NATIONAL CENTER FOR POLICY ANALYSIS

The Impact of State Medicaid Expansion in Arizona

An HSI/NCPA copublication by Michael Bond and Stephen T. Parente December 2013

Arizona has responded to financial incentives in the Affordable Care Act by expanding Medicaid eligibility. What will be the impact of the expansion? There are three primary outcomes:

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- The number of privately insured individuals will fall 333,000 in 2014 and, by 2023, the number of privately insured will be 450,000 fewer than it would be otherwise.
- The net number of Medicaid participants will increase 1.07 million in 2014 and, by 2023, the number of Medicaid enrollees will be 1.65 million higher than it would be otherwise.
- The total cost to the state of covering these new Medicaid beneficiaries will reach $906 million annually within the next decade.[1]

Medicaid Expansion. On June 28, 2012, the Supreme Court of the United States upheld most provisions of the Patient Protection and Affordable Care Act and the health care provisions of the Health Care and Education Reconciliation Act (hereafter collectively referred to as the ACA).[2] Starting in 2014, small businesses and individuals without an offer of insurance from their employer will be able to buy insurance on state and federal exchanges, with premium subsidies depending on their incomes. Certain employers that do not offer health insurance will be penalized in 2015, and individuals will be required to have coverage or pay a penalty.

At the same time, however, the Supreme Court ruled that states could opt out of the ACA expansion of Medicaid coverage for all individuals up to age 65 with incomes below 133 percent of poverty. Under the ACA as enacted, but before the Supreme Court ruling, the Medicaid expansion was mandatory for states that wanted to keep their federal matching funds for any part of the Medicaid program.

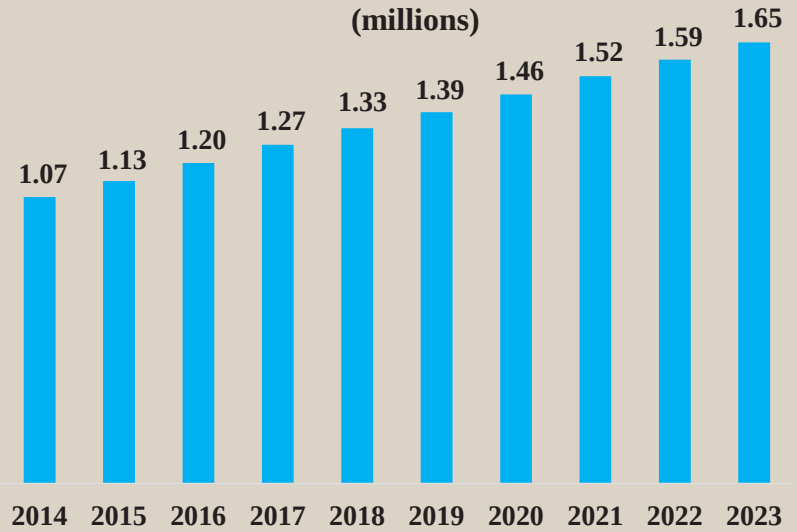
On June 17, 2013, Arizona Governor Jan Brewer (R) signed into law legislation that will expand Medicaid to an additional 350,000 people in the state. The signing came after Brewer called a surprise special session on the 2014 budget and Medicaid to try to resolve a deadlock among lawmakers on the two issues.[3]

Using a microsimulation model funded by multiple private and government sources, including the U.S. Department of Health and Human Services, and published as a peer-reviewed scientific publication in 2013, we are able to estimate the specific effect on the state of Arizona of the Medicaid expansion.[4]

Our simulation model projects the Supreme Court decision will have significant effects on federal costs and the level of uninsured, depending on whether a state accepts or declines the Medicaid expansion. Generally, the number of uninsured will rise and federal costs will fall as more states opt out.

The net result of the expansion in Arizona is an increase of Medicaid recipients [see Figure I]. Given that over two-thirds of the expected national increase in the insured from the ACA was to come from Medicaid expansion, this is not surprising.

Figure I
Net Change in Medicaid Enrollment as a Result of the State Medicaid Expansion
(millions)



Source: Authors' calculations.

However, the ACA offers subsidies to private insurance coverage purchased through state and federal exchanges. Individuals with incomes from 100 percent to 133 percent of poverty are eligible for subsidized coverage in the health insurance exchange if their employer does not offer coverage and they are not eligible for Medicaid. Nearly one-third of nonelderly Arizonans in this income group have employment-based or individually purchased private insurance coverage.[5] Thus, Medicaid expansion will significantly shrink the individual and employer-offered private insurance market. [See Figure II.] This is because the Medicaid expansion potentially crowds out a significant portion of the population with incomes near the poverty line. Thus, we project a sizable reduction in privately insured covered lives resulting from the ACA. In addition, because exchange subsidies would cost more than Medicaid coverage, we project substantially lower federal and state costs due to the Medicaid expansion.

