Analysis of the Cost of Federal Health Care Legislation

Summary

The federal government recently enacted health care legislation. This legislation will have several effects on the Arizona Health Care Cost Containment System (AHCCCS) and related programs over the next decade. The JLBC Staff has developed a preliminary estimate of the state fiscal impacts. These estimates include the related behavioral health care costs in the Department of Health Services (DHS).

This analysis uses 2 different starting points -- one estimate relative to the FY 2010 AHCCCS Base including Proposition 204 and KidsCare, and the other assuming the cost of adding back Proposition 204 and KidsCare relative to the FY 2011 enacted budget base.

Relative to the FY 2010 Base, the health care legislation is projected to save the state $(220) million from the General Fund in FY 2015. This savings grows to $(448) million by FY 2020. The cumulative 10-year savings is $(2.3) billion through FY 2020 *(see Table 1)*.

Relative to the FY 2011 budget, however, the federal legislation would likely impose a long-term cost. The enacted FY 2011 budget eliminated KidsCare beginning June 15, 2010 and eliminated General Fund support of the Proposition 204 population beginning January 1, 2011. The federal health care legislation requires that states maintain their current programs as of March 23, 2010. As part of qualifying for any federal Medicaid match, the state would be required to restore these 2 populations.

The FY 2011 budget included $(385) million in half-year savings from eliminating General Fund Proposition 204 support on January 1, 2011 when the federal government's enhanced federal match rate under the federal stimulus legislation concludes. Congress is currently considering legislation to extend this enhanced match rate for another 6 months to June 2011. If that legislation is approved, the state would save $(394) million relative to the enacted budget, which would offset the cost to restore the Proposition 204 program.

Restoring Proposition 204 and KidsCare would cost $948 million from the General Fund in FY 2012 and further grow in FY 2013. Beginning in FY 2015, the total net cost falls to $826 million and continues to decline to $788 million in FY 2020, as the state begins receiving an enhanced federal match rate for part of the existing Proposition 204 population. The cumulative 10-year cost is $7.5 billion through FY 2020 *(see Table 1)*.

Table 1

General Fund Cost of Federal Health Care Legislation

Year	Relative to FY 2010 Base ($)	Relative to Enacted Budget ($)
FY 2011	--	$ 9,078,400 1/
FY 2012	--	947,534,500
FY 2013	--	978,025,800
FY 2014	$ (66,172,800)	944,926,600
FY 2015	(219,856,500)	825,766,800
FY 2016	(336,101,300)	745,195,800
FY 2017	(377,785,200)	740,408,200
FY 2018	(394,941,300)	761,255,300
FY 2019	(468,126,300)	727,213,600
FY 2020	(448,089,400)	787,568,000
TOTAL	**$(2,311,072,800)**	**$7,466,973,000**

1/ Plus $385 million to restore half-year of Proposition 204 in FY 2011, which may be covered by the extension of enhanced federal match.

A more detailed listing of these costs appears in Attachment 1.

This analysis attempts to address the largest cost factors in the federal health care legislation. We are further researching the bill for other impacts including coverage changes in state employee health insurance, the establishment of health care exchanges, and expansion of state insurance regulation.

Background

AHCCCS costs are shared between the state and federal government according to the federal medical assistance percentage (FMAP), which is normally about 65%. Under the regular FMAP, the federal government pays $2 for every $1 paid by the state.

In concept, the federal legislation has the following impacts on AHCCCS and DHS relative to the FY 2010 base:

Additional Costs

- Expands eligibility for AHCCCS from 100% to 133% of the federal poverty level (FPL) beginning January 1, 2014.
  - The expansion group would consist of 2 main categories: adults between 100% - 133% of the FPL, as well as children ages 6-19. At 133% FPL, a family of 4 would currently earn $29,300.
  - Adults are currently eligible up to 100% FPL under Proposition 204. As a newly eligible population, the adult expansion population would be matched at varying enhanced FMAPs under the federal legislation *(see Table 2)*.

Table 2

Transitional Newly Eligible Match Rate

Year	FMAP
FY 2014-FY 2016	100%
FY 2017	95%
FY 2018	94%
FY 2019	93%
FY 2020	90%

  - The 6-19 year-old children would be matched at the regular FMAP. These children are currently eligible for KidsCare but cannot enroll because the program has been frozen and capped. This analysis assumes the freeze would continue. Since the children are currently eligible but not enrolled, they would not qualify for the enhanced federal match rates.
  - This analysis assumes that the federal health care legislation will be interpreted to mean that the state must retain a KidsCare program in statute, but can continue with the current capped enrollment. Under that assumption, the KidsCare population is expected to decline resulting in no enrollees by 2016. If the freeze were removed, KidsCare would receive a match of 99% from January 1, 2016 - December 31, 2019.

- Increases enrollment of currently eligible but uninsured ('woodwork' effect).
  - The federal health care legislation generally requires a penalty for any individual without health insurance. While populations below 100% FPL are exempt from this penalty, the increased knowledge and availability of health care options may incentivize the currently eligible but unenrolled population to participate. This analysis assumes that 50% of the eligible but uninsured population will enroll in AHCCCS when the new requirements and coverage begin in 2014. These individuals would be matched at the regular FMAP rate except for Proposition 204 childless adults. Childless adults newly enrolling in the program would receive the same enhanced FMAP as described below.

Savings

- Increases the federal match rate for Proposition 204 childless adults.
  - Beginning January 1, 2014, the state share of costs for Proposition 204 childless adults would be reduced as the federal match improves *(see Table 3)*. The regular match rate of approximately 65% would be in effect in FY 2012 and FY 2013.

