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Testimony before the New Jersey Senate Health, Human Services and Senior Citizens Committee

by January Angeles

Good afternoon. I appreciate the opportunity to testify today. My name is January Angeles and I am a Senior Policy Analyst at the Center on Budget and Policy Priorities, a non-partisan research and policy organization based in Washington, DC. Founded in 1981, the Center conducts research and analysis to inform public debates and policymakers about a range of issues at both the federal and state levels that affect individuals and families with low or moderate incomes.

I am here today to discuss how health reform's Medicaid expansion would benefit the state of New Jersey. First, I'll lay out why the expansion is good deal for states. Second, I'll explain how it could strengthen the economic recovery in the state and stabilize New Jersey's private insurance market. Third, I'll discuss the adverse consequences if the state doesn't go ahead with the expansion. Finally, I'll talk about how Medicaid would improve the health and financial well-being of the individuals and families who will gain coverage under the expansion.

The Medicaid Expansion is a Good Deal for New Jersey

Let me start off by saying that taking up the Affordable Care Act's Medicaid expansion is a very good deal for states. Starting on January 1, 2014, the health reform law will allow states to expand Medicaid eligibility to cover most adults with incomes up to 133 percent of the poverty line, or about \$25,000 for a family of three.

To minimize the fiscal burden on states, the federal government will pay 100 percent of the cost of expanding Medicaid in the first 3 years, from 2014 through 2016. Federal support will then phase down slightly over the following several years, and by 2020 and for subsequent years, the federal government will continue to pay 90 percent of the costs of covering newly eligible individuals.

Given these generous financing terms, the Congressional Budget Office estimates that across the nation, the federal government will bear nearly 93 percent of the costs of the Medicaid expansion over its first nine years. As a result, overall state spending on Medicaid will increase by just 2.8 percent more than what states were projected to spend on the program in the absence of health reform.

For New Jersey, the Urban Institute estimates that in the six-year period from 2014 through 2019, the state would spend only 1.2 to 2.5 percent more, compared to what the state would have spent on

Medicaid without health reform, while being able to cover between 390,000 and 568,000 more adults in Medicaid.

Some may argue that the Medicaid expansion will likely increase enrollment among people who are already eligible but not enrolled, whose costs will be paid for at the state's regular matching rate of 50 percent. It is important to note, however, that the Urban Institute cost estimates I mentioned already incorporate those costs. Moreover, the state will incur these costs regardless of its decision on the expansion. Even if a state chooses not to expand Medicaid, the rest of health reform remains in place. There will still be a requirement for people to have health insurance, there will still be significant outreach around the premium credits that will be available through the exchanges, and states will still have to simplify their eligibility procedures for Medicaid. Because of this, some of the people who are eligible under current rules will seek coverage and newly enroll into Medicaid anyway. Therefore, the cost of increased enrollment among the currently eligible should not be considered as part of the cost to the state of the expansion.

In addition, the estimates provided by the Urban Institute and others likely overstate the net impact on New Jersey's state budget because they do not reflect the savings that the New Jersey will realize in other health care spending for the uninsured. State and local governments spend a significant amount of money on health care for the uninsured today. In a state that expands Medicaid, spending on these services will decrease since many uninsured residents will get health care services through Medicaid, which will largely be paid for by the federal government.

In order to get a true sense of the financial implications of expanding Medicaid, it's important to also look at these areas of savings. There are three areas where states like New Jersey are most likely to see these savings:

- **Uncompensated care.** By reducing the number of people without health insurance, the Medicaid expansion will reduce state and local costs for uncompensated hospital care for the uninsured. In 2008, state and local governments shouldered \$10.6 billion, or nearly 20 percent, of the cost of caring for uninsured people in hospitals.
- **Mental health and substance abuse treatment services.** The Medicaid expansion will also push down state costs in providing mental health and substance abuse treatment services to the uninsured. In 2009, state and local governments provided 44 percent of the funding for state mental health agencies, amounting to \$17 billion. The Medicaid expansion would enable states to replace state and local dollars spent on mental health and substance abuse treatment services with federal Medicaid funds.
- **Public health services.** Some states' budget for public health includes funding for preventive care provided in public clinics, such as immunizations. Some of these services could be covered through Medicaid.

States like Idaho and Arkansas that did take these savings into account have concluded that expanding Medicaid makes financial sense. Idaho found that from 2014 through 2024, it would have to spend \$284 million on Medicaid without the expansion, but with the expansion it would actually save \$6.5 million. Arkansas found that the expansion would produce more than \$350 million in net savings for the state between 2014 and 2025. If New Jersey were to conduct a similar kind of fiscal analysis, it could find similar net savings as well.

