SHARP
State Healthcare Access Research Project

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Toolkit: ACA Implementation in Texas
Part I: The Medicaid Expansion

MEDICAID & THE AFFORDABLE CARE ACT

The Patient Protection and Affordable Care Act (ACA) extends Medicaid, via the states, to individuals living below 133% of the federal poverty level (FPL).[1] Pursuant to the Supreme Court's reading of the law, the Department of Health and Human Services (HHS) cannot revoke existing federal medical funding for failure to comply, making the provision unenforceable.[2] In other words, states that expand Medicaid pursuant to the law will receive substantial increases in federal funding (covering 90-100% of newly eligible beneficiaries indefinitely), and those that do not expand will not experience any change in Medicaid funding.

There is strong empirical evidence that the federal funding accompanying the expansion will significantly improve not only individual and public health, but also the fiscal stability of the state of Texas. As elected officials move forward to implement the ACA, the following issues should be considered.

MEDICAID & INDIVIDUAL AND PUBLIC HEALTH IN TEXAS

- **Chronic Illness and Disability** – Access to preventive and regular care reduces morbidity and mortality associated with chronic illnesses and disabilities. Not only can screenings and precautionary steps often prevent onset of disease (e.g., diabetes, hypertension, and cardiovascular diseases) but early diagnosis and treatment can also significantly reduce the severity of prognoses (e.g., asthma and many cancers). Habilitative and rehabilitative services reduce utilization of high cost inpatient and institutional care, maximizing independence and productivity.

- **Infectious Disease** – The public health benefits of expanded Medicaid translate directly to the safety and security of all Texans. Access to screening and treatment reduces the spread of disease by providing a cure or reducing infectiousness. For example, continuous and comprehensive treatment of HIV not only improves the health of the individual, but also has been shown to reduce the likelihood of transmitting the virus by 96%.[3] More than 65,000 Texans are living with HIV, and nearly 40% are not connected to any treatment.[4] Expanding Medicaid to cover individuals living below 133% FPL would significantly alleviate the state's HIV epidemic.

- **Disparities** – Health disparities (health differences closely linked to social or economic disadvantages) are a national challenge, but particularly stark in Texas, which has ranked last in the nation for access to and equity of health care, and has a higher than average poverty rate.[5] Low-income individuals have higher rates of heart disease and diabetes and consistently shorter life expectancies than their wealthier counterparts.[6] Texas is among several states that stand out for disproportionately high rates of both new infections and existing cases of HIV/AIDS, as well as some of the worst outcomes in terms of HIV related complications and deaths.[7] Race also plays a role in health outcomes: in Texas, African-Americans are significantly more likely to die of diabetes or cardiovascular disease than whites and more than twice as likely to die before age one.[8,9,10] One of several reasons for these disparities is the highly restrictive Medicaid eligibility standard in Texas, leaving most low-income individuals without access to care (20% fewer African-American women in Texas receive prenatal care in the first trimester of pregnancy than white women).[11] Reducing disparities has been a federal target since the turn of the century, and is part of the ACA's design (e.g., the Medicaid expansion provision). Access to health insurance is a fundamental determinant of health outcomes (e.g., Medicare has reduced disparities among the elderly by providing individuals with similar coverage regardless of income or ethnicity). Texas would benefit most from the Medicaid expansion when it comes to improving health equity; federal money would fund a substantial decline in disparities that detract from economic productivity and exacerbate high levels of poverty across the state.

MEDICAID & FISCAL STABILITY

- **Hospital Solvency** – Hospitals are required by law to stabilize any Texan in need, regardless of ability to pay. Because of the high proportion of uninsured residents, this amounts to billions of dollars in uncompensated care ($9.2 billion in 2004).[12] Anticipating that this number will fall as uninsured individuals purchase private coverage or enroll in Medicaid, the ACA incrementally reduces federal payments that currently help hospitals offset these costs (known as disproportionate share hospital funds).[13] Reducing these payments to hospitals presumes substantial savings that would incur only by approaching near universal coverage. For example, under full ACA implementation, in the first five years of expanding

coverage, Texas hospitals would save over $5.8 billion on uncompensated care.[14] Thus, if Texas forgoes the Medicaid expansion, its hospitals will face severe deficits as they continue to treat a high volume of uninsured residents (over 4 million Texans live below 100% FPL and thus are not eligible for federal subsidies to purchase coverage on an exchange). Without federal reimbursements for this care, hospitals will pass the cost onto privately insured patients, inflating premiums. Worse still, some small hospitals (e.g., in rural areas) will not be able to offset these costs, and may be forced to close, leaving entire communities without access to care (not to mention eliminating hundreds of jobs).[15]

- **Federal Funding** – Governor Perry has cited fiscal concerns as a reason not to expand Medicaid pursuant to the ACA. However, Texas stands to be the biggest beneficiary of the federal dollars associated with the expansion. Texas has the highest rate of uninsured residents in the nation (25% of its population, or 6.5 million Texans); the expansion will bring in $120-189 billion in the next decade alone, covering about half of the uninsured (over 3.3 million).[16] The cost to Texas will never exceed 10% and the state will experience economic growth from the influx of additional federal funds. Indeed, prior Medicaid expansions have created jobs and increased consumer spending (spurring demand for healthcare workers and alleviating medical debt, thereby generating increased disposable income).[17] This is known as the economic multiplier effect of federal funding: Medicaid funds would generate approximately $400 billion in economic activity in the state over 10 years.[18] Thus, it is important to consider the net fiscal effect of expanding Medicaid, rather than merely the isolated cost of covering new beneficiaries. Moreover, if Texas declines federal expansion funds, its residents will ultimately subsidize the cost of coverage in states that do accept the money, via federal taxation. Voters will be particularly attuned to this point.