Table 3

Proposition 204 Childless Adult Match Rate

Year	FMAP
FY 2014	73.75%
FY 2015	84.25%
FY 2016	87.75%
FY 2017	89.25%
FY 2018	90.05%
FY 2019	92.05%
FY 2020	91.50%

  - In FY 2015, this provision is expected to reduce the state General Fund cost of the Proposition 204 program from approximately $1.0 billion to $527 million, a difference of $(519) million before accounting for any woodwork effect.

Other Factors

This analysis does not include a cost estimate of tying AHCCCS rates to Medicare for primary care physicians. The federal health care legislation requires AHCCCS to reimburse primary care physicians at 100% of the Medicare rate in FY 2013 and FY 2014; however the additional cost would be paid by the federal government.

AHCCCS Estimate

The JLBC Staff analysis is based on several assumptions which are comparable to AHCCCS' March 25 analysis. However, we have assumed a 3% growth rate representing a combination of both inflation and population growth. The low estimated growth rate reflects the high current enrollment in AHCCCS due to the recession and expected flattening of enrollment as the economy recovers and unemployment declines. In contrast, AHCCCS assumed medical inflation of 6% per year and population growth of 0-3%.

Given the magnitude and timeframe of the estimate, small changes in the assumptions can produce a significant variance in the estimate. For example, the AHCCCS analysis estimates the health care legislation will cost an additional $11.6 billion relative to the enacted FY 2011 budget, while this analysis estimates $7.5 billion. The difference between these estimates reflects the different growth rate assumptions as well as a significantly higher AHCCCS estimate of Proposition 204 costs. The AHCCCS Proposition 204 estimate was higher because of a technical funding shift for behavioral health services and a higher inflation rate.

Federal Health Care Legislation - General Fund Impacts

SFY	Expansion - Adults 100%-133%	Expansion - Children 100-133%	Prop 204 Childless Adult Transition Percentage	Traditional & Prop 204 Parents Woodwork	Childless Adult Prop 204 Woodwork	Total Relative to FY 2010 Base
2011	-	-	-	-	-	-
2012	-	-	-	-	-	-
2013	-	-	-	-	-	-
2014	-	20,579,867	(228,957,083)	98,059,500	44,144,940	(66,172,776)
2015	-	42,394,525	(518,816,750)	202,002,570	54,563,146	(219,856,509)
2016	-	43,666,361	(631,541,480)	208,062,647	43,711,142	(336,101,329)
2017	16,801,388	44,976,352	(693,377,025)	214,304,527	39,509,520	(377,785,238)
2018	38,071,945	46,325,642	(737,738,858)	220,733,662	37,666,355	(394,941,253)
2019	46,343,940	47,715,412	(820,539,369)	227,355,672	30,998,085	(468,126,259)
2020	62,421,723	49,146,874	(827,971,241)	234,176,342	34,136,885	(448,089,417)
Total	163,638,996	294,805,033	(4,458,941,806)	1,404,694,920	284,730,075	(2,311,072,782)

SFY	Total Relative to FY 2010 Base	Restore Prop 204 Population	Restore KidsCare (Freeze)	Total Relative to FY 2011 Base
2011	-	Extended FMAP	9,078,400	9,078,400 1/
2012	-	944,149,963	3,384,487	947,534,450
2013	-	976,931,838	1,093,929	978,025,766
2014	(66,172,776)	1,010,697,169	402,201	944,926,594
2015	(219,856,509)	1,045,475,460	147,876	825,766,827
2016	(336,101,329)	1,081,297,100		745,195,770
2017	(377,785,238)	1,118,193,389		740,408,151
2018	(394,941,253)	1,156,196,567		761,255,314
2019	(468,126,259)	1,195,339,840		727,213,580
2020	(448,089,417)	1,235,657,411		787,567,994
Total	(2,311,072,782)	9,763,938,736	14,106,892	7,466,972,846

1/ Cost would be offset by extended FMAP savings

General Assumptions

General Fund costs. Assumes $149 million available from tobacco settlement/tax annually

Growth of 3% (combination of caseload and inflation) yearly using AHCCCS initial numbers as base, except for Prop 204, which uses JLBC FY 11 estimate as base (AHCCCS includes 6% medical inflation and growth of 0-3% for various populations)

Population growth also uses AHCCCS assumption of presentation of 70% of eligible expansion members and 50% of woodwork

Traditional FMAP (used for selected programs and for calculating transitional FMAP for childless adults < 100%) assumed to be 65%

Population Assumptions

Expansion - Adults 100-133%: Coverage begins 1/1/14; State required to provide 5% match effective 1/1/17, growing to 10% by 1/1/20

Expansion - Children 100-133%: Coverage at traditional FMAP begins 1/1/14

Prop 204 Childless Adult Transition Percentage: Enhanced FMAP begins 1/1/14 at 82.5% and increases each year, reaching high of 93% in FFY 19, declining to 90% in FFY 20

Traditional and Prop 204 Parents woodwork: Occurs when coverage expands 1/1/14. Traditional FMAP for "categoricals"

Childless Adult Prop 204 woodwork: Occurs when coverage expands 1/1/14. Same enhanced FMAP as rest of Prop 204 Childless Adult program

Prop 204 Population: GF portion (Tobacco settlement and Prop 204 Protection Account already funding Prop 204 in enacted Prop 204 budget). Funds 3% growth on both GF and tobacco settlement/tax portion

KidsCare (Freeze): Maintains freeze on new enrollments, leaving very few persons on program by SFY 14

JLBC Staff
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