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Medicaid Expansion and Enhanced Match: How Proposals to Grandfather Medicaid Enrollees Could Impact States

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I. Background

Under the Affordable Care Act (ACA), states were given the option to expand Medicaid to adults with income below 138 percent of the federal poverty line (FPL). The ACA offered states an "enhanced" matching rate for the cost of the new coverage and, in response, 31 states and the District of Columbia have expanded Medicaid. In calendar year (CY) 2015, these states received an estimated $72.6 billion in federal funds and covered 14 million people.[1] The expansion, which is widely credited with helping to drive down the uninsured rate, has brought substantial new federal funding into participating states that is now integrated into their state budgets. Indeed, federal funding for expansion adults, on average, accounts for 30 percent of all of the federal Medicaid funds in these states.

As part of the broader debate over repeal of the Affordable Care Act, Congress is considering scaling back federal financing for the expansion or eliminating it altogether. The House of Representatives' "repeal and replace" bill—the American Health Care Act (AHCA)—terminates the enhanced matching rate for expansion after December 31, 2019 with a limited exception for "grandfathered" individuals, defined as individuals enrolled in a state's expansion as of December 31, 2019 who do not have a break in their eligibility of one or more months. For everyone else covered by expansion, states receive the regular Medicaid matching rate, which varies by state between 50 percent and 76 percent. Notably, the House bill does not permit states to cover just the grandfathered individuals. This means expansion states must be willing to cover new beneficiaries at the regular matching rate starting on January 1, 2020, as well as be prepared for these "regular match" beneficiaries to increasingly dominate the expansion population as grandfathered individuals leave and, in some instances, move back onto the program. While the Affordable Care Act streamlined renewal and reduced churn (the movement of people onto and off of coverage), new proposals will make it more difficult to maintain continuous coverage; for example, a proposed AHCA provision would require individuals to renew their coverage every six months rather than annually.

This analysis explores the extent to which the exception for grandfathered individuals would mitigate the fiscal hit otherwise associated with eliminating enhanced matching funds. In other words, how quickly will individuals covered by the Medicaid expansion on December 31, 2019 lose coverage and, as a result, how quickly will the states lose enhanced federal matching dollars.

Based largely on states' earlier experiences with enrollment freezes and the research

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literature on churn in Medicaid, this analysis provides state-by-state estimates of the number of currently enrolled expansion adults for whom enhanced federal match would disappear over time under a grandfathering provision similar to the one proposed in the AHCA. We conclude that states would receive enhanced matching funds for about half of their initially grandfathered expansion enrollees after the first year. Within four years most of the grandfathered adults—nearly 80 percent—will have lost their grandfathered status, with the result that states would be covering the vast majority of expansion adults under their regular match, if they continue to cover the expansion at all. In effect, states will face two choices: come up with substantial new state funding to maintain their expansions or terminate their expansions altogether and accept rising numbers of uninsured people. Most states will be unable to continue expansion, and in those that can, the impact will ripple through their budgets requiring tough spending choices or new taxes.

II. Coverage turnover among "grandfathered" enrollees

To evaluate the potential impact of limiting the enhanced matching rate to grandfathered individuals, it is useful to review both the research literature on churning, as well as the experience of states that have imposed an enrollment freeze on low-income adults in the past. Although they serve a different function than the grandfathering provision in the AHCA, these earlier freezes offer concrete data on the rate at which a group of beneficiaries enrolled in Medicaid at a particular point in time will drop off of coverage over time. As such, they are indicative of the rate at which grandfathered individuals for whom a state can receive enhanced federal matching funds will leave Medicaid under the AHCA.

LITERATURE ON CHURNING

The research literature indicates that up to 50 percent of Medicaid enrollees cycle out of the Medicaid program within a year and that many subsequently become eligible again.[2] They may leave because they have found a new job, gotten married, or encountered barriers to renewing coverage. The churn rate in any given state depends on both the beneficiaries enrolled in coverage and the basis for their eligibility (e.g., low-income parents typically churn on and off more frequently than people with disabilities), as well as a state's renewal and coverage policies. For example, states with highly-automated renewal procedures that reduce the paperwork burden on beneficiaries of maintaining coverage will have a lower churn rate than those with less effective automation procedures.

