Expansion of Medicaid Eligibility
AHCCCS
Program Summary

Program Overview
The federal Affordable Care Act (ACA) of 2010 expanded Medicaid eligibility to individuals up to 133% of the federal poverty level (FPL) (currently $32,300 for a family of 4). On January 1, 2014, Arizona expanded Medicaid eligibility for all children to 133% FPL, childless adults to 100% FPL and adults to 133% FPL while increasing federal funding of child enrollees in families with income above the levels required for the regular Medicaid program. Publicity surrounding the expanded coverage and implementation of health exchanges also led to increased AHCCCS signups of currently eligible but not enrolled individuals. The FY 2017 budget is based on projections that June 2017 total Medicaid enrollment will be 596,200 above the pre-expansion enrollment.

Child Expansion, 100-133% FPL
Effective January 1, 2014, the FY 2014 Health and Welfare Budget Reconciliation Bill (BRB) (Laws 2013, 1st Special Session, Chapter 10) expanded the Traditional program's Medicaid eligibility from 100% FPL to 133% FPL for children 6 to 18 years of age. Infants continued to be covered up to 140% FPL and children ages 1 to 5 years continued to be covered up to 133% FPL through the Traditional program.

The child expansion population received an approximate 3:1 federal match in FY 2015. From October 1, 2015 to September 30, 2019, federal legislation increases the state's child expansion match rate to 100% of costs. After the expiration of the 100% match rate on October 1, 2019, the state will again receive the approximate 3:1 federal match for the population.

Childless Adult Restoration, 0-100% FPL
Effective January 1, 2014, the FY 2014 Health and Welfare BRB also restored coverage for childless adults up to 100% FPL. This population gained Medicaid eligibility through Proposition 204 passed by voters in 2000, but was subject to an enrollment freeze since July 2011. This population receives a higher match rate than the standard 2:1 match. The increased match started at 83.62% in FY 2014 and has since increased to 90.28% in FY 2017. The rate will gradually settle at 90% by calendar year 2020 and in later years. Prior to restoration of coverage, the federal government informed states that it would likely not approve enrollment freezes for this population past December 31, 2013.

Adult Expansion, 100-133% FPL
Arizona's FY 2014 budget also opted to expand Medicaid eligibility to all adults up to 133% FPL on January 1, 2014. The federal government pays 100% of the cost of the adult expansion (adults whose incomes are from 100% to 133% FPL) in calendar years 2014 to 2016. The federal share drops to 95% in 2017 and gradually declines further to 90% by 2020 and in later years. Prior to expansion, the federal government informed states that the enhanced federal match rate for childless adults up to 100% FPL would only be available if the state also expanded adult coverage to 133% FPL.

KidsCare, 133-200% FPL
Prior to 2014, the state provided coverage for the child expansion population and other children with incomes up to 200% FPL through KidsCare, also known as Arizona's Children's Health Insurance Program (CHIP). On January 1, 2014, 26,300 KidsCare recipients with income up to 133% FPL were transferred to the Traditional population as part of the child expansion. Since January 1, 2014, the KidsCare program has provided health coverage to children in families with income between 133% and 200% FPL, but above the levels requires for the regular AHCCCS program.

As with the child expansion population, the federal ACA increases the state's KidsCare population match rate to 100% of costs from October 1, 2015 to September 30, 2019. After the expiration of the 100% match rate on October 1, 2019, the state will receive an approximate 3:1 federal match for the population.

The state implemented an enrollment freeze for the KidsCare program on January 1, 2010, in which existing members could continue on the program but no new enrollment was permitted. Laws 2016, Chapter 112 requires AHCCCS to seek federal approval to lift the enrollment freeze and federal funding to reopen the program. In July 2016, AHCCCS received federal approval and an indication that the program would receive sufficient federal funding. The agency has reported it will resume enrollment in the KidsCare program on September 1, 2016. Please see the *KidsCare Program Summary* for additional information about the KidsCare program.

