

## Medicaid Savings from Health Reform Will Exceed Costs to State Budgets by a Significant Margin

As the recession continues to wreak havoc on states across the nation, governors are facing difficult decisions as they seek to balance their budgets. On the health care front, several governors have expressed concern about the fiscal impact of the Affordable Care Act, the newly enacted health reform legislation, on their budgets. Some governors have even announced they may eliminate their Medicaid programs in an effort to rein in costs.

A new report commissioned by First Focus and authored by the nonpartisan Urban Institute, *Net Effect of the Affordable Care Act on State Budgets*, finds that when all of the provisions of the Affordable Care Act are taken into account states will have important opportunities to secure significant budget savings. For example, while the bill expands Medicaid to provide new coverage for 16 million low-income adults, the bill also provides federal subsidies to cover the bulk of these costs and includes other savings in uncompensated care and mental health costs that currently are paid for by states. In total, the report shows that the Affordable Care Act will allow states to save between \$40.6 and \$131.1 billion during 2014-2019. These savings will not only provide much-needed relief to cash-strapped states, they will also ensure that health care remains intact for families when they are suffering most.

### The key findings of the Urban Institute report include:

- If states eliminate optional Medicaid coverage for adults over 133 percent of the federal poverty line (which is required by ACA), these adults will be shifted into the federally-funded subsidies in the exchange, earning the states a savings of \$21.3 billion and \$28.2 billion.
- If states were to replace their spending on uncompensated care with federal Medicaid dollars, states and localities can save between \$42.6 billion and \$85.1 billion.
- If states were to replace their spending on mental health services with federal Medicaid dollars, states and localities can save between \$19.9 billion and \$39.7 billion.
- A worst-case scenario will provide states and realized net budget savings of \$40.6 billion during 2014-2019 that could be as high as \$131.9 billion under a best-case scenario.
- The federal government would assume, on average, 96.2 percent of the costs for newly eligible individuals through 2019. As a result, just 3.8 percent of the costs for newly eligible individuals would be incurred by the states.
- The report affirms that while the cost of the Medicaid expansion to new low-income adults could rise between \$21-43 billion over the 2014-2019 period, it clarifies that when considered along with all of the provisions of the Affordable Care Act the bill more than fully offset the costs to states associated with the Medicaid expansion.

According to the report, these numbers will vary depending on first, how well the economy rebounds, and second, state policy choices. As is currently the case, states have many choices when it comes to federal funding. States will have similar choices regarding health reform implementation. However, the numbers in this report clearly indicate that states have important opportunities to use the policy changes included in the Affordable Care Act in way that helps their budgets rather than hinders them.

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First Focus is a bipartisan advocacy organization that is committed to making children and their families a priority in federal policy and budget decisions.

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