



Idaho Workgroup on Medicaid Expansion

Richard M. Armstrong, Chair

December 3, 2012

The Honorable C.L. "Butch" Otter
Governor of Idaho
P.O. Box 83720
Boise, Idaho 83720-0034

Dear Governor Otter:

Thank you for the opportunity to help Idaho evaluate the possible expansion of comprehensive healthcare services to low-income adults through the Patient Protection and Affordable Care Act (PPACA).

The workgroup held three meetings, evaluating data that estimates the savings, costs, benefits and liabilities to the state, counties, businesses, and Idaho citizens. The experience and knowledge of workgroup members was instrumental in evaluating this complex issue. Workgroup members and state staff also researched and tapped experts across our nation to gather the pertinent facts necessary for an informed group decision.

RECOMMENDATION: The committee universally supports expanding Medicaid coverage to the working poor, but also unanimously believes there must be significant conditions attached to the proposition.

We find that Idaho is at an important crossroad for healthcare management of low-income working Idahoans. Over the past decade those citizens working for minimum wage have seen healthcare costs rise while their household budgets have been reduced or remained flat. Healthcare, unlike housing, food, and transportation, is often deferred because medical events are episodic. Furthermore, Idaho provides safety net care for acute and critical conditions through free clinics, hospitals which are obligated to deliver emergency services, and county/state programs that pay for indigent healthcare. Through the Great Recession the gap between wages, healthcare costs and health insurance premiums widened, creating a class of workers in jobs that do not provide group insurance, with take-home pay that can only provide the basics of housing, food, and transportation.

One of the first evaluations by the workgroup was analysis of the demographics of the expansion population based on their ages, overall health and current source of medical care. One misconception the data unveiled is the employment status of the possible expansion population. In Idaho, approximately 64 percent of non-elderly, uninsured adults work full- or part-time for employers who do not offer health insurance coverage, or are self-employed. The choice before us is to continue our current episodic, incident-based payment policy which tends to pay at the highest cost settings for highly advanced disease states, or to move these citizens into a system of care where the focus is the right care at the right time at the lowest cost.

Our recommendation to expand Medicaid to this low-income population is contingent upon two critical conditions:

Personal Accountability by the participant must be an integral part of benefit design for the Medicaid expansion population. The workgroup does not support simply expanding the current Medicaid entitlement program design. Instead, the workgroup recommends a Medicaid plan with built-in personal accountability requirements for consumers and providers that encourages prevention and behavioral strategies to improve health outcomes and decrease overall system costs.

Idaho's service delivery system must be redesigned to shift provider incentives from volume of visits to value of care by creating provider payment incentives to keep people healthy. Providers are expected to follow evidence-based care protocols that reflect best practices across the country. Establishing the patient-centered medical home as a foundation of the service delivery system allows care to be managed more efficiently and effectively. Other key delivery system design features should move toward an accountable care model of integrated service delivery and developing provider-driven community care networks.

During our workgroup's evaluation, consultants provided analyses that estimates optional expansion could add approximately 80,000 low-income adults to Idaho Medicaid. The most surprising discovery by the workgroup, however, is that no matter what decision Idaho makes concerning optional expansion, there are going to be significant and unavoidable impacts from new PPACA regulations. With or without optional expansion, PPACA modifications of Medicaid eligibility criteria and the requirement that all citizens be covered by insurance may add an additional 70,000 people, including 39,000 children, to Medicaid's current rolls of 240,000. These mandatory, newly eligible participants are projected to cost the state an additional \$284 million during the next 10 years. These federal requirements are non-negotiable; the state must fund the new mandated changes.

Another major discovery by the workgroup shows that optional expansion for Idaho may produce greater savings and offsets to state and local taxpayer expenses than other states might realize. Idaho currently has a very unique but costly system to fund indigent healthcare expenses. Expansion would reduce state and county indigent healthcare expenses by an estimated 90 percent. Projections presented to the workgroup estimate \$290 million in savings and offsets to state and county governments over the next 10 years. Subtracting the mandated PPACA costs of \$284 million, the state/counties realize potential savings of \$6 million if expansion is approved, freeing up state and local taxpayer dollars.

The analysis of the option to not expand Medicaid does not produce state savings, primarily due to the mandatory PPACA eligibility changes that are going to cost the state \$284 million. There also are serious economic concerns that without expansion, Idaho's ability to compete for new businesses will be at a disadvantage with states that opt to expand.

In addition to studying expansion costs and potential state and county government savings, the workgroup also heard from economists regarding the potential economic impact of new federal funds coming into the state. Economists from Boise State University and the University of Idaho showed expansion may produce a multiplier effect that could add thousands of jobs, and increase both personal income and state and local tax revenues. Estimates prepared by an economist from the University of Idaho and presented by the Idaho Hospital Association shows approximately 16,000 new jobs could be generated by the influx of additional federal dollars from expansion. These new jobs, along with the multiplier effect of related economic activity, may contribute approximately \$616 million in sales, property and income taxes by 2024. The Idaho Hospital

Association analysis integrated the economic impact data from the University of Idaho economist with the Milliman data to calculate the projected net tax savings after subtracting expansion costs. This analysis shows a cumulative net tax savings for state and local governments of \$622 million between 2014 and 2024.

With this recommendation, the workgroup is acutely aware that expansion could critically impact a healthcare provider workforce shortage that is already being felt in many areas of our state. The addition of 70,000 Idaho residents who will become eligible through mandatory PPACA eligibility changes, coupled with 80,000 becoming eligible through optional expansion, may create access issues for the healthcare system, especially during the initial 18 months of expansion. However, the workgroup also firmly believes healthier Idahoans will result in a more productive workforce, improved school attendance and performance, and lower rates of costly emergency department utilization and hospitalizations.

The workgroup also acknowledged that the County Medically Indigent Program has "run its course" and is not sustainable going forward. Replacing the very expensive episodic care funded through the County Medically Indigent Program and the State Catastrophic Health Care Cost Program with Medicaid-funded care focused on primary and preventive care is cost effective and will keep Idaho's low-income population healthier. Also, if Medicaid is expanded the counties and taxpayers may benefit from increased revenues and/or property tax relief as the County Medically Indigent Program winds down.

Hospitals also are significantly impacted by Idaho's decision regarding Medicaid expansion. PPACA reduces Medicare payments to hospitals by an estimated \$500 million (\$600 million if sequestration occurs) over the next 10 years. This reduction would have been offset if Medicaid expansion was mandatory, but the Supreme Court made it optional. Without expansion, much of those Medicare losses to the hospitals would have to be passed on to insured and self-pay patients. With Medicaid expansion and more low-income adults with healthcare coverage, Idaho hospital losses from uncompensated care may be reduced.

Taking all these variables into account, we are confident our recommendation for Medicaid expansion is sound. When we consider the cost savings to the state to pursue Medicaid expansion and the economic impact of additional federal funds coming into the state, as well as our stated conditions to build in personal client accountability and redesign our healthcare delivery system, Medicaid expansion is the logical conclusion. In fact, Medicaid expansion may become the vehicle to drive forward many of the additional healthcare system redesign components that are important to both you and workgroup members. Taking an innovative approach to personal accountability and evaluating whether or not personal health behaviors change, will give us important information regarding which incentives are most effective and help us improve the health of Idahoans into the future.

The workgroup is grateful for the opportunity to engage in this study for Idaho.

Sincerely,



Richard M. Armstrong, Chairman
Idaho Workgroup on Medicaid Expansion