

State Health Reform Assistance Network

Charting the Road to Coverage

ISSUE BRIEF
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Medicaid Expansion States See Significant Budget Savings and Revenue Gains

Early Data From Two States Shows More Than \$1 Billion in Savings

Prepared by *Deborah Bachrach, Patricia Boozang, and Dori Glanz, Manatt Health Solutions*

Kentucky and Arkansas, two states that expanded Medicaid to cover adults up to 133 percent FPL, are seeing significant savings in their state budgets that will cover all expansion-related costs well beyond state fiscal year (SFY) 2021.

- ▶ **Kentucky estimates saving \$820 million**, net of costs, from SFY '14 to SFY '21
- ▶ **Arkansas estimates saving \$370 million**, net of costs, from SFY '14 to SFY '21

For states that are considering Medicaid expansion, Kentucky and Arkansas are examples of how expansion can produce savings in tax dollars and generate new revenue for state budgets.

As states continue to look for new ways to balance their budgets, early results from states that have expanded Medicaid show significant state budget savings after just the first year of expansion. Twenty-six states have expanded Medicaid—this brief focuses on the budget impact in two states: Kentucky and Arkansas.¹ Both states report expansion-related savings and Arkansas reports new revenues. When projected forward, these financial gains are likely to exceed expansion-related costs for years to come. These early savings point to Medicaid expansion paying for itself at least through SFY 2021—while generating major gains in coverage and reducing the number of uninsured.

ABOUT STATE NETWORK

State Health Reform Assistance Network, a program of the Robert Wood Johnson Foundation, provides in-depth technical support to states to maximize coverage gains as they implement key provisions of the Affordable Care Act. The program is managed by the Woodrow Wilson School of Public and International Affairs at Princeton University. For more information, visit www.statenetwork.org.

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For more information, please contact Patricia Boozang at PBoozang@manatt.com or 212-790-4523, or Deborah Bachrach at DBachrach@manatt.com or 212-790-4594.

While data is still limited, the savings and increased revenue seen in expansion states fall into three major categories:

- 1. STATE SAVINGS FROM USING NEW FEDERAL FUNDS:** Historically, many states have supported programs and services for the uninsured—mental and behavioral health programs, public health programs, and inpatient health care services for prisoners—with state general fund dollars. With expansion, virtually all of the beneficiaries of these programs and services are able to secure Medicaid coverage in the new adult category, which means states can fund these services with federal—not state—dollars. **Kentucky saved \$9 million in 2014 as enrollees in behavioral and mental health programs were fully covered by Medicaid.**
- 2. STATE SAVINGS FROM ENHANCED FEDERAL MATCHING:** States are saving money as they are now able to cover those most in need with 100 percent federal funding. In the past, states often used waivers or specialized Medicaid eligibility categories to provide at least some coverage to high-need enrollees, such as “medically needy” individuals, pregnant women, and the disabled. They typically had to pay between 30 and 50 percent of the cost of covering such individuals. With expansion, these individuals are now eligible for full Medicaid coverage—which means they (and the state) will save money while receiving full Medicaid benefits. **Arkansas saved \$17.5 million in 2014 by accessing the 100 percent federal match for adults previously enrolled in waiver programs and targeted categorical eligibility groups who transitioned to the new adult group.**
- 3. REVENUE GAINS:** Many states raise revenue through assessments or fees on providers and health plans. As provider and health plan revenue increases with expansion, this translates into additional revenue for states. **Arkansas saw revenue gains of \$4.7 million in 2014.**

The following chart summarizes early results on savings and revenue gains in Kentucky and Arkansas. Many other states are beginning to report comparable economic information, and all states are finding additional benefits ranging from significant drops in the number of uninsured to a reduction in uncompensated care costs to the creation of tens of thousands of jobs.

State Savings and Revenue Gains Related to Medicaid Expansions in Kentucky and Arkansasⁱⁱ				
	Kentuckyⁱⁱⁱ		Arkansas^{iv}	
Year	SFY 2014 7/1/13 – 6/30/14 6 months of actual savings	SFY 2015 Projected savings based on 2014 results	SFY 2014 7/1/13 – 6/30/14 6 months of actual savings	SFY 2015 Projected savings based on 2014 results
Medicaid Budget (State Share Only)	\$1,980 million ^v	\$2,080 million ^{vi}	\$1,541 million	\$1,537 million
Regular Federal Matching Rate	69.83%	69.94%	70.10%	70.88%
State Savings From Using New Federal Funds				
	Kentucky		Arkansas	
Year	SFY 2014	SFY 2015	SFY 2014	SFY 2015
TOTAL SAVINGS	\$18.4 million	\$49.8 million	\$13.3 million^{vii}	\$33.4 million
Mental/Behavioral Health Programs	\$9 million	\$21 million	N/A	\$7.1 million
Inpatient Costs of Prisoners	\$5.4 million	\$11 million	N/A	\$2.8 million
Public Health Programs	\$4 million	\$6 million	N/A	\$6.4 million
Uncompensated Care Funding to Hospitals	N/A	\$11.8 million ^{viii}	N/A	\$17.2 million
State Savings from Enhanced Federal Matching				
	Kentucky		Arkansas	
Year	SFY 2014	SFY 2015	SFY 2014	SFY 2015
TOTAL SAVINGS	\$7.4 million	\$33.3 million	\$17.5 million	\$55.4 million
Medically Needy Spend Down	\$2.4 million	\$14 million	\$1.7 million	\$6.6 million
Disabled Adults	\$1.7 million	\$7.9 million	\$2.2 million	\$9.0 million
Breast and Cervical Cancer Treatment Program	\$0.4 million	\$1.3 million	\$2.2 million	\$4.4 million
State Transitional Assistance Program	\$1.9 million	\$9 million	N/A	N/A
Pregnant Women	N/A	N/A	\$4.9 million	\$19.6 million
Family Planning	N/A	N/A	\$0.8 million	\$1.6 million
Waiver Programs for Adults	N/A	N/A	\$5.7 million ^{ix}	\$14.2 million ^x
Revenue Gains				
	Kentucky		Arkansas	
Year	SFY 2014	SFY 2015	SFY 2014	SFY 2015
TOTAL REVENUE GAINS	N/A	N/A	\$4.7 million	\$29.7 million
Revenue From Insurer Assessments	N/A	N/A	\$4.7 million	\$29.7 million
Revenue From Provider Assessments	N/A	N/A	N/A	N/A

End Notes

ⁱ This report is the first in a two-part series examining the impact of Medicaid expansion on state budgets.

ⁱⁱ All figures are estimates, based on early expansion experience.

ⁱⁱⁱ Kentucky figures were sourced from the February 2015 Commonwealth of Kentucky Medicaid Expansion Report, available online at http://governor.ky.gov/healthierky/Documents/medicaid/Kentucky_Medicaid_Expansion_One-Year_Study_FINAL.pdf.

^{iv} All Arkansas figures were sourced from interviews with state budget experts and leaders.

^v 2014-2016 Budget of the Commonwealth, Operating Budget Volume I (Part B), Page 158. Available online at: <http://www.osbd.ky.gov/NR/rdonlyres/64166014-AA66-4D99-90E7-9269F99E4B30/0/1416BOCVolumeIbcorrected.pdf>.

^{vi} Id.

^{vii} The breakout for this category of savings is not available for SFY 2014.

^{viii} This line item reflects reductions in budgeted funding for the Kentucky Quality Care Charity Trust Funds, to cover economically disadvantaged populations.

^{ix} Savings reflect reductions in spending on the ARHealthNetwork waiver population.

^x Id.