The Waterfall Effect: Transformative Impacts of Medicaid Expansion on States

Joel E. Miller
Christy Lentz
Narges Maududi
Justin Harding
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Foreword

In the U.S. Supreme Court’s recent decision upholding the Patient Protection and Affordable Care Act (ACA) in June 2012, an important question before the High Court was whether it was coercive for the federal government to threaten to withhold current federal funding for Medicaid – the joint federal-state health insurance coverage program for poor and near poor individuals – if states did not expand the program in compliance with the new Medicaid expansion requirement in the ACA.

The Court ruled it is coercive to withhold funds, which has unleashed a policy and financial scramble on whether states should take or leave new funds offered through the Medicaid expansion under the ACA.

The Court’s ruling has major implications for people with behavioral health conditions. The federal-state Medicaid program is the largest source of financing of behavioral services, covering over a quarter of all expenditures on behavioral health care in the United States and the majority of funding to safety net delivery-care systems that disproportionately serve individuals with behavioral health conditions. Medicaid plays a large role in financing behavioral health care because: its eligibility rules reach many individuals with significant need; it covers a broad range of benefits; and its financing structure allows states to expand services with federal financial assistance. Among lower-income, nonelderly adults, Medicaid beneficiaries who have a mental illness have a greater opportunity to secure mental health treatment than those who are uninsured and have a mental illness. Among the uninsured, an estimated 13.4 million people with behavioral health conditions will be newly eligible for coverage under either Medicaid or state insurance exchange plans.

Many Governors have expressed deep concerns that the new Medicaid expansion would have a deleterious effect on their state budgets. With the potential of the new Medicaid expansion under the ACA to significantly cover more people with behavioral health disorders, the National Association of State Mental Health Program Directors (NASMHPD) embarked on a research study effort to determine if states would see improved budget conditions and financial gains through the new expansion.

The primary audiences for the report include state officials such as Governors and key Cabinet Officials, State Legislatures, State Behavioral Health Agencies, other State and Local officials such as Medicaid agencies, and advocacy groups.

The methodological approach employed is a meta-analysis of recent studies and reports on the potential impact of the Medicaid expansion on state budgets and finances. We also looked at potential impacts if Governors and Legislatures do not choose to participate in the new Medicaid expansion program.

This is the first report that attempts to show in a graphic way the potential impact of several events under the Medicaid expansion that have cascading effects on state budgets, state economies and the uninsured problem.
We have tried to provide a guide on the potential impacts that would accrue to states for choosing to opt in to the Medicaid expansion and potential lost opportunities in four key sections:

**Section One** describes the differences under the current Medicaid program and the new Medicaid expansion effort, including the increased payment match by the federal government under the new Medicaid expansion.

**Section Two** estimates the potential impact of the new Medicaid expansion on state budgets if all states choose to participate in the Medicaid expansion effort.

**Section Three** examines the Medicaid expansion from the vantage point of the impact on entire state economies and opportunities to increase state-wide revenues.

**Section Four** details how the new Medicaid expansion will address the uninsured problem in each state – one-third of the uninsured population have a behavioral health condition, and one-half of this group has a serious mental illness – and the ability to improve their health status and receive high-quality health care services.

A final section of our study looks at specific concerns of state officials regarding the new Medicaid expansion program and the role of government in the health care and health insurance sectors.

This report goes beyond the recent sound bites and headlines on Medicaid expansion issues to provide a detailed evaluation of what it means for states that choose to opt in – or do not participate – in the ACA Medicaid expansion initiative. We hope this report informs those assessments and decisions.

Robert W. Glover, Ph.D.  
Executive Director  
National Association of State Mental Health Program Directors
About NASMHPD

The National Association of State Mental Health Program Directors (NASMHPD) is home to the only member organization representing state executives responsible for the $37 billion public behavioral health service delivery system serving nearly 7 million people annually in all 50 states, 4 territories, and the District of Columbia.

