload and funding estimates for 2014 through 2017 from "Estimates of the Impact of the Affordable Care Act on Counties in Texas," an analysis conducted by Michael E. Cline, Ph.D. and Steve Murdock, Ph.D, for Methodist Healthcare Ministries of South Texas. Our estimates also rely on funding and other data from the Texas Health and Human Services Commission (HHSC). The estimates do not extend beyond 2014 through 2017 since HHSC limited its estimates to those years.

Our analysis compares these caseload and funding estimates to actual costs for low-income health care reported by local governments, hospital districts and hospitals throughout Texas. We also estimated potential state and local employment and revenue implications.

Our analysis shows that the amount of state match necessary to extend Medicaid to low-income adults under a moderate enrollment scenario in 2017 would equal about 16 percent of current local government and hospital spending on low-income health care. Under this same enrollment scenario, the $1.8 billion increase in state economically-responsive taxes from injecting new federal Medicaid funds into the Texas economy would offset nearly half of the state matching funds required from fiscal 2014 through fiscal 2017, including the match for currently eligible children who may also enroll.

Exhibit 1:
Federal, State and Local Funding Impacts of Extending Medicaid to Low-Income Adults in Texas 2016-2017



Note: All fiscal impacts included in this chart include the impact of increased enrollment of children who are currently eligible for Medicaid but are not currently enrolled.

Impact on Local and Hospital Spending

Texas ranks first among states in its share of uninsured residents, at 23.8 percent in 2011 — more than 6 million people — compared with a national average of 15.7 percent. Cline and Murdock estimate about 22 percent of the uninsured are adults who would be eligible for Medicaid under the new state option.

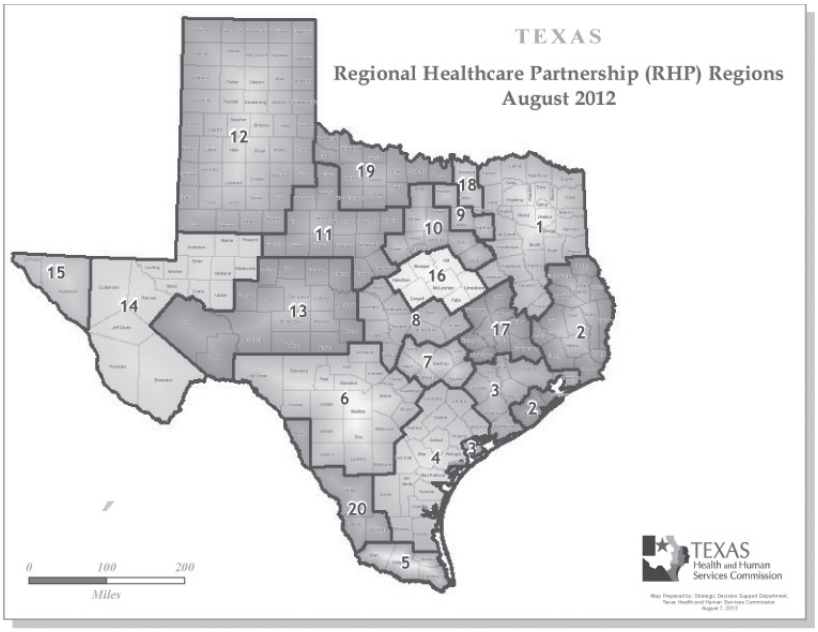
As a result of legislation in 2011, Texas is restructuring its healthcare delivery system around 20 new Regional Healthcare Partnerships (RHPs) designed to coordinate health care regionally. Together with Medicaid managed care, which is now mandatory across the state, the RHPs are expected to make health care delivery more efficient and effective.

Exhibit 2 compares each RHP's 2010 hospital charity costs, as well as 2011 unreimbursed health care costs to hospital districts and counties, to the federal funds the RHP would receive in 2016 for adults aged 18 through 64 below 138 percent FPL, assuming a moderate enrollment scenario. Although federal funds to cover low-income adults would not offset all of the regions' existing low-income health care costs, they would have a substantial impact.

Exhibit 2 shows that Texas would receive $7.6 billion in federal funds to expand Medicaid for adults in 2016. In 2016, the federal government would provide 100 percent of the funding for coverage; the state's match would be limited to 50 percent of administrative costs, or $293 million.

