

Estimate of Medicaid Expansion in Virginia

The following is an estimate of the net budget impact to Virginia. It shows the costs to the State General Fund, the savings that the State would realize and the benefit to the economy from additional federal dollars coming into the State. The estimate has not been updated to a start date in 2018.

Estimate of Medicaid Expansion (\$ in millions)						
(DMAS August 2016 Update + Value of Increased Revenue)						
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Total Costs/year	\$ 12.4	\$ 2,252.8	\$ 2,946.8	\$ 3,062.1	\$ 3,172.3	\$ 3,286.6
Federal Contribution	\$ 9.9	\$ 2,114.5	\$ 2,739.7	\$ 2,788.2	\$ 2,841.3	
State Costs	(\$2.5)	(\$138.3)	(\$207.1)	(\$273.9)	(\$331.0)	(\$343.0)
Estimated Savings ⁽¹⁾						
State GF	-	\$211.4	\$265.1	\$278.6	\$289.7	\$299.70
Estimated Net Effect on GF (costs - savings)						
	(\$2.5)	\$73.10	\$58.0	\$4.7	(\$41.3)	(\$43.2)
Estimated Increased Revenue Due to Job Expansion ⁽²⁾						
Increased Revenues	\$68.0	\$69.4	\$70.7	\$72.2	\$73.6	\$75.1
Estimated Net Total Effect on State Expenses (costs - savings + increased revenue from jobs)						
State GF	\$2.5	\$73.1	\$58.0	\$4.7	(\$41.3)	(\$43.2)
Added Revenue	\$68.0	\$69.4	\$70.7	\$72.2	\$73.6	\$75.1
Net State Cost	\$70.5	\$142.5	\$128.7	\$76.9	\$32.3	\$31.9

¹. DMAS Estimates of ACA Medicaid Expansion, August 2015; House Appropriations Committee, November 2016.

². "In Virginia, the average health care sector job pays about \$60,000. An annual infusion of \$2.1 billion could support approximately 15,700 health care jobs with benefits. Those additional health care jobs could then translate into over \$68 million in state and local revenues each year" *How Medicaid Works*, The Commonwealth Institute, December 2015. [These numbers were inflated 2% per year from 2017 forward.]

The estimates consist of 3 parts:

- 1) **The costs of expansion** are from the DMAS presentation, dated Nov. 2016, to the House Appropriations Committee. Costs will be mostly covered by the federal government with Virginia contributing 6% in 2018, 7% in 2019 and 10% from 2020 onwards from the State General Fund (GF). These estimates assume an initial enrollment of 354,000. This 75% enrollment rate reflects the actual experience of other expansion states; therefore, there should be no surprises that would cause these estimates to be too low. The estimates assume an average cost per enrollee of \$6,232. The per enrollee cost takes into account the different costs of various groups of people, (i.e. newly eligible adults, families with children). The estimates have provided for those differences. These are conservative estimates based on actual experience with Virginia's existing Medicaid program. Over the period from 2017-2022, state costs total \$1.296 billion. Federal reimbursement to Virginia total \$13,427.2 billion.

DMAS budget analysts and their work are highly regarded by several of the non-partisan foundations doing research and analysis in healthcare issues and Medicaid.

- 2) **Estimated Savings** are from the DMAS presentation. Savings include programs that State's General Fund would no longer need to pay for because, with expansion, they would be covered by federal reimbursement. Some of the programs are: hospital care for the poor, enhanced rate for currently eligible people, mental health and substance abuse services, hospital care for prisoners, the GAP program and programs that serve vulnerable people. Over the period from 2017-2022, state savings total \$1.344 billion.
- 3) **Estimated increased revenue due to job expansion** results from the infusion of over \$2 billion per year of federal money into Virginia's economy. These funds will spur economic growth and create new jobs, estimated to be 15,700 jobs. Over the period from 2017-2022, state and local tax revenues from job creation total \$429 million.

National, multi-state, and single state studies show that states expanding Medicaid under the ACA have realized budget savings, revenue gains, and overall economic growth.⁽¹⁾ States experience a macroeconomic benefit through increased economic activity from new federal funding. Medicaid expansion does not simply shift spending by state governments or residents to the federal government, but actually increases total spending in the state without a

commensurate tax increase for state residents. This increase in economic activity benefits state residents directly through increased employment in health care and a multiplier effect of related spending and employment in other sectors of the state economy, such as construction and retail services, with corresponding increases in tax revenue.

In Michigan, employment associated with increased Medicaid spending peaked at over 39,000 jobs in 2016.⁽⁴⁾ A study in Colorado found that the state supports 31,074 additional jobs due to Medicaid expansion as of FY 2015-2016.⁽²⁾ And a study in Kentucky estimated that expansion would create over 40,000 jobs in the state through SFY 2021 with an average salary of \$41,000.⁽³⁾

- 4) Estimated Net Total Effect on State Expenses** shows the overall positive financial benefit for the state. The House Appropriates Report fail to include the positive benefits of additional jobs created by over \$2 billion per year in federal money. States that have already expanded Medicaid saw this growth to their economy. Therefore, it is correct to include it in the estimates.

Over the period from 2017-2022, the total net benefit would be \$477.8 million.

Footnotes:

- (1) <http://kff.org/medicaid/issue-brief/the-effects-of-medicaid-expansion-under-the-aca-updated-findings-from-a-literature-review/>
- (2) The Colorado Health Foundation, *Assessing the Economic and Budgetary Impact of Medicaid Expansion in Colorado*, (The Colorado Health Foundation, March 2016).
- (3) Deloitte Development LLC, *Commonwealth of Kentucky Medicaid Expansion Report* (February 2015).
- (4) <http://www.nejm.org/doi/full/10.1056/NEJMp1613981>