

**EXAMINING THE IMPACT OF THE PATIENT PROTECTION AND
AFFORDABLE CARE ACT IN NORTH CAROLINA**

MEDICAID EXPANSION OPTION ISSUE BRIEF

As originally passed, the Patient Protection and Affordable Care Act (ACA) expanded Medicaid to cover most uninsured, low-income citizens and legal immigrants who have resided in the United States for at least five years.¹ However, the US Supreme Court, in *National Federation of Independent Business v. Sebelius*, 132 S. Ct. 2566 (2012), held that this mandatory Medicaid expansion was unconstitutionally coercive to the states. This decision leaves the Medicaid expansion as a voluntary option to the states.

The number of people who have Medicaid coverage is likely to increase in January 1, 2014, regardless of whether the state expands Medicaid to cover the newly insured. This is because some North Carolinians *are currently eligible, but are not enrolled*. Many of these individuals will choose to enroll in 2014 or thereafter, as they learn about the new insurance coverage options that will become available under the ACA. Therefore, Medicaid enrollment will increase due to the woodwork population regardless of whether the state chooses to expand Medicaid. This group of new Medicaid enrollees is referred to as the “woodwork” group. If the state chooses to expand Medicaid eligibility, a large number of individuals will become *newly eligible* in 2014. These people are not currently eligible for Medicaid, but will be if the state, under legislation from the North Carolina General Assembly, chooses to participate in Medicaid expansion. The woodwork and newly eligible groups are discussed more fully below.

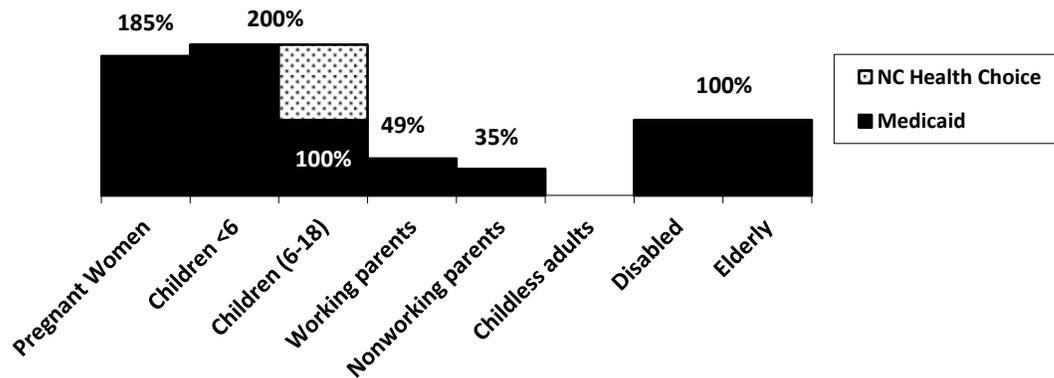
Currently, to qualify for Medicaid, a person must be a citizen or lawful permanent immigrant in the United States for at least five years and must meet certain categorical, income, and resource requirements. Medicaid is generally limited to children of low-income families, or adults who are either pregnant, have dependent children under the age of 19 living with them, disabled (under strict Social Security disability standards), or elderly (65 years or older). Even if a person meets these categorical eligibility rules, the individual must also have an income below a certain income threshold and have limited resources or assets to qualify. Childless, nonelderly, and nondisabled adults do not currently qualify for Medicaid regardless of their income. (See Figure 1.) Because of these eligibility restrictions, North Carolina’s Medicaid program only covered 30% of all poor adults with incomes up to 100% of the federal poverty level (FPL) in 2010-2011.¹

WOODWORK GROUP

Beginning in the fall of 2013, there will be outreach and educational campaigns about the individual insurance mandate and the new insurance coverage options. Low and moderate income families, with incomes between 100-400% FPL, will be eligible for subsidies to help them purchase health insurance coverage in the newly created health insurance marketplaces—called “Exchanges.” The Exchanges and Medicaid are required to use the same application form. Thus, when a person applies for private coverage in the Exchange, he or she is also applying for Medicaid; eligibility will be determined based on income. The North Carolina Division of Medical Assistance (DMA), the state agency that administers the Medicaid program, estimated that 69,683 people who are currently eligible, but are not currently enrolled, will gain coverage in 2014. This is estimated to grow to 87,127 people by 2021.