STATE EXPERIENCE WITH ENROLLMENT FREEZES

Prior to implementation of the Affordable Care Act, a handful of states imposed an enrollment freeze on low-income adults covered under Medicaid waivers, typically in response to state budget pressures. The states considered in this analysis are discussed below:

- **Arizona** froze Medicaid enrollment of childless adults effective July 2011, 11 years after it first expanded eligibility for childless adults with incomes up to and including 100 percent of the FPL.[3] The freeze lasted for two and a half years, until January 1, 2014 when Arizona implemented the Medicaid expansion. One year after the freeze was implemented, enrollment dropped by 49 percent; after 24 months, enrollment was down 66 percent.[4]

- **Wisconsin** created a limited benefit plan demonstration for adults below 200 percent FPL in 2009 and froze enrollment in January 2010.[5] The freeze lasted until 2014, when the state changed the program to cover adults up to 100 percent FPL, with a full benefit package.[6] Twelve months after the freeze was implemented, Wisconsin saw a 32 percent decrease in enrollment; it saw a 57 percent decrease after 24 months.[7]

- **Maine** froze enrollment in March of 2005 for childless adults below 100 percent FPL covered by MaineCare, a Medicaid 1115 waiver. The entire program was eliminated nine months later, but in the interim, enrollment had dropped by 40 percent.[8]

Table 1 summarizes the declines in enrollment experienced by Wisconsin and Arizona, the two states for which data are available for a year or more.

Table 1. Wisconsin and Arizona Experiences With Adult Enrollment Reductions Under a Freeze

	6 mo.	12 mo.	18 mo.	24 mo.	36 mo.	48 mo.
Wisconsin	14%	32%	48%	57%	69%	77%
Arizona	29%	49%	60%	66%		

Note: Percentage reduction is relative to the number of individuals enrolled when the freeze was implemented.

Source: Manatt analysis of Wisconsin Department of Health Enrollment Data (SFY 2009-2017), *https://www.forwardhealth.wi.gov/WIPortal/Tab/42/icscontent/Member/caseloads/enrollment/enrollment.htm.spage*; Manatt analysis of Arizona Health Care Cost Containment System (AHCCCS) enrollment data, found in the population statistic files (2011-2014), *https://archive.azahcccs.gov/*.

III. State-by-state estimates

Using earlier state experiences and the research literature on churn, this analysis estimates the rate at which expansion adults for whom a state receives enhanced matching funds would leave the program over time. Arizona's experience[9] is used as the primary basis for the estimates, but in fact, the decline could be even more rapid under the AHCA. In the case of Arizona, re-enrollment was not an option and individuals would have had stronger incentives to complete paperwork and other requirements in a timely manner to retain coverage. By contrast, AHCA would not prohibit individuals from re-enrolling in Medicaid if they lost coverage after 2020.[10] It is also important to note that these estimates do not take into account the higher churn rate that states would experience if adults are required to renew their coverage every six months, as proposed in the AHCA, or if states are given additional options to implement policies that could make coverage more difficult to retain, such as premiums or work requirements.

Using March 2016 expansion adult enrollment as the starting point,[11] Table 2 shows by state an estimated drop in the number of grandfathered individuals for whom a state would receive enhanced matching funds over four years. At the national level, enrollment would drop from 14.3 million to 7.2 million (a 49 percent drop) by the end of the first year, to 4.9 million (a 66 percent drop) by the end of the second year, to 3.8 million (a 73 percent drop) by the end of the third year, and to 3.0 million (a 79 percent drop) by the end of the fourth year. As a share of initial enrollment, these estimates suggest that states would only be receiving enhanced federal matching funds for approximately half of their expansion adult enrollees within one year, and for less than a quarter within four years. It is important to reiterate that this analysis assumes that states have the state funds to even continue the Medicaid expansion after January 2020 given the large increase in state share that would be required to maintain coverage for the expansion adult population.[12]

Table 2. Estimated Decrease in the Number of Expansion Adults Receiving Enhanced Match Under a Grandfathering Provision

State	March 2016 Enrollment	Number of Individuals Remaining Continuously Enrolled (i.e., Eligible for Enhanced Federal Match)			
		After 1 Year (51% remaining)	After 2 Years (34% remaining)	After 3 Years (27% remaining)	After 4 Years (21% remaining)
Total	**14,266,410**	**7,217,473**	**4,882,221**	**3,831,161**	**3,006,376**
Alaska	**14,428**	7,299	4,938	3,875	3,040
Arizona	**416,349**	210,634	142,482	111,808	87,738
Arkansas	**303,944**	153,767	104,015	81,622	64,050
California	**3,535,354**	1,788,559	1,209,861	949,399	745,009
Colorado	**425,513**	215,270	145,618	114,269	89,669
Connecticut	**207,625**	105,039	71,053	55,756	43,753
Delaware	**66,730**	33,759	22,836	17,920	14,062
DC	**61,993**	31,363	21,215	16,648	13,064
Hawaii	**108,072**	54,674	36,984	29,022	22,774
Illinois	**664,124**	335,985	227,275	178,347	139,952
Indiana	**381,631**	193,070	130,601	102,485	80,422
Iowa	**148,896**	75,327	50,955	39,985	31,377
Kentucky	**443,200**	224,218	151,671	119,019	93,396
Maryland	**248,237**	125,585	84,951	66,663	52,311
Massachusetts	**394,943**	199,804	135,157	106,060	83,227
Michigan	**633,013**	320,246	216,628	169,992	133,396
Minnesota	**187,060**	94,635	64,015	50,234	39,419
Montana	**46,688**	23,620	15,977	12,538	9,839
Nevada	**203,929**	103,169	69,788	54,764	42,974
New Hampshire	**52,892**	26,758	18,101	14,204	11,146
New Jersey	**536,741**	271,541	183,682	144,139	113,108
New Mexico	**243,110**	122,991	83,197	65,286	51,231
New York	**2,094,895**	1,059,821	716,911	562,572	441,459
North Dakota	**19,517**	9,874	6,679	5,241	4,113
Ohio	**677,540**	342,772	231,866	181,949	142,779
Oregon	**550,610**	278,557	188,429	147,863	116,031