- **Net State Savings** – The cost of the state share of newly eligibles (10%) will be offset by the savings realized in reduced spending on uncompensated care. Not only will the cost of "free" emergency care to the uninsured (funded by Texan taxpayers) fall drastically with nearly universal coverage, but the overall cost of treatment will decline as well, as Texans benefit from preventive services available free of charge. Indeed, in the first five years of expanding Medicaid, Texas would realize net savings of $554 million.[14]

CONCLUSION

Expanding Medicaid pursuant to the ACA presents Texas with a tremendous opportunity to reduce state spending, improve public health, and keep healthcare providers and hospitals solvent. The state has already demonstrated forward movement in securing cost-effective care for low-income residents that both improves health outcomes and reduces the fiscal burden on providers and the state. For example, Texas participates in the Health Resources and Services Administration's National Academy for State Health Policy Medicaid Safety Net Learning Collaborative, working to improve management of chronic conditions. Texas also partnered with the Centers for Medicare and Medicaid to establish the Healthcare Transformation and Quality Improvement Program (a § 1115 Waiver program), providing federal money to subsidize uncompensated care and insufficient Medicaid reimbursement rates. Implementing the ACA's Medicaid expansion option would further benefit the state's health and healthcare system, in the spirit of these steps already taken.

[1] Patient Protection and Affordable Care Act (ACA), 42 U.S.C. § 2001(a) (2010).
[2] *National Federation of Independent Business v. Sebelius*, No. 11-393, slip op. at 45 (U.S., June 28, 2012).
[3] Myron S. Cohen et al, *Prevention of HIV-1 Infection with Early Antiretroviral Therapy*, 365 N. Eng. J. Med. 493 (2011).
[4] Texas Interagency Coordinating Council For HIV And Hepatitis, 2011 Annual Report.
[5] Amy Killelea, Devin Cohen, & Robert Greenwald, *State Healthcare Access Research Report: Texas State Report*, Treatment Access Expansion Project and Harvard Law School Health Law & Policy Clinic (2011).
[6] Secretary's Advisory Committee On National Health Promotion And Disease Prevention Objectives For 2020, Phase 1 Report: Recommendations For The Framework And Format Of Health People 2020, Dept. Health & Human Services (2008).
[7] Susan Reif, Kathryn Whetten, Elena Wilson, & Winston Gong, Southern HIV/AIDS Strategy Initiative: HIV/AIDS Epidemic in the South Reaches Crisis Proportions in Last Decade, Duke Center For Health Policy and Inequalities Research (2011).
[8] StateHealthFacts.org, Individual State Profiles, Texas: Diabetes, http://www.statehealthfacts.org/profileind.jsp?cat=2&sub=22&rgn=45 (last visited July 19, 2012).
[9] StateHealthFacts.org, Individual State Profiles, Texas: Heart Disease, http://www.statehealthfacts.org/profileind.jsp?cat=2&sub=23&rgn=45 (last visited July 19, 2012).
[10] StateHealthFacts.org, Individual State Profiles, Texas: Infants, http://www.statehealthfacts.org/profileind.jsp?cat=2&sub=13&rgn=45 (last visited July 19, 2012).
[11] StateHealthFacts.org, Individual State Profiles, Texas: Prenatal Care, http://www.statehealthfacts.org/profileind.jsp?cat=2&sub=12&rgn=45 (last visited July 19, 2012).
[12] Senate Research Center, *Issues Facing The 80th Texas Legislature* (2007).
[13] ACA § 2551(a).
[14] Matthew Buettgens, Stan Dorn, & Caitlin Carroll. *Consider Savings as Well as Costs: State Governments Would Spend at Least $90 Billion Less with the ACA than without it from 2019-2019*, Urban Institute & Robert Wood Johnson Foundation (2011).
[15] Andrea Kovach, *Expanding Medicaid: the Choice is Clear*, Shiverbrief, July 10, 2012.
[16] Vivian Ho & Elena M. Marks, *Texans Must Take Advantage of Medicaid Expansion*, CHRON.COM (June 29, 2012).
[17] Jonathan Gruber, *Medicaid* (Nat'l Bureau of Econ. Research, Working Paper No. 7829, 2000).
[18] January Angeles, *How Health Reform's Medicaid Expansion Will Impact State Budgets*, Center on Budget and Policy Priorities, July 25, 2012.

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