Figure II
Net Change in Private Health Insurance Enrollment as a Result of the State Medicaid Expansion
(thousands)

Source: Authors' calculations.

The model allows us to project the loss of private coverage by insurance type. Some of the individuals eligible for expanded Medicaid would otherwise be covered by high-deductible private insurance plans. Some would be covered by narrow-network preferred provider organizations (PPOs) and others would be enrolled in health maintenance organizations (HMOs). Our analysis shows:[6]

- The number of individual Arizonans covered by high-deductible health plans will fall 211,000 in 2014.
- The number of enrollees in narrow network PPOs will fall 16,500 in 2014.
- Enrollment in generous PPOs will decrease initially and then become more popular by 2023.

Table I

Health Systems Innovation Network LLC
ACA Insurance Exchange Analysis Reports
State Premium Estimation: Arizona
Privileged and Confidential, September 9, 2013

Insured Change (in thousands)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Single Person Coverage Average										
High PPO	$7,041	$7,082	$7,412	$8,047	$8,731	$9,467	$10,259	$11,112	$12,030	$13,019
Medium PPO	$6,244	$6,225	$6,491	$7,057	$7,666	$8,322	$9,029	$9,790	$10,609	$11,491
Low PPO	$5,379	$5,296	$5,492	$5,983	$6,512	$7,081	$7,695	$8,356	$9,067	$9,833
Narrow Network	$4,132	$3,813	$3,717	$3,845	$3,978	$4,114	$4,255	$4,401	$4,551	$4,706
HSA/HDHP	$3,909	$3,417	$3,220	$3,341	$3,465	$3,594	$3,726	$3,863	$4,005	$4,151
Family Coverage Average										
High PPO	$20,274	$21,262	$22,637	$24,421	$26,340	$28,404	$30,625	$33,013	$35,582	$38,345
Medium PPO	$17,915	$18,726	$19,911	$21,490	$23,190	$25,018	$26,984	$29,099	$31,375	$33,822
Low PPO	$15,645	$16,285	$17,287	$18,670	$20,158	$21,758	$23,480	$25,333	$27,326	$29,470
Narrow Network	$12,837	$12,780	$12,949	$13,355	$13,773	$14,204	$14,648	$15,105	$15,577	$16,063
HSA/HDHP	$11,381	$10,967	$10,930	$11,287	$11,655	$12,035	$12,426	$12,830	$13,246	$13,676

Source: Authors' calculations.

- HMO enrollment growth will flatten by 2023.
- Coverage by government-employer health insurance will fall by 16,600 in 2023.

Table II

Health Systems Innovation Network LLC
ACA Insurance Exchange Analysis Reports
State Medicaid Expansion Scenario: Arizona
Privileged and Confidential, September 9, 2013