¹ All provisions of the ACA apply only to citizens and legal immigrants who have resided in the United States for at least five years

Figure 1: North Carolina Medicaid Income Eligibility (2012)



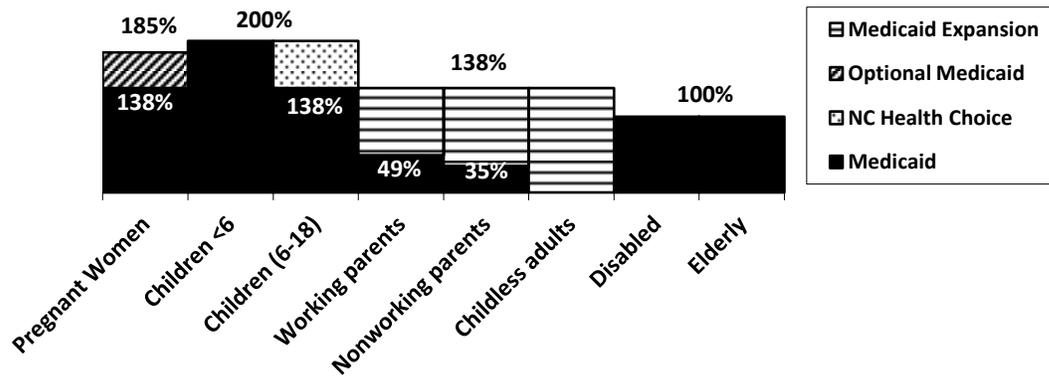
Source: Kaiser Family Foundation. Statehealthfacts.org. Parents eligibility based on a family of three (2012).
www.statehealthfacts.org.

The state must cover its share of the costs of the woodwork group. The federal government pays approximately 65% of the costs of providing services to the Medicaid population (this is known as the federal medical assistance percentage or FMAP). The state will be responsible for the remaining 35% of the cost of insuring the woodwork group. DMA estimates that the total cost of the services provided to the woodwork group will total approximately \$105 million (\$36.7 million to the state) in SFY 2014, growing to a total of approximately \$617.4 million (\$216.1 million to the state) in SFY 2021. The state will also incur additional administrative expenses. DMA estimates that the total new administrative expenses for the woodwork population will be approximately \$1.9 million in SFY 2014 (\$1.0 million in state expenses), increasing to approximately \$4.6 million by SFY 2021 (\$2.3 million in state expenses). However, there are some offsets that reduce the amount of new state funding needed to cover the woodwork population. First, pharmaceutical companies pay the federal and state governments a drug rebate. In addition, Congress increased the FMAP rate for the Children’s Health Insurance Program in federal fiscal years (FFY) 2016-2019. This reduces the total amount needed to support the Medicaid costs for the woodwork group. According to DMA, the total costs, including service and administrative costs, drug rebates, and the enhanced CHIP FMAP rate, will be approximately \$106 million (\$37.4 million to the state) in SFY 2014, growing to approximately \$577.4 million (\$202.8 million to the state) in SFY 2021. For more details on analysis and assumptions, see Chapter 3 of the NCIOM Examining the Impact of the Patient protection and Affordable Care Act in North Carolina Report.

NEWLY ELIGIBLES

The ACA, as enacted, expanded Medicaid coverage to most nonelderly individuals with a modified adjusted gross income (MAGI) no greater than 138% of the federal poverty level beginning January 1, 2014.^{2,3} To qualify, a person must be a United States citizen or a lawfully present immigrant who has been in the United States for five or more years. The ACA removed the categorical restrictions and resource limits for most adults. (See Figure 2.) The Supreme Court made this expansion optional for states.

Figure 2
Medicaid Income Eligibility Including Optional Expansion (2014)



Source: North Carolina Institute of Medicine analysis of Medicaid expansion option.

The federal government will pay most of the costs of covering the new eligibles: 100% of the Medicaid costs for newly eligible individuals for the first three fiscal years (2014-2016), declining to 90% in 2020 and thereafter (see Table 1).⁴

