

COMMENTARY



Public Affairs Research Council of Louisiana

March 28, 2013

PAR issues statement on updated Medicaid expansion analysis

A report released this week by the Louisiana Department of Health and Hospitals has provided the public with more information and a better and more balanced analysis of the proposed Medicaid expansion than was previously available from government and independent sources. The Public Affairs Research Council of Louisiana has reviewed this report and finds that its core evidence indicates a long-term savings for the state general fund if Louisiana were to pursue an expansion of Medicaid eligibility under the Affordable Care Act while also resisting large increases in health-care provider rates. This finding by DHH, based on updated considerations of both the costs and savings resulting from an expansion, is significant and deserves renewed legislative and public review.

The DHH report -- [“Understanding the Impact of a Medicaid Expansion in Louisiana”](#) -- draws a general conclusion that the cost of a proposed Medicaid expansion for Louisiana is rife with uncertainties and broad assumptions. DHH also reasserted its view that Medicaid is an inefficient program bridled by cumbersome regulations and is in need of fundamental reform. The study presents two main scenarios for the estimates of the state’s cost to implement the expansion over 10 years: a “low-impact” scenario and a “moderate-to-high-end” impact scenario. The low-end estimate shows a savings to the state general fund of \$196.5 million to \$367.5 million. The higher-end estimate shows a state cost of \$1.52 billion to \$1.71 billion. This higher-end cost would result only if the state chose or was compelled to increase health-care provider rates to dramatically higher levels, which is an unlikely scenario.

The decision of whether to expand Medicaid under the Affordable Healthcare Act is a critical policy question facing state leaders. States have the option to decide whether to adopt a Medicaid expansion, which would allow adults ages 19-64 to claim Medicaid coverage if they have earnings up to 138 percent of the federal poverty level. The governor has opposed an expansion for Louisiana. On March 12, 2013, PAR released a report, [“Medicaid expansion needs better analysis to project long-term impact in Louisiana,”](#) which called for the state to pursue an updated and more comprehensive analysis than had previously been performed. Earlier studies did not include cost savings that would result from the expansion and were hampered by a lack of information at the time about key regulatory features of the federal program. On March 25, DHH released its new report, which directly addresses many of PAR’s points.

The department is to be commended for this updated research. A 2010 analysis commissioned by DHH and performed by Mercer contained several policy assumptions and cost projections that are now outdated and that left out major cost considerations. An independent report in 2010 by the Kaiser Commission on Medicaid and the Uninsured had similar limitations. PAR has requested the full work papers and data that were used for the new DHH report. (PAR in

November 2012 requested documents related to any new studies by DHH, but none were provided.) Pending review of the background documents, the new DHH analysis appears to incorporate needed information, updated financial data, and potential costs and savings over a 10-year period.

Adjustments to the impact projections

The DHH report includes significant new factors in figuring the long-term impact of a Medicaid expansion. The previous Mercer report estimated an overall long-term cost of \$7.2 billion and included costs such as mental health, CHIP, FMAP and high coverage costs.

The analysis released by DHH adjusts administrative costs in the model from \$200.1 million to a range of \$72 million to \$73.5 million. The 2010 analysis assumed DHH had to provide funding for community mental health centers, DHH has since concluded this is not the responsibility of the state; thus the new modeling does not include \$488.5 million for this service. Additionally, the 2010 models assumed the match rate from the federal government would be lower for certain children in the Children's Health Insurance Program (CHIP) after ACA implementation. The federal government has clarified this is not the case, and the new DHH study removes this \$291 million estimated to cost Louisiana if Medicaid is expanded.

As PAR pointed out, no previous models had accounted for the savings Louisiana could find by expanding Medicaid to include full benefits for certain citizens who are currently only partially covered by Medicaid. PAR had estimated more than \$500 million in savings for this group with an additional \$150 million or more in behavioral health savings. The new DHH model estimates \$908 million savings from covering these existing groups under a Medicaid expansion.

Another gap in the 2010 analysis pointed out by PAR was revenue derived from insurance premium taxes that would be paid to the Louisiana Department of Insurance for Medicaid enrollment. The new models incorporate a range of potential revenue from this source. The 2010 models also did not incorporate any potential reduction in the need for Disproportionate Share Hospital funding given that more citizens would be insured under a Medicaid expansion. The updated models estimate a \$419.5 million savings for the state general fund as a result of less money required for the state's match of DSH funding.

The new DHH analysis makes a significant change in the projected state matching costs for coverage of the newly enrolled Medicaid participants. The 2010 study projected \$3.7 billion in state costs of coverage while the new study puts the state match at \$1.07 billion to \$1.32 billion over 10 years. The state would not be required to make a match for the new Medicaid population from 2014-2016 but would be required to make a 5 percent match in 2017 and escalating amounts each year until reaching a 10 percent match in 2020.