NASMHPD serves as the national representative and advocate for State Behavioral Health Agencies (SBHAs) and their directors and supports effective stewardship of state mental health systems. NASMHPD informs its members on current and emerging public policy issues, informs them on research findings and best practices in behavioral health, provides consultation and technical assistance to members, collaborates with key stakeholders, and facilitates state-to-state sharing of new approaches and information on improving care for people with serious mental illnesses.

About the Primary Author

Joel E. Miller, M.S. ED., Senior Director of Policy and Healthcare Reform, NASMHPD

With over 30 years of experience in healthcare and behavioral health policy, Mr. Miller has advocated for the creation of federal and state policy and regulatory solutions to improve the delivery and financing of health care and behavioral health care in the United States.

In his current role at NASMHPD, he leads the development and implementation of NASMHPD’s policy agenda and regulatory strategies designed to support State Behavioral Health Agencies and the state public behavioral health systems.

Prior to his role at NASMHPD, Mr. Miller served as Senior Vice President at the National Coalition on Health Care, where he oversaw the evaluation, preparation and dissemination of innovative research and policy analysis about the nation’s healthcare system.

At the National Alliance on Mental Illness (NAMI), Mr. Miller led NAMI’s State Policy team, dedicated to improving the financing and delivery of mental health services at the state level for people with mental illness, and addressing mental illness issues across the lifespan.

He has published over 50 articles and reports on behavioral health and health care delivery and financing, the health care workforce, cost management, medical practice assessment, quality improvement, insurance exchanges, and public/private health insurance programs.
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Kathy Parker and Pat Shea provided valuable insights on the content, and Justin Harding provided additional comments and final proofing on the document.

A profound thank you goes to the Urban Institute for the remarkable and engaging work they have conducted over the last two years on Medicaid expansion issues.

The Urban Institute, the Center on Budget and Policy Priorities and the Lewin Group – as well as other Washington-based non-partisan, non-profit think tanks and public policy operations – have issued major studies that provide projections on budget gains to individual states and in total, based on the impact of the Medicaid expansion under the ACA.

The Urban Institute, in particular, has released specific statistics over the last two years on potential state budget gains across several parameters as a result of the Medicaid expansion program in the Affordable Care Act. We have tried to capture that work in this overall meta-analysis, and we are indebted to the various authors of the Institute’s key Medicaid expansion studies such as Stan Dorn, Matthew Buettgens and John Holahan.

We are also indebted to Families USA and Ron Pollack for their work on Medicaid issues that are part of the Medicaid Primer section, and their work on the impact of the Medicaid program on jobs in individual states that we highlighted in Section Three. The Kaiser Family Foundation’s work on the impact of the program Medicaid on statewide economies served as a key piece in Section Three of our meta-analysis.

We also want to thank the Kaiser Family Foundation for their work on opportunities for improving mental health services through the Affordable Care Act, and the work of several experts who provided inspiration including David Mechanic and John O’Brien whose recommendations are summarized in Section Four and key appendices.
Executive Summary

The impact of the new Medicaid expansion initiative under the Patient Protection and Affordable Care Act passed in March 2010 (Affordable Care Act or ACA) will result in significant state budget gains, increased state-wide economic activity, and increased health insurance coverage for residents of states who choose to opt in to the expansion program. This conclusion is based on a comprehensive meta-analysis of over 20 Medicaid expansion-related studies released over the last two years.

If all 50 states choose to opt in to the new Medicaid expansion in the Affordable Care Act, states will see budget gains of over $300 billion between 2014 and 2023. Budget gains are primarily due to the transfer of several Medicaid health insurance initiatives by the states – that have voluntarily expanded health coverage to lower-income uninsured people – to the federal government who will now incur significant costs for the expanded coverage through “enhanced” match rates (the federal government will also save money due to reductions in their financial liability dedicated to treating previously uninsured people).

