

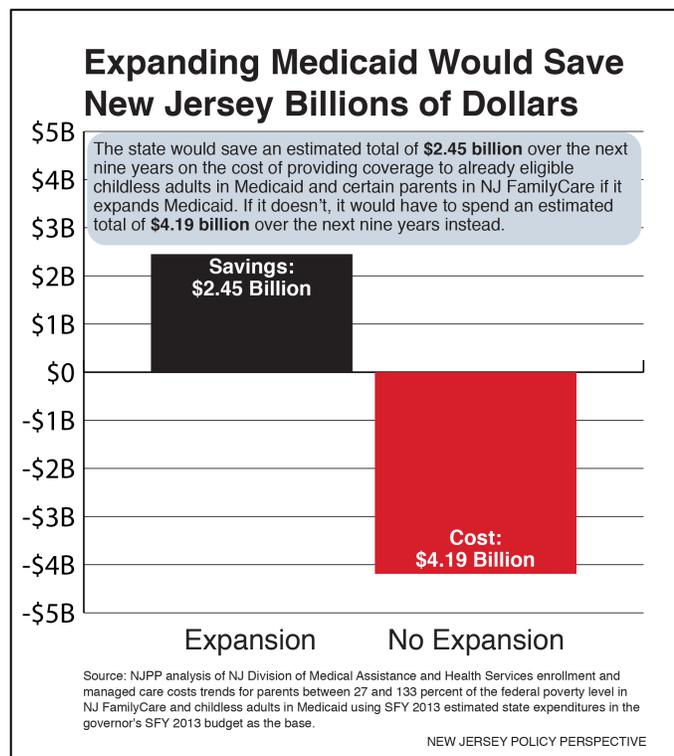
Expanding Medicaid Would Save New Jersey Billions of Dollars

