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CBO Finds Health Reform's Medicaid Expansion Is an Even Better Deal for States

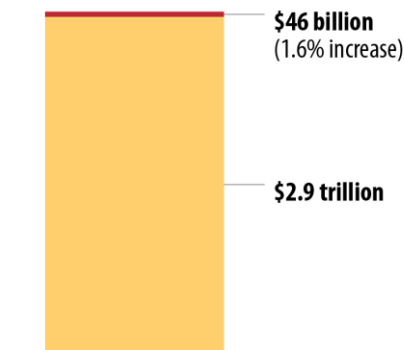
by Edwin Park

Congressional Budget Office (CBO) estimates released last week show that health reform's Medicaid expansion, which many opponents wrongly claim will cripple state budgets, is an even better deal for states than previously thought.¹ CBO has sharply lowered its estimates of the costs to states of adopting the Medicaid expansion.

- CBO now estimates that the federal government will, on average, pick up *more than 95 percent* of the total cost of the Medicaid expansion and other health reform-related costs in Medicaid and the Children's Health Insurance Program (CHIP) over the next ten years (2015-2024).
- States will spend only 1.6 percent more on Medicaid and CHIP due to health reform than they would have spent without health reform (see Figure 1). That's about *one-third less* than CBO projected in February.² And the 1.6 percent figure is *before* counting the state *savings* that the Medicaid expansion will produce in state expenditures for services such as mental health and substance abuse treatment provided to the uninsured.

Figure 1
**Medicaid Expansion
 Raises State Medicaid and CHIP*
 Spending by Only 1.6 Percent**

■ Additional state spending on Medicaid and CHIP under health reform, 2015-2024
 ■ State spending on Medicaid and CHIP without health reform, 2015-2024



*CHIP=Children's Health Insurance Program
 Source: CBPP analysis of the Congressional Budget Office's April 2014 Medicaid and CHIP baselines.

¹ Congressional Budget Office, "Updated Estimates of the Effects of the Insurance Coverage Provisions of the Affordable Care Act: April 2014," April 2014, http://cbo.gov/sites/default/files/cbofiles/attachments/45231-ACA_Estimates.pdf.

² In its February 2014 health reform baseline, CBO estimated that the Medicaid expansion and other health reform coverage provisions would raise state expenditures for Medicaid and CHIP by \$70 billion over the next ten years (2015-2024). CBO's new projection of a \$46 billion increase is 34 percent less than its previous projection. Congressional Budget Office, "Insurance Coverage Provisions of the Affordable Care Act — CBO's February 2014 Baseline," February 2014, <http://cbo.gov/sites/default/files/cbofiles/attachments/43900-2014-02-ACATables.pdf>.

CBO apparently lowered its projection of the added state costs because it now expects fewer people who were eligible for Medicaid *before* health reform — but were unenrolled — to enroll in Medicaid as a result of health reform. The federal government will pick up 100 percent of the costs of newly eligible individuals under the Medicaid expansion for the first three years and no less than 90 percent thereafter. In contrast, it will cover an average of 57 percent of the costs of *already* eligible people who newly enroll (i.e., it will contribute to the costs of covering those people at the regular federal Medicaid matching rate). Because CBO now expects states to experience smaller increases in enrollment among those previously eligible than it previously estimated, it expects states to incur lower costs over the next decade than it previously assumed.

CBO's estimate of the impact of the Medicaid expansion and other health reform coverage provisions on state budgets is, as noted above, only a partial estimate — because it only reflects the impact on state expenditures for Medicaid and CHIP. The CBO estimate does not reflect the substantial savings that states and localities taking the expansion will realize from no longer having to bear the costs for various health services they were providing to large numbers of people who were previously uninsured but now have Medicaid coverage.³ The Urban Institute has estimated that if all states took the Medicaid expansion, states would save between \$26 billion and \$52 billion in this area from 2014 through 2019,⁴ while the Lewin Group has projected state and local savings of \$101 billion.⁵

³ January Angeles, “How Health Reform’s Medicaid Expansion Will Impact State Budgets,” Center on Budget and Policy Priorities, revised July 25, 2012, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3801>.

⁴ Matthew Buettgens, Stan Dorn, and Caitlin Carroll, “Consider Savings as Well as Costs: State Governments Would Spend at Least \$90 Billion Less with the ACA than Without It from 2014 to 2019,” Urban Institute, July 2011, <http://www.urban.org/UploadedPDF/412361-consider-savings.pdf>.

⁵ Lewin Group, “Patient Protection and Affordable Care Act (PPACA): Long Term Costs for Governments, Employers, Families and Providers,” Staff Working Paper # 11, June 8, 2010, http://www.lewin.com/~media/Lewin/Site_Sections/Publications/LewinGroupAnalysis-PatientProtectionandAffordableCareAct2010.pdf.