In addition to state financial budget gains, the new expansion will generate extensive state-wide economic activity by bringing in new revenues into individual states, thereby creating new jobs and expanding incomes in many business sectors due to what is known as a “multiplier effect.” Some states expect to accrue over $1 billion in new revenues over a 10-year period. If several states decide not to opt in to the Medicaid expansion, we can expect to see the multiplier effect to generate even more economic activity for states that opt in to the expansion effort as technology firms and provider organizations would be more inclined to focus new investments and job creation in the expansion states. Enterprising entrepreneurs also will be able to gain coverage more easily through public and private insurance.

For states that elect the full expansion of eligibility, the federal government will pay 100 percent of all Medicaid expansion costs between 2014 through 2016, eventually settling in at 90 percent beginning in 2020 and remaining at that payment range. The federal government recently announced that these coverage and match rates would not be provided to states that choose to partially expand eligibility or elect to forgo expansion. For the states electing to fully expand eligibility, these new revenues will result in a significant increase in the purchasing of consumer goods and services downstream.

Moreover, between 2014 and 2019, a full Medicaid expansion will provide health insurance coverage to 17 million people with incomes less than 138 percent of the federal poverty level (FPL) who were previously uninsured. About 40 percent of this group – or 6.6 million individuals – with serious or moderate mental illnesses who are currently uninsured will obtain health insurance through the Medicaid expansion between 2014 and 2019. As a result of the Medicaid health insurance expansion, researchers estimate significantly reduced mortality for people who were
previously uninsured and improved health status for people with mental illness, and overall enhanced productivity.

In addition to the Medicaid expansion, 6.8 million uninsured people with a mental illness will also gain health coverage though the implementation of state health insurance exchanges under the health care reform law, out of nearly 18-25 million projected newly-insured people through the insurance exchanges between 2014 and 2019.

In addition to examining the benefits of expanding Medicaid, we also examined potential drawbacks or negative consequences for states that do not participate in the new Medicaid expansion program. We have determined there are several downsides for states that do not participate including the loss of tax benefits, a diminished opportunity for a state to improve its health care infrastructure, and reduced opportunities to address the needs of lower- and moderate-income populations with high-cost chronic diseases.

Although there are several negative downsides for states that do not participate, NASMHPD recognizes the significant variance in perspectives among Governors related to the Medicaid expansion program. This variance includes concerns about increased federal government involvement, the perceived possibility of increased federal spending, and some Governors question whether Medicaid expansion will necessarily change how health care is practiced. NASMHPD addresses many of these concerns in Section Five of this report.

However, State Behavioral Health Agencies (SBHAs) who represent the needs of people with mental illness through their public behavioral health care systems, should make a strong business case to state and local officials at all levels – from cabinet members to county executives – that opting in to the Medicaid expansion is a good financial decision for their jurisdictions on three fronts:

First, state budget increases will help reduce state budget deficits or increase surpluses.

Second, a major infusion of new Medicaid funds will increase state-wide economic activity as a result of expansion. The injection of new funding will substantially offset Medicaid expansion implementation costs.

Third, resources will be freed up that are now being used for free care or subsidized care to uninsured and underinsured individuals. Many of the estimated 13.4 million uninsured people with behavioral health conditions who would be enrolled in Medicaid or exchange health plans are now using free care or subsidized services, often delaying access to treatment until conditions deteriorate, and driving costly emergency and inpatient interventions that are paid for with state appropriations, block grants or disproportionate share hospital (DSH) dollars. When these DSH funds are no longer required, state funds and federal contributions may be redirected to other priorities.
SBHAs need to make the case that the Medicaid expansion will not only save money for states, but also save lives and improve the health status for millions of newly-eligible people – especially for people with serious mental illness – through better access to health insurance and effective quality improvement approaches.

The financial gains and health status improvements that NASMHPD has identified through the meta-analysis are summarized in the following graphic.