In 2017, Texas would again receive $7.6 billion in federal funds even though the federal match rate declines from 100 percent to 95 percent since caseloads also increase; the state match would increase to $694 million.

The state match, then, would equal just a small fraction of the amount local jurisdictions and hospitals are already spending on low-income care—about 6 percent in 2016, rising to 16 percent in 2017.



Economic Impacts

Extending coverage to low-income adults will have a substantial impact on the Texas economy and state and local tax revenues. Overall, under a moderate enrollment scenario, the $1.8 billion increase in state economically-responsive taxes from injecting new federal Medicaid funds in the Texas economy will offset nearly half of the $3.7 billion in state matching funds required to fund the ACA Medicaid expansion from fiscal 2014 through fiscal 2017. Under a moderate enrollment scenario, the injection of $27.5 billion in additional federal funds from the expansion will boost Texas economic output by $67.9 billion during fiscal 2014-17 as the direct and indirect impacts of this new spending re-circulate through the state's economy. As the expansion phases in, this economic impact increases from $6.7 billion in fiscal 2014 to $22.8 billion in fiscal 2017.

Exhibit 2: Regional Impact of Extending Medicaid to Low-Income Adults, 2016 and 2017

RHP Region	2011 County & City Unreimbursed Health Care Expenditures	2011 Hospital District Unreimbursed Healthcare Expenditures	2010 Total Hospital Charity Care Costs	2010 Local Unreimbursed Health Care & Hospital Charity Costs	2016 State Funds - Adult - (Moderate Enrollment Scenario)	2016 Federal Funds - Adult - (Moderate Enrollment Scenario)	2017 State Funds - Adult - (Moderate Enrollment Scenario)	2017 Federal Funds - Adult - (Moderate Enrollment Scenario)
State	$ 311,782,125	$ 2,232,255,563	$ 1,836,673,862	$ 4,380,711,550	$ 292,887,951	$ 7,615,086,733	$ 693,582,100	$ 7,629,403,096
1	$ 29,650,748	$ 19,060,932	$ 171,263,658	$ 219,975,339	$ 18,650,176	$ 484,904,583	$ 44,165,109	$ 485,816,203
2	$ 42,501,457	$ 22,107,080	$ 30,857,177	$ 95,465,714	$ 16,766,819	$ 435,937,284	$ 39,705,168	$ 436,756,846
3	$ 25,758,720	$ 604,972,149	$ 353,609,900	$ 984,340,769	$ 48,197,551	$ 1,253,136,319	$ 114,135,656	$ 1,255,492,215
4	$ 11,346,698	$ 46,494,090	$ 65,295,685	$ 123,136,473	$ 11,800,529	$ 306,813,745	$ 27,944,596	$ 307,390,555
5	$ 26,229,739	$ 5,107,216	$ 100,100,828	$ 131,437,782	$ 20,631,317	$ 536,414,229	$ 48,856,608	$ 537,422,688
6	$ 20,376,442	$ 295,446,488	$ 156,696,001	$ 472,518,931	$ 30,833,262	$ 801,664,811	$ 73,015,631	$ 803,171,940
7	$ 10,652,376	$ 156,443,095	$ 123,025,201	$ 290,120,672	$ 14,416,908	$ 374,839,613	$ 34,140,392	$ 375,544,312
8	$ 31,056,808	$ -	$ 73,953,318	$ 105,010,126	$ 8,765,213	$ 227,895,545	$ 20,756,726	$ 228,323,988
9	$ 12,974,101	$ 449,984,576	$ 240,947,996	$ 703,906,673	$ 28,477,675	$ 740,419,540	$ 67,437,412	$ 741,811,528
10	$ 10,525,904	$ 284,727,819	$ 160,297,700	$ 455,551,423	$ 21,755,237	$ 565,636,164	$ 51,518,142	$ 566,699,560
11	$ 9,747,496	$ 19,213,318	$ 17,361,762	$ 46,322,576	$ 4,593,001	$ 119,418,037	$ 10,876,595	$ 119,642,542
12	$ 12,127,300	$ 90,590,330	$ 96,601,924	$ 199,319,554	$ 14,868,400	$ 386,578,391	$ 35,209,560	$ 387,305,158
13	$ 11,922,435	$ 18,027,228	$ 17,712,136	$ 47,661,799	$ 2,841,836	$ 73,887,726	$ 6,729,694	$ 74,026,635
14	$ 6,787,343	$ 87,027,017	$ 13,214,967	$ 107,029,327	$ 5,115,165	$ 132,994,293	$ 12,113,120	$ 133,244,322
15	$ 305,744	$ 73,235,652	$ 85,105,343	$ 158,646,739	$ 11,789,754	$ 306,533,605	$ 27,919,081	$ 307,109,888
16	$ 11,302,557	$ 6,316,676	$ 36,056,504	$ 53,675,737	$ 6,206,183	$ 161,360,745	$ 14,696,737	$ 161,664,103
17	$ 6,804,399	$ 39,816,286	$ 36,546,452	$ 83,167,137	$ 11,931,910	$ 310,229,648	$ 28,255,716	$ 310,812,880
18	$ 15,066,423	$ -	$ 1,997,301	$ 17,063,724	$ 6,866,447	$ 178,527,615	$ 16,260,295	$ 178,863,247
19	$ 7,350,807	$ 9,956,421	$ 39,843,242	$ 57,150,470	$ 3,619,230	$ 94,099,991	$ 8,570,627	$ 94,276,899
20	$ 9,294,628	$ 3,729,192	$ 16,186,767	$ 29,210,586	$ 4,761,340	$ 123,794,850	$ 11,275,235	$ 124,027,585