If the state expands Medicaid to cover individuals with incomes up to 138% FPL, DMA estimated that 494,010 people would gain coverage in 2014, increasing to 536,481 by 2021. (See Table 1.) DMA estimated that the total costs of paying for the services provided to the newly eligibles would be approximately \$521.9 million (\$0 to the state) in SFY 2014, growing to \$2.4 billion (\$244.3 million to the state) in SFY 2021. These costs would be reduced by the prescription drug rebate, which is estimated to be \$5.4 million (\$0 to the state) in SFY 2014, increasing to \$193.0 million in SFY 2021 (\$18.6 million to the state). In addition, the total state service costs can be offset by moving some of the existing state funds used to support other state health programs for people who would be newly eligible for Medicaid. The North Carolina Department of Health and Human Services contracted with the Regional Economic Model, Inc. (REMI) to conduct an analysis of the economic impact that the Medicaid expansion would have on the state. REMI is a private company that developed an economic modeling tool which enables public and private agencies nationwide to help understand the economic implications of public policy decisions. According to REMI, the new federal funds from the Medicaid expansion would generate approximately 25,000 jobs by 2016. REMI assumed a slight decline in the total number of new jobs after 2016, due to increased productivity. Increases in annual State Domestic Product (SDP) would range from approximately \$1.7 billion (2016) to \$1.3 billion higher (2021). REMI applied the historical state tax revenue-to-SDP ratio to the increase in SDP generated from the new federal dollars. REMI estimated that North Carolina would likely experience an increase in state taxes ranging from approximately \$17.2 million in SFY 2014 to \$60.7 million in SFY 2021. The REMI analysis reports on expansion, SDP, and job expansion assuming net migration into the state if surrounding states do not expand Medicaid. The analysis also assumes no net migration if surrounding states do expand Medicaid. We report the average of those assumptions here for simplicity. The complete REMI analysis is available in the full report.

If the state chooses to expand Medicaid, the state is likely to save money in early years, with a net increase in state expenditures beginning in SFY 2018. In total, between SFY 2014-2021, North Carolina would likely save a total of \$65.4 million, after factoring in the pharmaceutical rebates, cost offsets, and new state tax revenues. The federal government is expected to spend \$527.0 million in SFY 2014, increasing to \$2.0 billion in SFY 2021, or \$14.8 billion over the 8 year time period. (See Table 1 for details.)

CONCLUSION

In summary, a decision to participate in Medicaid expansion, as put forth in the PACA, would provide insurance coverage to approximately 500,000 North Carolinians; most of whom would remain uninsured without the expansion. Providing health insurance coverage will help people gain access to the care they need, which can help improve health outcomes. Because of the high federal match rate, the offsets, and the new tax revenues, the state would likely experience a net savings of \$65.4 million from the Medicaid expansion over the eight-year time period (SFY 2014-2021). On a yearly basis, the state would be expected to save a high of \$124.2 million in SFY 2016. Beginning in SFY 2018, North Carolina would be required to contribute toward the costs of services to the newly eligibles. By, SFY 2021, the net new annual expenditure will be approximately \$118.7 million.

The REMI analysis also projected that the Medicaid expansion would create a high of approximately 25,000 new jobs by 2016 and about 18,000 sustained jobs (by 2021). The new federal funds would also help generate an additional \$1.3 to \$1.7 billion in SDP per year.

Based on North Carolina Division of Medical Assistance's projections of the number of people who may gain Medicaid coverage and the costs to the state, and the REMI analysis of jobs created, increase in the state's gross domestic product, and new tax revenues generated as a result of the expansion, the NCIOM recommends that North Carolina expand Medicaid eligibility up to 138% FPL.

Table 1
Projected Costs and Enrollment for the Newly Eligible Population (FY 2014-2021)
(Costs in Millions)