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**A Dozen Key Takeaways from NASMHPD’s Meta-Analysis**

**The New Medicaid Expansion program is a generous financial deal for the states, and will help reduce the federal budget deficit.**
- The Medicaid Expansion will reduce state budget deficits and increase surpluses.
- The Medicaid Expansion will keep residents’ federal taxes flowing into the state.

**The Medicaid Expansion will have a deep and broad positive impact on state economies.**
- The Medicaid Expansion means creating new jobs.
- The Medicaid Expansion will generate new revenue.

**The Medicaid Expansion will help hospitals caring for a disproportionate share of lower-income and uninsured people.**
- The Medicaid Expansion will significantly reduce the number of uninsured adult residents with mental health conditions.
- The Medicaid Expansion will reduce adult death rates.

**The Medicaid Expansion will avoid discrimination against people with mental health disabilities.**
- The Medicaid Expansion will help individuals with serious mental illness secure broad health benefits.
- The Medicaid Expansion will help homeless individuals obtain care.

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**Benefits to States that Opt In to the Medicaid Expansion**

The three overarching findings from our meta-analysis show:

1. A substantial and positive fiscal impact for states choosing to opt in to the new Medicaid expansion program under the Affordable Care Act with total state budget gains up to $304 billion between 2014 and 2023, and potentially another $60 billion in gains due to other factors, as the federal government incurs nearly all new Medicaid expansion costs over the initial 10-year period of the health care law.

According to Congressional Budget Office (CBO), the federal government will pay $931 billion of the cost of the Medicaid expansion, while states will pay roughly $73 billion, or 7 percent, and these implementation costs will be offset by $377 billion in gains referenced in this report resulting in $304 billion in
**overall state budget gains.** Due to the expansion, NASMHPD estimates that state budgets will see at a minimum an additional $12 billion in financial gains (part of $60 billion in overall budget gains not included in our final budget increases) due to a 23 percentage point increase in the federal match for the state Children’s Health Insurance Program (CHIP) beginning in 2016 through 2019.

Although some states will see upfront costs for implementing the Medicaid expansion or see an enrollment uptick in the current program that are proposed in FY 2014 budgets, these funds will be significantly offset by budget gains due to the expansion beginning in 2014.

2. **The Medicaid expansion will generate extensive economic activity by bringing substantially new revenues into individual states, thereby creating new jobs and expanding incomes due to what is known as a “multiplier effect” throughout state economies.** Some states have estimated over one billion dollars in new revenues through the new Medicaid expansion effort.

For example, the State of Michigan estimates that it will see state-wide financial gains of $1 billion overall between 2014 and 2023 due to the increased federal Medicaid match and new revenues generated due to a major infusion of Medicaid funds.

According to an independent study by the University of Nebraska Medical Center, spending by the federal government on Medicaid expansion would generate at least $700 million in new economic activity every year in Nebraska, which could finance over 10,000 jobs each year through 2020.

The primary reason for the increased activity is that the federal government will be paying 100 percent of all Medicaid expansion costs that are incurred by providers between 2014 and 2016 under the new Medicaid program (then gradually settling at 90 percent in 2020 and beyond). The infusion of new Medicaid dollars in a state under the expansion provisions in the ACA will have a dramatic effect on state economic activity.

3. **At the same time that significant economic activity will be generated by the new Medicaid expansion,** the ACA law will provide health insurance coverage to 17 million people who were previously uninsured, if all states participate in the new Medicaid expansion initiative. Another 18-25 million people who were previously uninsured will receive coverage through the private health insurance marketplace known as “health insurance exchanges.” It has been projected that 13.4 million people who have behavioral health conditions will be eligible for coverage through the new Medicaid expansion program (6.6 million people) and through the health insurance exchanges (6.8 million people) beginning in 2014 through 2019.
The ACA has the potential to significantly expand the availability and accessibility of health care to individuals with behavioral health diagnoses. With the incentives built into the ACA, service delivery would become more integrated with other health care treatments and services – and with a more community-based, person-centered focus. Taking one snapshot of the potential impact of the expansion, of the 425,000 individuals projected to become newly eligible for Medicaid coverage in the Commonwealth of Virginia, 34 percent of these residents will need mental health and substance abuse services. And the health care quality improvement gains afforded by expanding Medicaid coverage, which is now well documented, shows such increases in coverage reduce mortality rates among new Medicaid enrollees and improve health status.