Note: Although total federal funding for adults below 138% FPL is greater than local unreimbursed health care and hospital charity care costs, local governments and hospitals will continue to have unreimbursed costs due to individuals who are ineligible for Medicaid or subsidized insurance under ACA, such as undocumented immigrants, or certain services or other costs not covered by Medicaid or insurance. In addition, some unreimbursed costs for individuals above 138% FPL who receive subsidized insurance under ACA may shift to bad debt if coinsurance, copayments and deductibles are not paid. These data exclude charity costs of 270 for-profit hospitals that are not designated as Medicaid Disproportionate Share Hospitals and are not required to report and exempts 108 other hospitals from reporting requirements due to: 1= Hospital in county with less than 50,000 population and having whole county Health Professional Shortage Area designation (78); 2 = Shriners and Scottish Rite hospitals (3); 3 = State acute care and state psychiatric hospitals (15); 4 = Other, determined to be exempt, not required to report due to closure, recent opening or not operational (12). Unreimbursed costs exclude $255.4 million in hospital system costs unallocated to counties.

Source: Department of State Health Services, Health and Human Services Commission and Michael E. Cline, Ph.D. & Steve Murdock, Ph.D., "Estimates of the Impact of the Affordable Care Act on Counties in Texas," April 2012, commissioned by Methodist Healthcare Ministries of South Texas, Inc.

Impact on Children

Although the new ACA Medicaid option applies to adults, extending Medicaid to low-income adults would likely increase the number of children in Medicaid and the Children's Health Insurance Program (CHIP). As many as 878,000 Texas children are eligible for, but not enrolled in, Medicaid and CHIP. Many newly eligible adults would be parents, who would enroll their children during the process of completing their own enrollments.

Costs for children who enroll in Medicaid and CHIP as a result of their parents' new eligibility would be subject to the existing state-federal match rate for children already in the program, rather than the more-generous match for newly eligible adults. This probable influx of new children, then, would represent an additional new cost to state general revenue. This is true, however, only because in the past the Legislature has neither budgeted for full enrollment in children's Medicaid and CHIP nor directed state agencies to pursue full enrollment.

The three enrollment scenarios in this report include estimates of the number of currently eligible but unenrolled children expected to enter Medicaid or CHIP. We also calculate the state and federal cost of covering these children, who in theory should already be enrolled. It is unlikely that local governments or hospitals are expending charity dollars on eligible but unenrolled children; they should — and have every reason to —enroll such children in Medicaid or CHIP.