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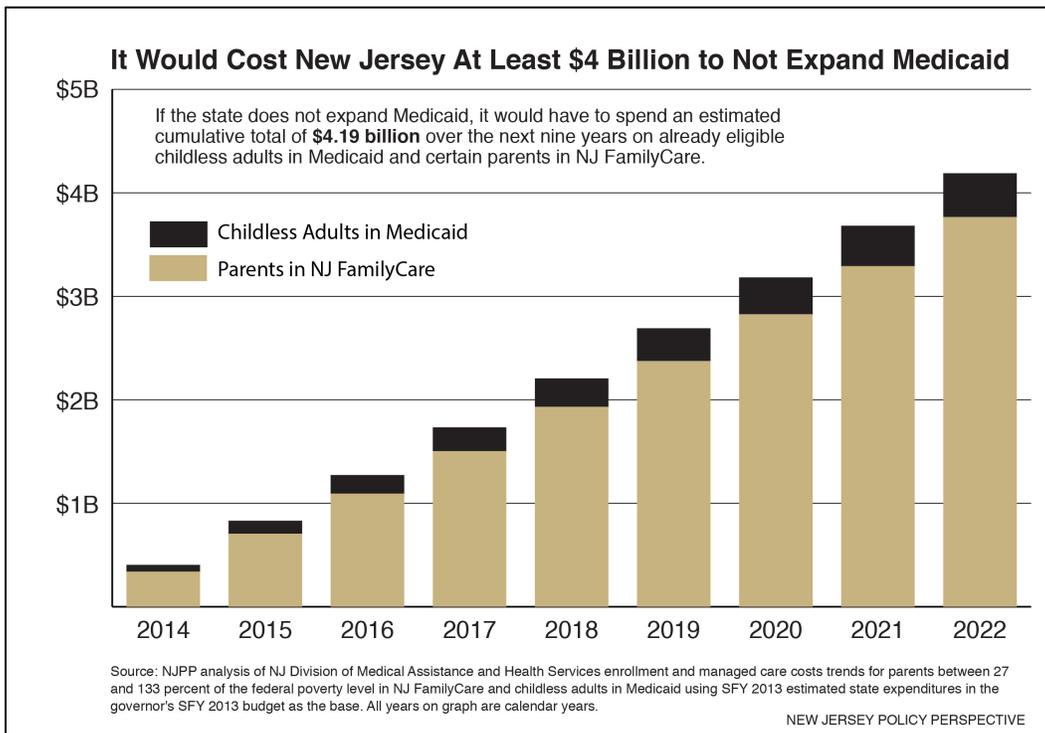
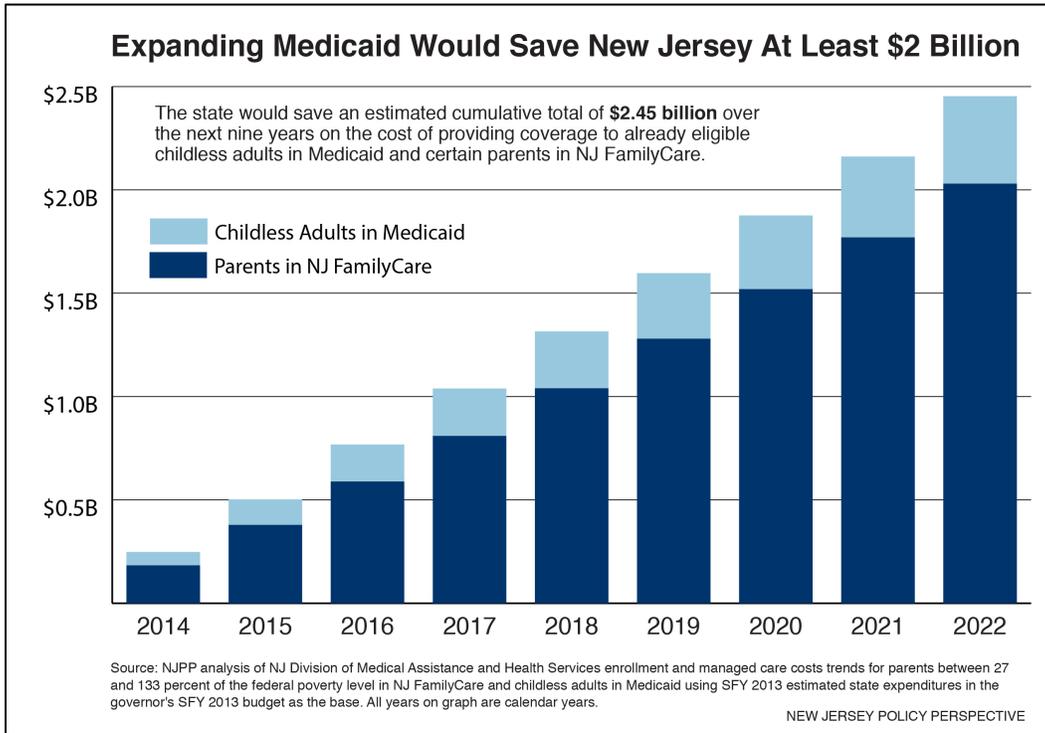
Under the Affordable Care Act (ACA) more than 300,000 New Jersey residents who don't have health insurance could have affordable health coverage starting next year, and the state economy would get average annual boost of about \$1.7 billion – money that the federal government has set aside for New Jersey to provide this coverage.¹

These benefits alone should persuade Governor Christie to accept available federal funds to expand Medicaid. However, there is another crucial reason to do so: immediate and major budget savings over the next decade.

New Jersey could reap its largest and most immediate savings – roughly \$2.5 billion through 2022 – because the federal government would pay a much larger share of the cost for covering some adults who already are eligible for Medicaid and NJ FamilyCare. New Jersey could save hundreds of millions more in a number of other areas, including charity care reimbursements to hospitals, prison health costs and mental health costs.



New Jersey Would Save on Existing Health Costs



NJ FamilyCare

If it expands Medicaid, New Jersey could save \$2 billion through 2022 from a significant increase in the federal government's share of the cost for covering some parents who currently have health coverage through NJ FamilyCare. Right now, New Jersey allows parents between 27 and 133 percent of the poverty level (\$5,154 to \$25,390 for a family of three) to enroll in NJ FamilyCare², a higher income limit than most states. New Jersey pays 35 percent of the cost of their coverage and the federal government pays the rest.

If New Jersey expands Medicaid, the state would pay *nothing* to cover these adults in 2014, 2015 and 2016. The federal government would shoulder the entire cost during that period. After that, New Jersey would pay 5 percent in 2017, 6 percent in 2018, and 7 percent in 2019 before reaching 10 percent in 2020 – where the state's share would stay permanently. This means that, even when the state's cost of the Medicaid expansion is fully phased in, New Jersey would be paying far less to cover these parents than it does now.