In addition, the Mental Health Parity and Addiction Equity Act of 2008 prohibits financial requirements and treatment limitations for mental health and substance abuse benefits in group health plans from being more restrictive than those placed on medical and surgical benefits. These provisions will apply to expanded Medicaid programs, coverage available under the state health insurance exchanges, as well as to Medicaid managed care programs. Most importantly, the ACA requires the inclusion of mental health and substance use treatment services in the list of the 10 essential benefits that insurance exchanges must offer, and as a consequence provided through the Medicaid expansion.

NASMHPD believes the Medicaid expansion will serve as a substantial positive three-pronged “cascading” or compounding effect on state budgets, state economies and for people without health insurance coverage. People with serious mental illness, one of our most vulnerable populations, will see a significant increase in health insurance coverage due to the Medicaid expansion.

Negative Consequences for States Not Participating in the New Medicaid Expansion

If individual governors and state legislatures do not choose to participate in the new Medicaid expansion program, foregoing the substantial federal funds associated with expansion, their states will in effect have significant lost opportunities to reduce their budget deficits and increase economic activity. States that do not participate will lose new revenues coming into their states, and at the same time, will see their tax dollars flow to states that chose to opt in to the new expansion program. The states that opt in will then benefit in budget and revenue gains, with little accruing to the non-participating states. In other words, if the state chooses to opt out, citizens would be contributing federal tax dollars to a program their constituents would never benefit from.

In addition, lower-income citizens in non-participating states who are uninsured and with significant health needs – many with behavioral health conditions – will be left without...
access to health insurance coverage. They will, of course, access free care in emergencies, remaining unable in many cases to access preventive and routine care, delaying treatment until needing crisis intervention that often drives use of more expensive hospital based emergency and inpatient care. Many people recognize Medicaid as a program that provides coverage to the poor, but few know that millions of working adults – mainly childless – do not currently qualify for Medicaid even if they have little income. And about 25 percent of this population has serious and moderate behavioral health conditions. The Medicaid expansion will significantly increase access to health insurance which is the pass-key to receiving high-quality care.

Moreover, the decision not to participate will negatively impact major organizations in that state. For example, safety-net providers – especially inner-city and teaching hospitals who were expecting to have their costs for treating previously uninsured individuals covered through the new Medicaid expansion – will feel a combined effect of increased uncompensated care costs as the uninsured population will increase, and major reductions in federal financial support that will begin in 2014 for treating lower-income uninsured people.

Behind the Findings:
Impact Analysis of the Medicaid Expansion on State Budgets, State Economies and the Uninsured Population

The Impact of the Medicaid Expansion on State Budgets

According to the multiple studies that NASMHPD reviewed, the significant budget gains that states will experience through the new Medicaid expansion are due to seven major policy initiatives that primarily transfer costs from the states to the federal government under the ACA:

1. Increasing the Federal Match for Certain Current Eligible Individuals: **$66 Billion**;

2. Moving Eligibility and Coverage for a) Adults Currently Covered Under State Waivers, b) Special Categories, e.g., “Medically Needy”, and c) Individuals with Certain Diseases (e.g., breast cancer), to the New Medicaid Program and through Federally Subsidized Coverage in the Health Insurance Exchanges: **$69 Billion**;

3. Reducing Uncompensated Care Costs by Hospitals for Treating Uninsured People by Transferring Costs to the Federal Government: **$85 Billion**;