Currently Eligible But Not Enrolled

After January 1, 2014, individuals are required by the ACA to have health insurance or pay a fine unless they meet certain criteria. Uninsured individuals also have access to health insurance through health insurance exchanges, and individuals under 400% FPL are eligible for premium subsidies. Most individuals eligible for Medicaid but not enrolled are not subject to the ACA fine. Nonetheless, publicity surrounding the individual mandate and additional availability of health insurance is thought to have induced some who were eligible but not enrolled to sign up for AHCCCS.

Program Funding

The FY 2017 budget includes approximately $3.11 billion of funding in the AHCCCS budget for coverage of the child expansion, KidsCare to 200% FPL, childless adults to 100% FPL and adult expansion to 133% FPL. This amount is comprised of approximately $38 million in General Fund money, $185 million in hospital assessment funding, and $2.89 billion in matching Federal Funds (*see Table 1*). The $3.11 billion in total funding is further broken out into $2.62 billion for acute care and $496 billion for behavioral health services. Amounts for KidsCare in *Table 1* represent federal funding for a continued enrollment freeze for the program. The FY 2017 budget did not include additional funding for restoration of KidsCare enrollment. The amounts in the table also do not include costs of the currently eligible but not enrolled individuals that chose to sign up when eligibility was expanded to other populations. Enrollment of these individuals is not distinguishable from the base population.

The FY 2014 budget required AHCCCS to establish an assessment on hospital revenue, discharges, or bed days for the purpose of funding the state match portion of physical health care costs of the adult expansion and the entire Proposition 204 population on and after January 1, 2014. The General Fund continues to fund the state match portion of behavioral health service costs for these populations. The assessment is based on hospital discharges as reported on each hospital's Medicare Cost Report. The amounts differ based on types of providers. In addition to the $185 million of hospital assessment funding appropriated for Proposition 204 childless adults and adult expansion in FY 2017, $68 million was appropriated for state costs of remaining Proposition 204 populations for a total of $253 million in hospital assessment funding (*see the Hospital Assessment section of the JLBC Tax Handbook for more information*).

The FY 2017 budget decreases expansion population General Fund spending by $(2) million (from $40 million in FY 2016 to $38 million) and hospital assessment funding by $(2) million (from $187 million in FY 2016 to $185 million). A federal match rate increase in FY 2017 for childless adults up to 100% FPL and the annualization of savings from an October 1, 2015 match rate increase for child expansion are the primary drivers of these funding reductions. As a result of federal match rate increases, and other formula adjustments, federal funding for these populations increased by $261 million in FY 2017 (from $2.63 billion in FY 2016 to $2.89 billion).

As noted in the *Program Overview* section, the ACA provides an enhanced federal match rate to fund costs of the child expansion and KidsCare populations. The enhanced match rate is limited by the amount of federal CHIP funding allotted to Arizona for the programs. Once the state's allotment is used, additional costs of the programs are matched at a regular 2 to 1 match rate. While the allotment is shared between the KidsCare and child expansion populations, KidsCare is given priority.

Table 1

FY 2017 AHCCCS Appropriation for Expanded Medicaid Eligibility [1/]

($ in millions)

		General Fund	Hospital Assessment	Federal Funds	Total Funds
Child Expansion 100-133% FPL, ages 6 -18 years	Acute	$ 0	$ 0	$ 149	$ 149
	BHS	0	0	40	40
	Total	**$ 0**	**$ 0**	**$ 189**	**$ 189**
Proposition 204 – Childless Adults 0-100% FPL	Acute	$ 0	$ 179	$1,824	$2,003
	BHS	37	0	341	378
	Total	**$ 37**	**$ 179**	**$2,165**	**$2,381**
Adult Expansion 100-133% FPL	Acute	$ 0	$ 6	$ 456	$ 462
	BHS	1	0	77	78
	Total	**$ 1**	**$ 6**	**$ 533**	**$ 540**
KidsCare 133-200% FPL [2/]	Acute	$ 0	$ 0	$ 2	$ 2
	BHS	0	0	0	0
	Total	**$ 0**	**$ 0**	**$2**	**$ 2**
Total Expenditures	**Acute**	**$ 0**	**$ 185**	**$2,431**	**$2,616**
	BHS	**38**	**0**	**458**	**496**
	Total	**$ 38**	**$ 185**	**$2,889**	**$3,112**

1/ Beginning in FY 2017, the administration and appropriation for behavioral health services was transferred from the Department of Health Services to AHCCCS.
2/ The KidsCare federal funding amounts in the table represent CHIP funding of $319,400 for behavioral health services and $1,635,600 for acute care services.