As a result, New Jersey would save about \$2 billion through 2022, which is the projected impact based on historical increases in enrollment and rising managed care costs for parents. These savings more than offset the \$1.5 billion in estimated costs to New Jersey for the expansion as a whole through 2022.

If that were not incentive enough to expand Medicaid, *failing* to do so would produce a *shortfall* of as much as \$3.8 billion in the state budget over the next decade. Under an agreement with the federal government, New Jersey gets federal help to pay for health coverage for low-income New Jersey parents. This agreement, known as a “waiver,” will expire on December 31, 2013, and after that, the federal government has stated it will only contribute to the cost of insuring this group as part of a full Medicaid expansion in New Jersey.

New Jersey would lose *all* federal matching funds for these parents if the state does not opt for the expansion and continues to serve these adults. It would cost an estimated \$3.8 billion to replace these lost federal funds through 2022 for parents.

If New Jersey applies to renew its waiver, there is no guarantee that it will be approved. Even if the state obtained a new agreement, the state would still have to pay 50 percent of the costs of continuing to cover parents, in contrast to 100 percent for the first three years if it expands Medicaid.

General Assistance

The federal government covers half of the costs of providing medical care to recipients of General Assistance, cash assistance that helps struggling New Jerseyans make ends meet. If the state expands Medicaid, the federal government would instead cover this cost in full.

New Jersey's General Assistance program provides modest benefits of \$140 to \$210 per month to New Jersey residents with very low incomes. To receive benefits, recipients' assets must fall below a strict limit, and the recipient must meet work requirements that have grown tougher in recent years, despite high unemployment in the state. General Assistance is run and paid for completely by New Jersey, and for many years the state provided and fully paid for medical assistance to General Assistance recipients.

With the enactment of the ACA, the federal government agreed to cover half of cost of providing medical assistance to General Assistance recipients – a move that has saved the state about \$150 million already. If New Jersey expands Medicaid, the federal government will cover the *entire* cost of providing this assistance.

Even if the steep decline in enrollment that New Jersey is currently experiencing in its General Assistance program continues over the next nine years and the state maintains its eligibility restrictions, New Jersey would still save a projected \$423 million under the expansion based on the current trend in annual enrollment decreases and historical increases in the cost of managed care.

New Jersey, in other words, stands to come out ahead – \$2.5 billion in savings reaped against \$4.2 billion in costs spent – in Medicaid and NJ Family Care, combined, over the next nine years, by expanding Medicaid. Granted, there will be some state costs such as increased enrollment in Medicaid and NJ FamilyCare due to publicity about ACA, better outreach, and the requirement that individuals must have insurance (the “individual mandate”). But these costs, which are expected to be small, will increase even *without* the Medicaid expansion; therefore they are not included in this analysis. It is yet another reason for New Jersey to expand Medicaid: to generate savings to offset these unavoidable higher costs.

New Jersey Could Save Money in Other Areas As Well

Charity Care

New Jersey could save a significant amount of money that it spends on care that people without insurance receive in emergency rooms throughout the state.

New Jersey is a leader among states in making sure that people without insurance who must go to hospital emergency rooms for their medical care do not face financial ruin as a result. Under state law, hospitals cannot charge an uninsured person with an income below twice the federal poverty level (\$22,340 annually for an individual) for care and must use a sliding scale for emergency room patients with incomes between two and three times the poverty level (between \$22,340 and \$33,510 annually for an individual).

New Jersey will spend close to \$900 million this budget year to support that policy. It reimburses hospitals for about half of their “charity care” costs – \$675 million this budget year.³ New Jersey also reimburses hospitals that care for the uninsured through Health Care Stabilization Funds

(\$30 million in FY 2013) and Hospital Relief Offset Payments (\$191.3 million in FY 2013). Based on historical increases, New Jersey is on track to spend about \$8.9 billion to hospitals through 2022 if the number of uninsured isn't reduced.