4. Replacing, by the Federal Government, Significant State Costs for the Treatment of Individuals with Behavioral Health Disorders under the New Medicaid Program: **$40 Billion**;
5. Increasing the Prescription Drug Rebates Received by Medicaid from Pharmaceutical Companies: **$8.3 Billion**;

*These initial 5 areas show budget gains from 2014 through 2019 only.*

6. Improving Coordination of Care and Services for the Dual Eligible Population: **$34 Billion (from 2014-2023)**; and

7. Combining the Net Effects of the Initial Four Policy Actions Listed Above in What Are Called the Medicaid Expansion “Out-Years” *(from 2020-2023)*: **$76 Billion**.

*The total bottom line budget gains from the 7 actions tied to the federal government transfer of dollars to the states under the new Medicaid expansion – as well as other efforts such as better coordinated care for the dual eligible population – is $377 billion between 2014 and 2023, through the cascading events identified in this report.*

These overall budget gains will be reduced by **$73 billion** through state implementation spending associated with the new Medicaid expansion (cited recently by the Congressional Budget Office and the Center on Budget and Policy Priorities) resulting in a net budget gain to the states of **$304 billion between 2014 and 2023**.

Although state spending on additional Medicaid enrollees (both among those who qualify today and those who are newly eligible) will rise by $73 billion due to overall Medicaid implementation costs, these implementation costs will be offset by the significant budget increases identified in the report (see Appendix 1 and 2).

The major factor resulting in the state budget gains is the transfer of significant Medicaid spending (also called “enhanced payment matches”) from the states to the federal government. Over the years, several states have expanded health insurance coverage through “waivers” granted by the federal government that allowed states to expand Medicaid eligibility above federal income requirements, and based on other financial needs and medical considerations. These waivers are set to expire in 2013, replaced by the ACA Medicaid eligibility expansion provisions. The vast majority of the expanded eligibility costs – above current federal requirements – that are currently paid for by the states will now be paid for by the federal government.

Despite these voluntary expansions, many childless adults with serious mental illness have not been eligible under the current Medicaid program – as well as some children in families with incomes under 138 percent of the federal poverty level (FPL), as a result of strict income provisions in several states. These costs will be paid for by the federal government at 100 percent between 2014 and 2016, in states that decide to opt in to the Medicaid expansion.

About one in six currently uninsured adults with incomes below 138 percent of the FPL has a serious mental illness such as major depression, bi-polar disorder, severe panic disorder or schizophrenia. Many other individuals have less serious behavioral health
disorders such as milder depression, but these conditions can be debilitating as well and affect daily living. Over 50 percent of the newly eligible individuals have incomes that are 50 percent of FPL (about $7,500 annual income). Many of these extremely lower-income individuals are homeless and over 25 percent of this group has a serious mental illness.

Due to severe state cutbacks over the last four years, individuals with a mental illness who are uninsured receive basic, state-funded public behavioral health care services of limited duration, and often these services and care are crisis-oriented (and many individuals go without care for their conditions altogether). The Medicaid expansion will replace a significant portion of state and local dollars that are used for the uninsured with mental illnesses, with new federal Medicaid monies approaching nearly $40 billion between 2014 and 2023.

Another major reason why states should strongly consider participating in the Medicaid expansion is due to significant changes in the Medicaid Disproportionate Share Hospitals program (or DSH – pronounced “dish”). The Medicaid DSH program provides funding allotments to states as a means to subsidize hospitals for the uncompensated costs incurred when treating uninsured and Medicaid patients. Beginning in 2014, the Secretary of Health and Human Services (HHS) is required to make aggregate reductions in the Medicaid DSH allotments.