	2014	2015	2016	2017	2018	2019	2020	2021	Total (2014-2021)	Run Rate
Enrollment	494,010	500,058	506,818	512,906	519,684	525,830	531,264	536,481		
FMAP	100%	100%	100%	95%	94%	93%	90%	90%		90%
Gross Service Expenditures										
Total	\$521.9	\$2,134.1	\$2,192.2	\$2,240.2	\$2,300.6	\$2,350.4	\$2,396.7	\$2,443.1	\$16,579.3	\$2,443.1
Federal	\$521.9	\$2,134.1	\$2,192.2	\$2,156.2	\$2,168.3	\$2,191.8	\$2,175.0	\$2,198.8	\$15,738.3	\$2,198.8
State	\$0	\$0	\$0	\$84.0	\$132.3	\$158.7	\$221.7	\$224.3	\$840.9	\$244.3
Prescription Drug Rebates										
Total Rebate	-\$5.4	-\$106.5	-\$141.3	-\$149.5	-\$158.3	-\$167.4	-\$180.4	-\$193.0	-\$1,101.8	-\$197.1
Federal Rebate	-\$5.4	-\$106.5	-\$141.3	-\$143.9	-\$149.2	-\$156.1	-\$164.0	-\$174.4	-\$1,040.9	-\$178.1
State Rebate	\$0	\$0	\$0	-\$5.6	-\$9.1	-\$11.3	-\$16.3	-\$18.6	-\$60.9	-\$19.0
Other State Appropriations Offsets										
DMH/DD/SAS	-\$8.2	-\$16.4	-\$16.4	-\$16.4	-\$16.4	-\$16.4	-\$16.4	-\$16.4	-\$122.8	-\$16.4
ADAP	-\$14.3	-\$28.6	-\$28.6	-\$28.6	-\$28.6	-\$28.6	-\$28.6	-\$28.6	-\$214.6	-\$28.6
Corrections	-\$8.5	-\$17.0	-\$17.0	-\$17.0	-\$17.0	-\$17.0	-\$17.0	-\$17.0	-\$127.5	-\$17.0
Subtotal Offsets	-\$31.0	-\$62.0	-\$62.0	-\$62.0	-\$62.0	-\$62.0	-\$62.0	-\$62.0	-\$464.9	-\$62.0
Net Service Costs (gross service costs minus pharmaceutical rebates and other state offsets)										
Total Service	\$516.6	\$2,027.6	\$2,050.9	\$2,090.7	\$2,142.2	\$2,183.0	\$2,216.3	\$2,250.1	\$15,477.5	\$2,246.1
Total Federal	\$516.6	\$2,207.6	\$2,050.9	\$2,012.3	\$2,019.0	\$2,035.7	\$2,102.0	\$2,024.4	\$14,697.4	\$2,020.7
Total State with Offsets	-\$31.0	-\$62.0	-\$62.0	\$16.4	\$61.2	\$85.4	\$143.4	\$163.8	\$315.1	\$163.4
Administrative Expenses										
Total Admin.	\$20.8	\$29.5	\$29.8	\$30.1	\$30.5	\$30.8	\$31.2	\$31.5	\$234.1	\$31.5
Federal Admin.	\$10.5	\$14.8	\$15.0	\$15.1	\$15.3	\$15.5	\$15.7	\$15.8	\$117.8	\$15.8
State Admin.	\$10.4	\$14.6	\$14.8	\$14.9	\$15.1	\$15.3	\$15.5	\$15.6	\$116.3	\$15.6
REMI Analysis^a										
New Jobs	5,742	24,376	25,265	23,211	22,004	21,225	19,459	18,919	NA	NA
Increase in State Domestic Product	\$382.5	\$1,632.5	\$1,710.5	\$1,589.5	\$1,523.0	\$1,483.0	\$1,372.5	\$1,348.0	\$11,041.5	NA
New State Tax Revenues	-\$17.2	-\$73.5	-\$77.0	-\$71.5	-\$68.5	-\$66.7	-\$61.8	-\$60.7	-\$496.9	NA
Total Costs (Gross service costs, minus drug rebates, state appropriations offsets, and new (averaged) State revenues)										
Total	\$537.4	\$2,057.1	\$2,080.7	\$2,120.7	\$2,172.7	\$2,213.9	\$2,247.5	\$2,281.6	\$15,711.6	\$2,277.5
Federal	\$527.0	\$2,042.5	\$2,065.9	\$2,027.4	\$2,034.4	\$2,051.2	\$2,117.6	\$2,040.2	\$14,815.2	\$2,036.5
State	-\$37.8	-\$120.8	-\$124.2	-\$40.2	\$7.8	\$33.9	\$97.1	\$118.7	-\$65.4	NA

^a The REMI numbers reported are the average of the estimates with and without migration.

Note: For full analyses Appendix C and D in Examining the Impact of the Patient protection and Affordable Care Act in North Carolina online at <http://www.nciom.org/publications/?examining-the-impact-of-the-patient-protection-and-affordable-care-act-in-north-carolina>.

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- ¹ Kaiser Family Foundation. State Health Facts. Health Insurance Coverage of Adults 19-64 Living in Poverty (under 100% FPL), states (2010-2011), US (2011). Available at: <http://www.statehealthfacts.org/comparetable.jsp?ind=131&cat=3>. Accessed November 12, 2012.
 - ² The ACA requires states to expand Medicaid to cover nonelderly individuals with modified adjusted gross income of no more than 133% FPL, however the legislation also provides a 5% income disregard. Because of this disregard, individuals will be able to qualify for Medicaid if their income is not more than 138% FPL, assuming they meet other program rules.
 - ³ The federal poverty levels, established by the federal government, are based on family size. It is usually updated annually. In 2012, the federal poverty levels for a family of one was \$11,170; for a family of two (\$15,130), family of three (\$19,090), and family of four (\$23,050). The federal poverty levels increase by \$3,820 for each additional family member. United States Department of Health and Human Services. <http://aspe.hhs.gov/poverty/12poverty.shtml>. Accessed April 16, 2012. Because the federal poverty levels are updated annually, it is likely to be higher by 2014.
 - ⁴ Health Care and Education Reconciliation Act, Pub L No. 111-152, § 1201(1)(B), amending Sec.1905 of the Social Security Act, 42 USC 1396d.