Expanding Medicaid Would Improve the Economy, and Result in Lower Coverage Costs and a More Stable Private Insurance Market

In addition to producing savings in other areas of the state budget, expanding Medicaid would also likely strengthen the economy. It would also result in lower coverage costs and a more stable private insurance market in the state.

For every dollar that New Jersey spends on the expansion, it will receive nine dollars from the federal government. According to the Urban Institute, that would equal between \$9 billion and \$11.1 billion in additional federal dollars coming to the state. Over the next few years, as the overall economy remains at less than full capacity, this infusion of federal dollars is likely to spur economic growth in New Jersey.

In addition, by significantly reducing the level of uncompensated care, the Medicaid expansion will also reduce private insurance premiums and help stabilize the market for health insurance. If New Jersey fails to expand Medicaid, many people who would have otherwise received Medicaid will instead be uninsured. Some will manage to purchase private coverage in an insurance exchange, even without subsidies, but those who are most likely to get private coverage will be those who expect to immediately need medical care or have ongoing chronic illnesses. In addition, previously uninsured people typically have higher costs once they become insured because they have put off care that they could not afford. According to the American Academy of Actuaries, in states that don't expand Medicaid, this will result in private insurance premiums that are 2 percent higher (inside and outside the exchange).

A Medicaid expansion, on the other hand, would mean far fewer gaps in coverage, lower premiums for insurance in the individual market, and greater predictability for commercial insurers operating in the state. The ACA's risk adjustment system would also be more accurate and effective at compensating insurers that take on higher-risk populations because costs will be more predictable and there will be less risk of adverse selection.

Very Low-Income Adults Would Not Have Affordable Coverage Options without the Medicaid Expansion

Beyond the financial impact, it's important to keep in mind what will happen if the state decides to not go ahead with the expansion.

This means that unemployed parents would lose eligibility for Medicaid when their annual income reaches just over \$5,200 for a family of three. Assuming that New Jersey does not extend its waiver coverage for adults without dependent children, this group would not qualify at all, regardless of how poor they are. According to estimates provided by the Urban Institute, if New Jersey does not expand Medicaid, there are 245,000 poor, uninsured adults in the state who will lack options for affordable health care coverage.

These are people who make no more than \$11,200 per year. The large majority of them work. However, they work in industries such as food, construction, landscaping, and retail services that do not typically provide health care benefits to their workers. Because their incomes are so low, they would have difficulty purchasing coverage on their own, which means they will likely stay uninsured.

Moreover, failure to expand Medicaid will result in large inequities in health care coverage. Regardless of states' decision on the expansion, federal subsidies to help people purchase insurance in the exchanges will still be available. However, these subsidies would only be available to people with incomes between 100 percent and 400 percent of the poverty line. People with incomes below the poverty line will not be eligible, because the Affordable Care Act assumes they will be in Medicaid instead. Thus, a decision to not expand Medicaid will result in a gaping hole in health care coverage that only the poorest in New Jersey will fall through.

Medicaid Is an Effective Program

Expanding Medicaid will also help to ensure that the poorest residents of New Jersey have good health and financial protection. Research shows that people on Medicaid are more likely to get preventive care, and more likely to have a usual source of care than people without insurance.

Better health care, in turn, leads to better health. According to research published in the *New England Journal of Medicine*, adults on Medicaid are 40 percent less likely than uninsured adults to experience a decline in their health over a six month period. This study also concluded that expanded Medicaid coverage for low-income adults translates into a 6.1 percent reduction in mortality.

In addition, individuals on Medicaid are more likely to be better off financially than uninsured individuals. Medicaid's premiums and cost-sharing are well below those that private insurance plans charge. For low-income populations, this protection against high out-of-pocket costs is essential. Research shows that people on Medicaid are 40 percent less likely than people without insurance to go into medical debt or leave other bills unpaid in order to cover their medical expenses.

Summary

New Jersey should take advantage of this opportunity to provide affordable, effective coverage to hundreds of thousands of its state residents at very little cost to the state. By reducing the number of uninsured in the state, it would likely save the state millions in uncompensated care costs, while encouraging economic growth and providing much needed protections to New Jersey's poorest residents.

Thank you for the opportunity to speak. I look forward to answering any questions you may have.