These DSH reductions are based on the assumption that the new law will expand health insurance coverage to those now uninsured or underinsured and reduce uncompensated care. The largest reductions will take place in states that have the lowest percentage of uninsured individuals or states that fail to target DSH payments – to hospitals with the highest volume of Medicaid patients and uncompensated care. In total, states will lose about $18 billion in Medicaid DSH payments beginning in FY 2014 through FY 2020.

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**The Impact of the Medicaid Expansion on State-Wide Economies**

Based on our review of the studies on Medicaid expansion efforts, there are seven major ways that state economies will vastly improve due to the Medicaid expansion:

1. Increasing State Revenue from Taxes on Health Insurance Premiums;
2. Increasing Federal Dollars on Behalf of New Enrollees Affecting Providers;
3. Creating New Jobs Associated with Providers Delivering Care and Other Services;
4. Increasing Income Associated with Delivering Care and Services;
5. Increasing Purchases Associated with Carrying Out Health Care Services;
6. Introducing New Federal Dollars Benefitting Other Businesses and Industries Directly; and
7. Inducing Changes in Household Consumption and Tax Collection.

The Kaiser Commission on Medicaid and the Uninsured has compiled findings from 29 studies in 23 states analyzing the role Medicaid plays in state and local economies. The bottom line: Study by study shows that the current program has had a major financial simulative impact on state economies.

The key finding is that Medicaid spending generates economic activity including jobs, income and state tax revenues at the state level. Medicaid’s economic impact is intensified because of federal matching dollars – state spending pulls federal dollars into the economy. Medicaid funding supports jobs and generates income within the healthcare sector and other sectors of the economy due to a major “multiplier effect.”

In the case of the ACA, the federal government will be providing a 100 percent match between 2014 and 2016 (then gradually settling at 90 percent in 2020 and beyond), so the infusion of new Medicaid dollars in a state under the expansion provisions in the ACA will have an even more dramatic effect as the current program match is lower. In an Alabama study – using an “intermediate” scenario – the authors projected that the Medicaid expansion would reduce the state’s uninsured population by approximately 232,000 individuals while generating $20 billion in new economic activity and a $935 million increase in net state tax revenues.

The Impact of the Medicaid Expansion on Improved Access to Health Insurance and High-Quality Health Care

The main reason the ACA was enacted in 2010 was to address the magnitude of the uninsured problem in the United States. The number of uninsured Americans has been hovering around 50 million over the last three years.

NASMHPD recognizes that certain policy considerations will play out over the coming months on whether states will expand their Medicaid programs, which will likely be based on budgetary considerations. However, there is a human dimension to this issue, particularly where people with behavioral health conditions are concerned, that became lost in the shuffle surrounding the Supreme Court decision on Medicaid expansion.

There are seven key cascading events that are critically important to assuring that uninsured people gain access to health coverage, and that ultimately achieves the goal of providing high-quality care (and these actions apply to all Americans):
1. Access to Health Insurance Coverage;
2. Ability to Enroll in Health Insurance Plans;
3. Access to Covered Services and Providers;
4. Choice of Health Plans and Providers;
5. Ability to Build a New Workforce and Increase Capacity;
6. Access to a Consistent Source of Primary Care; and

This section of the report highlights that people with behavioral health conditions, especially those with serious, long-term conditions – and in lower-income populations – are at high risk for poor health, disability, and premature death. Unfortunately, many of them do not have coverage and therefore do not get treatment – or get poor treatment – for conditions for which they are at high risk such as obesity, high blood pressure, diabetes, and heart conditions. Medicaid will be expanded to cover people up to 138 percent of the federal poverty level in states that choose this option thereby providing lower-income populations with severe and moderate behavioral health conditions better access to needed services as coverage opens up new service delivery doors.

The Substance Abuse and Mental Health Services Administration (SAMHSA) has estimated that 13.4 million people who have behavioral health conditions will be eligible through the ACA’s new Medicaid expansion (6.6 million people) and through the new state health insurance exchanges (6.8 million people) beginning in 2014 through 2019.