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Pennsylvania	**702,758**	355,530	240,496	188,722	148,093
Rhode Island	**60,455**	30,585	20,689	16,235	12,740
Vermont	**63,281**	32,014	21,656	16,994	13,335
Washington	**592,910**	299,957	202,904	159,222	124,945
West Virginia	**179,972**	91,049	61,590	48,330	37,926

Note: Excludes Louisiana, which expanded in July 2016; enrollment for North Dakota reflects December 2015. Under "grandfathering," enhanced federal match would only be retained for expansion adults who are enrolled at a point in time and do not have a break in coverage. Percentage decreases are based on Arizona's experience with an adult enrollment freeze, and an assumption that an approximately two percent average monthly decline observed between months 24 and 30 continues through year four. See text for additional information.

Source: Manatt analysis of Centers for Medicare & Medicaid Services, January-March 2016 MBES Medicaid Enrollment Report, *https://www.medicaid.gov/medicaid/program-information/medicaid-and-chip-enrollment-data/sdis/index.html*. Arizona data cited in Table 1.

Endnotes

[1] State Health Reform Assistance Network. 2017. "Data Points to Consider When Assessing Proposals to Cap Federal Medicaid Funding: A Toolkit for States." Tables 2 and 3, *http://www.statenetwork.org/resource/data-points-to-consider-when-assessing-proposals-to-cap-federal-medicaid-funding-a-toolkit-for-states/*.

[2] State Health Access Data Assistance Center (SHADAC). 2014. "ACA Coverage Expansions: Measuring and Monitoring Churn at the State Level." *http://www.shadac.org/sites/default/files/Old_files/shadac/publications/ACADataAnalytics_Paper%20%234%20Measuring%20and%20Monitoring%20Churn%20for%20web.pdf*.

[3] Arizona Health Care Cost Containment System (AHCCCS) Section 1115 Demonstration, Special Terms and Conditions, October 22, 2011. *https://www.medicaid.gov/Medicaid-CHIP-Program-Information/By-Topics/Waivers/1115/downloads/az/Health-Care-Cost-Containment-System/az-hccc-stc-10012011-09302016-amended-042012.pdf*.

[4] Manatt analysis of Arizona Health Care Cost Containment System (AHCCCS) enrollment data, found in the population statistic files (2011-2014). *https://archive.azahcccs.gov/*.

[5] Rosenbaum, Sara. 2016. "Wisconsin's 1115 Medicaid Demonstration: What Will Policymakers Learn?" *The Commonwealth Fund*. *http://www.commonwealthfund.org/publications/blog/2016/jun/wisconsin-1115-medicaid-demonstration*.

[6] BadgerCare Reform Section 1115 Demonstration, December 30, 2013. *https://www.medicaid.gov/Medicaid-CHIP-Program-Information/By-Topics/Waivers/1115/downloads/wi/wi-badgercare-reform-ca.pdf*.

[7] Manatt analysis of Wisconsin Department of Health Enrollment Data (SFY 2009-2017). *https://www.forwardhealth.wi.gov/WIPortal/Tab/42/icscontent/Member/caseloads/enrollment/enrollment.htm.spage*.

[8] Maine State Legislature. 2006. *Final Report of the Blue Ribbon Commission on the Future of MaineCare*. *http://lldc.mainelegislature.org/Open/Rpts/ra412_45_m2m33_2006.pdf*.

[9] Arizona's freeze only lasted 30 months, and therefore, to provide estimates for latter years, we assumed that the approximately two percent monthly decline seen between months 24 and 30 would continue over time.

[10] States could seek a waiver to cover only grandfathered adults, effectively preventing re-enrollment, but the AHCA proposal itself does not prevent individuals from re-enrolling; it would instead reduce the federal match provided to states for expansion adults who experience a break in coverage after 2019.

[11] States would likely have more people enrolled in coverage on December 31, 2019, the date used to identify grandfathered individuals in AHCA.

[12] Some states have statutes that may require termination of Medicaid coverage for the expansion population if there are reductions in the enhanced federal match, including Arkansas, Arizona, Illinois, Indiana, Michigan, New Hampshire, and New Mexico.