Expanding Medicaid, in concert with other provisions of ACA, would cut nearly in half (42 percent) the number of New Jersey residents without insurance. This should result in a substantial reduction in costs for care for people without insurance (also called “uncompensated care”) and major savings for both hospitals and New Jersey. If New Jersey rejects the Medicaid expansion, the number of uninsured New Jersey residents would only fall by 25 percent.⁴

Exactly how much New Jersey would save from the expansion is uncertain. But, even a five percent drop in state spending on care for the uninsured would mean \$434 million in savings for New Jersey over nine years. The actual savings will depend on several factors that need further study, including: whether the federal government cuts back funds it provides to help states pay for uncompensated care and by how much; the number of undocumented immigrants who receive charity care (they are not eligible for Medicaid now and will remain ineligible under the expansion), and if the state shares any of its savings with the state's hospitals by increasing the portion of costs it covers for people who remain without insurance after the expansion.

Prison Medical Costs

Expanding Medicaid would save New Jersey money on health care in the state's prisons. Prisoners generally are not eligible for federal benefits. But the federal government reimburses states for the cost of treating prisoners at hospitals outside prison, if those prisoners would otherwise be eligible for Medicaid. It does so using the Medicaid rate of 50 percent in New Jersey.⁵

Under the Medicaid expansion, not only would more prisoners be eligible for reimbursement, since the income eligibility level would increase to 133 percent of the federal poverty level, the reimbursement rate would be much higher – 100 percent for the first three years, then 90 percent thereafter, instead of 50 percent. The major savings New Jersey's counties could achieve for county jail prisoners could help keep local taxes down.⁶

Mental Health and Substance Abuse Costs

Expanding Medicaid could lead to substantial savings for New Jersey on mental health care and substance abuse treatment. Many people without insurance currently receive these services and the state pays the entire cost. In fact, New Jersey spent \$1.7 billion on mental health services in 2010, the fourth highest amount in the nation for a state with the ninth highest population.⁷

Under the ACA, Medicaid must cover mental health and substance abuse services. Many of the uninsured who currently receive these services from the state may be eligible for Medicaid *if* the state expands Medicaid. As a result, the state would no longer have to pay for this care in full. In

addition, many people with mental illness and substance abuse have serious medical problems, which also would be covered under the Medicaid expansion.

Time is Of the Essence: Earlier Medicaid Expansion Means Greater Savings

If New Jersey expands Medicaid in January 2014, the earliest a state can do so, there would be state budget savings in the last half of FY 2014 and every year after. So while there is no deadline to opt for the expansion, waiting beyond January 2014 will delay and reduce any savings.

New Jersey should also expand Medicaid as early as possible since the federal matching rate is higher for the first three years of the ACA (it begins at 100 percent before dropping to a generous 90 percent in perpetuity); in other words, there is *even more* state savings to be found during those first three years than the billions of savings in subsequent years.

The fewer people New Jersey enrolls in an expanded Medicaid, the less money it will save. It is crucial to start outreach within the next few months, with the goal of maximizing applications beginning October 1 of this year to maximize enrollment in 2014.

Endnotes

¹ John Holahan, Matthew Buettgens, Caitlin Carroll, Stan Dorn, *The Cost and Coverage Implications of the ACA Medicaid Expansion: National and State-by-State Analysis*, November 28, 2012, <http://www.urban.org/UploadedPDF/412707-The-Cost-and-Coverage-Implications-of-the-ACA-Medicaid-Expansion.pdf>

² Since 2000, New Jersey, under a federal waiver, has provided health coverage to parents in NJ FamilyCare up to twice the federal poverty level (though the amount has at times fluctuated due to state budget pressures). In 2010, eligibility was reduced from twice the federal poverty level to 133 percent, where it now stands.

³ New Jersey Hospitals, *Community Benefit Report 2012*, 2013.

⁴ Uncompensated care will also decrease due to the number of uninsured who will obtain affordable insurance in the exchange, which will occur whether or not the state expands Medicaid. It just would not decrease as much.

⁵ Cristine Vestal, *Medicaid Expansion Seen Covering Nearly All State Prisoners*, Stateline, October 18, 2011, <http://www.governing.com/blogs/politics/Medicaid-Expansion-Covering-Nearly-All-State-Prisoners.html>

⁶ National Association of Counties, *County Jails and the Affordable Care Act: Enrolling Eligible Individuals in Health Coverage*, March 2012.

⁷ Kaiser Family Foundation, *State Mental Health Agency (SMHA), Mental Health Services Expenditures, FY2010*, <http://www.statehealthfacts.org/comparemaptable.jsp?ind=277&cat=5&sort=a&gsa=2>