The Medicaid expansion will substantially stop the deterioration in health access that nonelderly adults have been experiencing, especially those with behavioral health conditions, over the last decade. In addition, the Medicaid expansion also emphasizes health maintenance (also called “wellness programs”) and preventive interventions. For example, it provides payments for preventive health care and health promotion in a more comprehensive way. This will benefit people without mental illness, but it is particularly important for people with serious mental illness at high risk of obesity and the diseases it drives such as hypertension, diabetes, and heart disease.

The triple cascading impact of the Medicaid expansion resulting in increased state budget gains, economic activity and health insurance coverage is displayed in Figure ES 1.
**Figure ES 1**

**The Waterfall Effect: Cascading Tri-Level Impact of Medicaid Expansion***

- State budget gains on existing Medicaid enrollees (Acute Care Only)\(^1\) = $66 billion
- State budget gains from ending Medicaid coverage for adults >138% of the FPL currently covered by 1115 Waivers or Section 1931\(^2\) = $69 billion
- State gains from reduced spending on uncompensated care = $85 billion
- Increased state revenue from taxes on insurance premiums
- Increased federal dollars on behalf of new enrollees affecting providers
- Creating of new jobs associated with delivering services
- Increased income associated with delivering services
- Access to health insurance coverage
- Ability to enroll in health insurance plans
- Access to covered services and providers
- State budget gains by replacing spending on mental health services = $39 billion
- State gains in out-years of Medicaid expansion from 2020-2023 = $76 billion
- State gains on better care coordination for dual eligibles = $34 billion
- State gains on Medicaid drug rebates = $8 billion
- Increased purchases associated with carrying out health care services
- Influx of new federal dollars benefitting other businesses and industries indirectly
- Induces changes in household consumption and tax collection
- Choice of health plans and providers
- Build a new workforce capacity
- Access to consistent source of primary care
- Delivery of high quality care services

*This graphic summarizes three key figures in the body of the report on state budget gains, new economic activity and reducing the number of uninsured.

Notes: State budget gains are for the 2014-2023 period.

\(^1\) State budget gains related to Medicaid expansion are for acute care costs only (e.g., physician costs not included).

\(^2\) Budget gains due to maintenance of effort, ending eligibility for special categories of adults (e.g., individuals with breast cancer), and shifting costs to insurance exchanges for “medically needy” adults.
Executive Summary Conclusion

Based on the meta-analysis NASMHPD conducted, states should be encouraged to expand Medicaid eligibility, beginning January 1, 2014 at the latest for all individuals with incomes below 138 percent of the FPL, especially for people with mental illness. The challenging state economic climate of recent years has resulted in significant reductions in budgetary resources for safety net programs, limiting services for people with serious mental illness. The federal reimbursement and insurance coverage associated with Medicaid expansion represents an opportunity to improve this situation substantially – an opening that will be lost if a state fails to opt in to the Medicaid expansion.

In addressing the pressing issues associated with implementing several facets of the ACA, state policymakers may overlook the needs of uninsured people, and those with no coverage that also have a serious mental illness. State officials, such as directors of State Behavioral Health Agencies, are in a position to play a vital and active role in promoting the major, positive impact of the Medicaid expansion for people with behavioral health conditions and the financial benefits for their state.

In brief, the cascading effect of the Medicaid expansion is remarkable on several fronts. The expansion is a win-win-win for states in the form of budget gains, increased economic activity and reducing the number of uninsured people. State budgets will see large gains due to increases in federal spending to replace current state spending in their Medicaid programs. The expansion will provide a badly needed injection of revenues into state economies due to a multiplier effect of new Medicaid dollars that has a domino impact across many business sectors. And the expansion will significantly increase Medicaid coverage for adults who are currently uninsured, especially for people with mental illness and reduce mortality rates.

Simply put: The Medicaid expansion will not only increase state budgets and bring in new revenues, it will improve the health and lives of people with mental illness.