A critical assumption on reimbursement rates

A noteworthy difference between the old and new DHH studies is the potential for increased state costs to cover the reimbursement rates and utilization adjustments for health care providers. The 2010 model projected \$2.48 billion in new costs for these categories under a Medicaid expansion. The new study projects two widely diverging scenarios for the future. The "low-impact" scenario reflects no additional costs for reimbursement rates and utilization adjustments. The "moderate-to-high impact" scenario registers \$1.67 billion. The department's rationale for the higher estimate is that a change in the definition of "medical assistance" in the federal law could open the door to potential litigation forcing states to increase reimbursement rates. The two models provided assume no reimbursement rate adjustments or a high and broad reimbursement rate adjustment. A more likely scenario is that some reimbursement rates would have to be marginally increased over the 10 year period.

This particular cost category is significant because it represents the majority of the overall dollar difference between DHH's low-impact scenario and the moderate-to-high impact scenario.

Projecting \$1.67 billion in adjustments to provider reimbursement rates is a very high and unlikely scenario. The moderate-to-high cost model assumes that access to Medicaid providers would be so limited that the state would have to raise reimbursement rates to pay physicians 100 percent and private hospitals 90 percent of Medicare rates. Historically, when the state has had challenges in access for a specific type of service, a limited rate adjustment is made for that category of providers. There is an improbable basis for an assumption that a rate adjustment of this magnitude would be needed. Nonetheless, this decision would rest with Louisiana as to what type of rate adjustment, if any, would be needed under a Medicaid expansion scenario.

Additional considerations

While the models do update some figures for the CHIP program, there are additional savings likely for Louisiana under the Affordable Care Act, unrelated to the Medicaid expansion. CHIP is up for federal reauthorization in 2015. The CHIP program was funded in Fiscal Year 2009-2010 at 77.97 percent by the federal government and 22.03 percent by the state of Louisiana. However, under the Affordable Care Act, CHIP will be funded at a higher federal match rate. Louisiana's CHIP program would be funded 100 percent by the federal government beginning in 2016.

If Congress stays the course, PAR estimates this will save Louisiana at least \$340 million in state funding from Fiscal Year 2016 through 2023, and maybe as much as \$500 million or more. These numbers are not incorporated into the new models, which is appropriate given that the funding is not contingent on the expansion of Medicaid. However, this possible funding is an important consideration in understanding the future financing of Medicaid and CHIP.

Moving the discussion to a new level

While it is impossible to know with absolute certainty what will happen over the next decade with Medicaid expansion, the new analysis by DHH goes a long way toward answering questions concerning costs and benefits. The report takes into account many of the potential costs and savings that can be anticipated.

Given these developments, PAR encourages the Legislature begin public hearings on the results of this analysis. The meeting of the joint insurance committees on March 13, 2013, was a good step for the Legislature to begin asserting its authority and providing input into the decision of whether Louisiana should participate in the Medicaid expansion. More stakeholders in the health care community should be brought to the hearing table to discuss their views.

PAR reiterates that the governor should lay out his alternative path for health care coverage for Louisiana's uninsured if he continues to reject the Medicaid expansion. The new DHH report provides some additional information about the administration's suggestions for health care policy in the future. If the governor wishes to seek a specific waiver or flexibility from the U.S. Department of Health and Human Services (HHS), he should seek this soon and share this request with the public. HHS should be held accountable if is unresponsive to Louisiana's requests.

As noted in PAR's earlier publication, the fiscal analysis of a Medicaid expansion should be a significant factor in this decision. Another important factor is the health outcomes for Louisiana citizens. The administration expects improved health outcomes for most of the current Medicaid population who are enrolled in the state's Bayou Health managed care model. PAR assumes the administration would use the Bayou Health management of care infrastructure under a Medicaid expansion. Whether the administration uses this or another approach for a Medicaid

expansion remains to be seen, but there is little doubt that health outcomes are worsened when the uninsured have little or no preventive or primary care.

Although the DHH report criticizes the choice for expansion, the analysis shows a probable scenario that produces a much less expensive program for Louisiana than the prior studies produced by DHH and Kaiser. These numbers indeed provide a much more favorable outlook for the Medicaid expansion for Louisiana from a fiscal standpoint. There will always be some risk in public policy implementation of this magnitude. The new models designed by the state analysts delineate the types of known risk and the estimated impact of the risks. By far the largest potential cost identified by DHH would be the possible need for broad and substantial provider rate adjustments. These are adjustments that are decided by the state of Louisiana, not by any clear or present mandate under the new federal law. Unless the state takes the view that provider rate adjustments need to be maximally increased, the overall projected cost to the state is significantly lower than in previous models.

PAR looks forward to receiving the documents behind the new analysis from DHH and examining the assumptions and data in a more thorough manner. On the question of whether Louisiana should adopt the Medicaid expansion, DHH's new analysis on balance gives greater weight to the argument that the state would be unlikely to incur a heavy cost. Many factors must be considered in deciding whether the state should adopt the Medicaid expansion. This newly projected fiscal impact, along with the likelihood of improved health care outcomes by providing more coverage to more people, are among the most critical factors to be taken into consideration.