Summary of Total Impacts

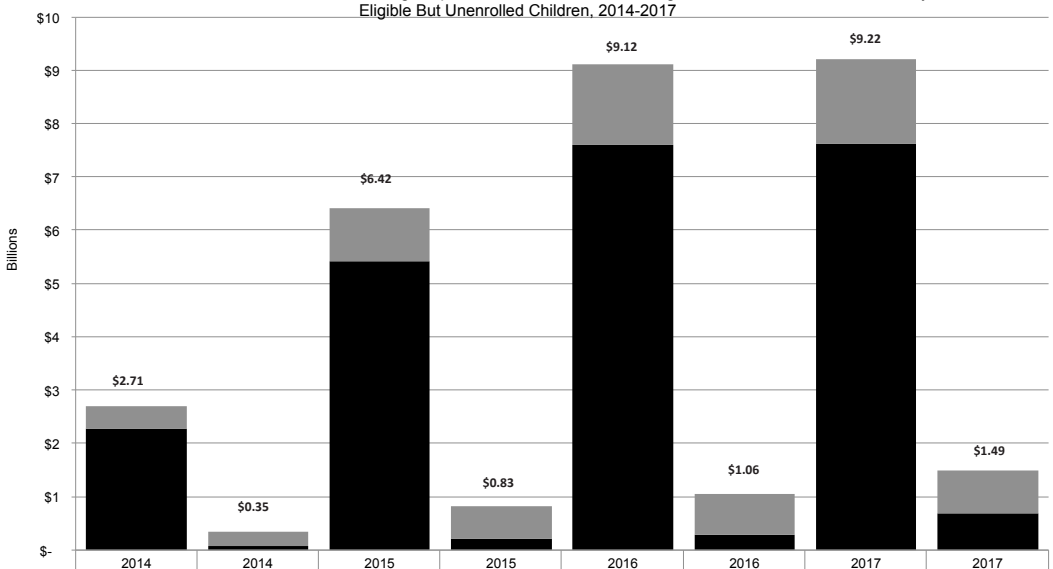
Exhibit 3 identifies estimated federal and state funding requirements under a Medicaid expansion for adults and eligible but unenrolled children, assuming moderate enrollment levels. About two-thirds of the state match required from 2014 through 2017 is due to additional children likely to be enrolled.

Total federal spending from 2014 through 2017 would amount to $22.96 billion for adults and $4.50 billion for children, for a total of $27.46 billion. State match would be $1.28 billion for adults and $2.46 billion for children, for a total of $3.74 billion. In 2014, assuming a 50 percent phase-in and an eight-month year, federal funds would total $2.71 billion with state matching requirements of $352 million. In 2015, assuming a 75 percent phase-in, federal funds would total $6.42 billion with state matching funds of $833 million.

In 2016, the first full year of implementation, federal funds would total $9.12 billion with state matching funds of $1.06 billion. In 2017, when the federal match rate declines from 100 percent to 95 percent, federal funds would amount to $9.22 billion with a state match of $1.49 billion.

Texas indeed stands at a crossroads. The importance of this decision, both in terms of the amount of money involved and the health implications to individual Texans, cannot be taken lightly. Our careful analysis of the costs and benefits results in the strong conclusion that Texas should make the smart, affordable, fair choice and extend Medicaid coverage to low-income adults.

Exhibit 3: Total Federal and State Funding Requirements for Medicaid Coverage Low-Income Adults and Currently Eligible But Unenrolled Children, 2014-2017



	2014 Federal	2014 State	2015 Federal	2015 State	2016 Federal	2016 State	2017 Federal	2017 State
Children	$419,109,352	$263,925,153	$992,484,474	$624,995,877	$1,500,495,384	$769,325,576	$1,589,549,495	$799,391,669
Adult	$2,291,531,839	$88,135,840	$5,426,530,718	$208,712,720	$7,615,086,733	$292,887,951	$7,629,403,096	$693,582,100

Texas Impact was established by Texas religious leaders in 1973 to be a voice in the Texas legislative process for the shared religious social concerns of Texas' faith communities. Texas Impact is supported by more than two-dozen Christian, Jewish and Muslim denominational bodies, as well as hundreds of local congregations, ministerial alliances and interfaith networks, and thousands of people of faith throughout Texas.

Methodist Healthcare Ministries (MHM) is a faith-based, 501(c)(3), not-for-profit organization whose mission is "Serving Humanity to Honor God" by improving the physical, mental and spiritual health of those least served in the Southwest Texas Conference area of The United Methodist Church. MHM partners with other organizations that are also fulfilling the needs of the underserved in local communities, and supports policy advocacy and programs that promote wholeness of body, mind and spirit. The mission also includes MHM's one-half ownership of the Methodist Healthcare System – the largest healthcare system in South Texas. This creates a unique avenue to ensure that the Methodist Healthcare System continues to be a benefit to the community by providing quality care to all and charitable care when needed, and it provides revenue to MHM for its programs.

For more information and to download a copy of the full report by Billy Hamilton Consulting, visit www.texasimpact.org or www.mhm.org

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