Program Enrollment

Post-expansion enrollment grew by 543,100 through June 2016. This amount included increases of 74,700 from the child expansion, 241,200 from childless adults to 100% FPL, 83,300 from adult expansion to 133% FPL and 214,100 from other Medicaid populations. These increases were partly offset by a decrease of (46,200) from the KidsCare to 200% FPL population (*see Table 2*). Of the decrease in KidsCare, (26,300) is the result of shifting some members to the child expansion population on January 1, 2014. Another (17,600) represents individuals that lost coverage when the temporary KidsCare 2 program expired on January 1, 2014.

Table 2

Total Medicaid Population Increase Since January 1, 2014 [1/]

	June 2014	June 2015	June 2016	June 2017
Child Expansion to 133% FPL	29,900	36,000	74,700	82,100
Childless Adult Restoration	148,000	211,300	241,200	253,900
Adult Expansion to 133% FPL	19,800	61,500	83,300	92,300
KidsCare to 200% FPL [2/]	(44,800)	(45,700)	(46,200)	(46,200)
Other Enrollees	57,700	143,200	190,100	214,100
Total	**210,600**	**406,300**	**543,100**	**596,200**

1/ June 2017 amounts are budgeted projections while other amounts are actuals.
2/ June 2017 projections do not include added enrollment for restoration of KidsCare.
3/ All other AHCCCS populations.

In the case of *National Federation of Independent Business v. Sebilius*, the United States Supreme Court ruled that the ACA requires Medicaid coverage of children up to 133% FPL, but that states have the option of whether to expand adult eligibility to the same extent. The FY 2014 Health and Welfare BRB repeals the eligibility of adults

from 100% to 133% FPL and the hospital assessment funding source if any of the following conditions are met: 1) the federal match rate for adults from 100%-133% FPL or childless adults to 100% FPL falls below 80%; 2) the hospital assessment is insufficient to pay for the adults from 100% to 133% FPL or childless adults to 100% FPL; or 3) the federal ACA is repealed.

ACA Rate and Fee Increases

In addition to expanding Medicaid eligibility to 133% FPL, the ACA has budgetary impacts on the insurer fees and provider rates incorporated into AHCCCS' budget. A portion, but not all, of these impacts are included in the program funding listed in *Table 1*.

Health Insurer Fee

The ACA placed an $8 billion annual fee on the health insurance industry nationwide in 2014. The nationwide fee grows to $14.3 billion in 2018 and is indexed to inflation thereafter. The fee is allocated to qualifying health insurers, including most of the state's Medicaid health insurers, based on their respective market share of premium revenue in the previous year. The federal Centers for Medicare and Medicaid Services require that Medicaid capitation rates reimburse insurers for all costs of doing business, including costs from fees or taxes paid as a result of insuring Medicaid enrollees. The FY 2017 budget includes a decrease of $(0.6) million (from $24.7 million to $24.1 million) from the General Fund for this fee. Federal legislation passed subsequently to the ACA places a 1 year moratorium on the fee in 2017. The moratorium is expected to eliminate AHCCCS costs of health insurer fee reimbursement in FY 2018. The fee will resume in 2018, according to the schedule in the ACA.

Provider Rate Increase

The federal ACA requires that Medicaid reimburse primary care providers (PCPs) 100% of the Medicare rates in 2013 and 2014. The federal government pays 100% of the cost above what they reimbursed PCPs on July 1, 2009. Since AHCCCS has lowered reimbursement rates for PCPs since then, the state receives the regular 2:1 match rate for the difference between the 2014 rate and the 2009 rate. The FY 2017 budget includes a decrease of $(2.4) million (from $2.4 million to $0) from the General Fund to end funding of this rate increase.

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