Insured Change (in thousands)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Individual	**(273.5)**	**(274.9)**	**(282.4)**	**(287.4)**	**(293.8)**	**(297.5)**	**(320.1)**	**(347.8)**	**(366.5)**	**(386.0)**
High PPO	(37.5)	(38.0)	(35.7)	(30.5)	(27.8)	(29.3)	(35.2)	(34.7)	(28.2)	(27.5)
Medium PPO	(8.3)	(10.2)	(9.9)	(9.8)	(10.3)	(4.8)	(5.0)	(8.1)	(11.5)	(8.3)
Low PPO	(0.0)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)	(0.5)	(0.6)	(0.4)
Narrow Network	(16.5)	(19.9)	(23.6)	(26.9)	(29.9)	(34.6)	(43.2)	(55.1)	(66.9)	(79.1)
HSA/HDHP	(211.1)	(206.7)	(213.2)	(220.1)	(225.7)	(228.6)	(236.3)	(249.4)	(259.2)	(270.6)
Medicaid (not employed)	973.2	993.2	1,021.9	1,055.0	1,086.0	1,119.4	1,165.1	1,215.3	1,261.6	1,312.1
Uninsured	(699.7)	(718.3)	(739.4)	(767.5)	(792.2)	(822.0)	(845.1)	(867.5)	(895.1)	(926.1)
Employer	**(59.9)**	**(75.0)**	**(81.3)**	**(80.9)**	**(77.3)**	**(72.7)**	**(69.1)**	**(66.1)**	**(65.0)**	**(64.0)**
HMO	(3.4)	(4.8)	(5.6)	(5.3)	(4.2)	(2.9)	(1.8)	(1.1)	(0.6)	(0.3)
HRA	(3.2)	(3.9)	(4.5)	(4.8)	(4.9)	(4.7)	(4.2)	(3.5)	(3.0)	(2.3)
HSA/HDHP - Employer Pay	(0.6)	(0.9)	(1.3)	(1.8)	(2.3)	(2.8)	(3.3)	(3.6)	(4.1)	(4.0)
HSA/HDHP - Employee Pays	(3.8)	(5.9)	(8.4)	(10.3)	(13.0)	(15.4)	(17.6)	(19.1)	(20.4)	(21.1)
Narrow Network	(13.5)	(18.4)	(20.6)	(22.0)	(23.2)	(23.6)	(23.5)	(22.6)	(21.3)	(19.9)
PPO High	(7.2)	(8.5)	(8.2)	(6.5)	(4.2)	(2.4)	(1.2)	(0.6)	(0.3)	(0.1)
PPO Low	(0.8)	(1.2)	(1.5)	(1.7)	(1.5)	(1.3)	(1.0)	(0.7)	(0.4)	(0.3)
PPO Medium	(27.5)	(31.5)	(31.2)	(28.5)	(24.0)	(19.7)	(16.5)	(14.9)	(15.0)	(16.0)
Other Employer Coverage	(28.0)	(47.0)	(72.0)	(101.1)	(129.8)	(156.2)	(178.7)	(198.2)	(215.1)	(230.0)
Dropped Coverage	(9.0)	(13.7)	(18.8)	(23.7)	(27.3)	(29.5)	(30.1)	(29.9)	(28.9)	(27.6)
Other Public Employer Coverage	(2.0)	(3.4)	(5.2)	(7.3)	(9.4)	(11.3)	(12.9)	(14.3)	(15.6)	(16.6)
Medicaid (but employed)	98.9	139.1	177.4	213.0	243.8	269.7	290.8	308.5	324.6	338.2

Source: Authors' calculations.

Impact of the ACA on Private Health Insurance Premiums in Arizona. The ACA will have a significant impact on premiums. Under the law, premiums for a given class of insurance product in the federal exchange cannot vary by more than a 3:1 ratio. In addition, the different metallic-colored plan designs (Bronze, Silver and Platinum) increase the generosity of qualified health plans (QHP) sold in the federal exchange. This will lead to an increase in premiums compared to a pre-ACA plan design. In addition, the different plan designs force an actuarial value indexed to the most generous and expensive plan design offered. This leads to higher premiums for less generous plan designs, such as high-deductible health plans (HDHP), than what might have been offered without ACA market regulation.

Table II shows

the expected premiums in Arizona over the course of the next 10 years starting in 2014.

Health Saving Accounts (HSA) coupled with HDHP designs will remain affordable purely on the basis of premiums. However, over the next 10 years, premiums will nearly double for very generous health plans, such as the High and Medium option PPO plans.

Impact of the ACA on Various Types of Health Insurance. Table II shows a detailed Arizona impact analysis. We used the health plan choice model to develop two sets of plan choice projections: one set for workers with insurance offers and a second set for individuals who do not have employer offers of coverage. The second set includes both uninsured individuals and those who take up individual policies. Individuals who reported having employer group coverage through another household member are excluded from the simulations.

The analysis assumes individuals who do not have health insurance offered to them at work or who are not employed face five health plan choices regardless of income, age or gender: a high-option PPO, a medium-option PPO, a low-option PPO, a self-financed HSA or remaining uninsured. A self-financed health reimbursement arrangement (HRA) is not an option for this group because only employers may contribute to an HRA.

The analysis assumes individuals with employer offers of insurance have a choice of a low-option PPO, medium-option PPO, high-option PPO and an HMO. In addition, an employer-sponsored HRA and an employer-sponsored HSA are available to all workers in establishments with more than 500 employees, but not available to other workers. For the HSA choices, we estimated the amount of money that employers and individuals contribute to their HSAs, letting the contributions vary by age and income of the policyholder.

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Endnotes

1. "Medicaid Payments per Enrollee, FY 2010," Kaiser Family Foundation, October 2013.

2. P.L. 111-148 and P.L. 111-152.

3. Mary K. Reinhart, "Brewer signs into law Arizona's Medicaid program," *Arizona Republic*, June 18, 2013, available at http://www.azcentral.com/news/politics/articles/20130617brewer-signs-law-arizona-medicaid-program.html.

4. Stephen T. Parente and R. Feldman, "Micro-simulation of Private Health Insurance and Medicaid Take-up Following the U.S. Supreme Court Decision Upholding the Affordable Care Act," Health Services Research, April 2013, No. 48, pages 826-49.

5. Kaiser Family Foundation, State Health Facts (various).

6. Detailed impact by health plan designs are described in Table 2.

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