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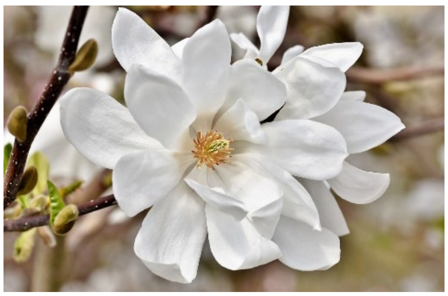

The Economic Impact of Medicaid Expansion in Mississippi, 2023-2028: Summary Report

report

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Table of Contents

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Executive Summary

The 2010 Affordable Care Act (ACA) gave states the option to extend Medicaid eligibility to individuals with income up to 138% of the federal poverty level (FPL). This was a significant expansion to Medicaid eligibility policy, and Mississippi is 1 of only 12 states to have not expanded their Medicaid program as of the writing of this report. This study estimates the effect of a hypothetical Medicaid expansion in Mississippi on the state's Medicaid program, state costs, health services providers, and the wider state economy from 2023 to 2028.

Hilltop estimates that without accounting for the American Rescue Plan (ARP) Act enhanced federal match, Medicaid expansion in Mississippi would result in $18 million in *savings* in 2023, rising to $11 million in net costs in 2028. State costs before offsets range from $159 million to $201 million but are significantly reduced by additional tax revenue, as well as other cost offsets and reductions in uncompensated care for government-owned hospitals. The ARP Act enhanced federal match would lead to net savings of $355 million and $343 million in 2023 and 2024, respectively.

These results are consistent with other studies that find that Medicaid expansion can result in little to no additional net costs to states (Ward, 2020). See Table 1.

Table 1. Results of Mississippi Medicaid Expansion State Costs, CY 2023–CY 2028 ($ million)

	2023	2024	2025	2026	2027	2028
1) New Medicaid enrollment	192,065	205,085	217,969	216,879	215,795	214,716
2) State costs before offsets	$159	$174	$190	$194	$197	$201
3) Increase in direct tax revenue	$38.3	$39.1	$40.0	$40.8	$41.6	$42.4
4) Increase in indirect tax revenue	$51.5	$53.1	$54.8	$56.0	$57.2	$58.4
5) Cost offsets: Eligibility shifts	$8.4	$7.1	$13.3	$12.4	$11.4	$10.4
6) Cost offsets: Service funding shifts	$16.2	$17.0	$17.8	$18.6	$19.5	$20.4
7) Reduction in uncompensated care for state and local hospitals	$62.0	$61.4	$60.8	$60.2	$59.6	$59.0
8) Net cost to state prior to ARP Act enhanced federal match (2 – 3 – 4 – 5 – 6 – 7)	-$17.7	-$3.8	$3.1	$5.6	$8.2	$10.7
9) ARP Act enhanced federal match	$338	$339				
10) Net cost to state including ARP Act enhanced federal match (8 – 9)	-$355	-$343	$3.1	$5.6	$8.2	$10.7

In addition to estimating the impact of Medicaid expansion on enrollment and costs, this study also forecasts the effect on certain economic measures. In particular, Medicaid expansion in Mississippi would lead to the following:

1. Roughly 11,000 new jobs each year
2. An additional 0.7% of economic growth, relative to pre-expansion levels
3. A reduction of $164 to $191 million in uncompensated care for all acute care hospitals in the state

See Table 2 for detailed results.

Table 2. Results of Economic Impact of Medicaid Expansion, CY 2023–CY 2028 ($ million)

	2023	2024	2025	2026	2027	2028
New employment	10,532	10,729	10,927	11,017	11,109	11,201
Increased economic activity	$814	$840	$866	$884	$902	$921
Reduction in uncompensated care (all hospitals)	$164	$169	$174	$179	$185	$191

The available evidence suggests that Medicaid expansion in Mississippi would result in substantial state budgetary savings in 2023 and 2024, with significant additional benefit to the state's hospitals and economy. Moreover, given the relatively low annual net cost of expansion thereafter, Mississippi could potentially use its ARP Act enhanced federal match to fully offset its net costs of expansion for the foreseeable future.

Introduction

Medicaid is a jointly funded state-federal program that provides health coverage to. The 2010 Affordable Care Act (ACA) granted states the option of extending Medicaid eligibility to individuals with income up to 138% of the federal poverty level (FPL). This constituted a significant shift to Medicaid eligibility policy; to date, 38 states and the District of Columbia have expanded their Medicaid programs (Kaiser Family Foundation, 2021).

As of December 2021, Mississippi was 1 of 12 states to have not expanded its Medicaid program. To provide state policymakers with the latest available evidence on the potential impact of Medicaid expansion, The Center for Mississippi Health Policy commissioned The Hilltop Institute at the University of Maryland, Baltimore County (UMBC) to study the likely effects of eligibility expansion on Mississippi's Medicaid program, state budget, wider economy, and providers. This report presents a summary of the results. Readers should refer to the full technical report for additional details.

Methodology

Hilltop modeled the impact of Medicaid expansion on net costs to the state as follows:

Net cost to state = (Direct state costs of expansion) – (increase in direct tax revenue) – (increase in indirect tax revenue) – (cost offsets due to Medicaid eligibility shifts) – (cost offsets due to service funding shifts) – (reduction in uncompensated care for state and local hospitals) – (ARP Act enhanced federal match)

The *net cost to the state* is founded on an estimate of the *direct state costs of expansion* before any cost offsets. These direct state costs are a function of three factors: the number of additional Medicaid participants, the cost per additional Medicaid participant, and the Federal Medical Assistance Percentage (FMAP). Medicaid is jointly funded at the state and federal levels, and the federal government's portion of the cost is determined by the FMAP. The FMAP is based on the average per capita income for the state relative to the national average, with lower-income states receiving a higher federal match. Mississippi's FMAP in fiscal year (FY) 2021 was 77.76%, the highest in the country; however, the FMAP for the Medicaid expansion population is 90% (Congressional Research Service, 2020). That is, Mississippi would be responsible for only 10% of the direct costs of the expansion group.

The direct state cost is counterbalanced by several factors. First, Medicaid expansion will lead to *increased tax revenue*—both due to Mississippi's insurance premium tax and the general stimulus to economic activity—which will offset the state cost.[1] Second, there will be *cost offsets* as individuals from traditional Medicaid groups with a lower federal match transition to the expansion group (with its 90% federal match), and as previously state-funded health spending

[1] Miss. Code Ann. § 27-15-109

can shift to Medicaid. Third, there will be a *reduction in uncompensated care for hospitals owned by the state and local jurisdictions,* which will improve the financial health of these hospitals. Although this reduction in uncompensated care will not directly flow back into the government as revenue, this should be credited as a cost offset given that these hospitals are government-owned. Finally, it is important to note that the American Rescue Plan (ARP) Act provides states that expand Medicaid with an additional 5 percentage points of federal match for traditional coverage groups for two years following expansion.[2] This represents a substantial source of cost offsets that was not available for expansion states prior to passage of the ARP Act in March 2021.

For this analysis, Hilltop assumes that Medicaid expansion will occur on January 1, 2023, and that the expansion population would be enrolled in MSCAN, Mississippi's Medicaid managed care program. Additionally, we assume that expansion will not involve cost sharing or community engagement requirements.

Enrollment

Medicaid expansion confers eligibility to almost all individuals aged 19 to 64 (inclusive) who earn up to 138% of the FPL. Using American Community Survey data as of 2019, Hilltop estimates the population of newly income-eligible individuals in Mississippi to be 587,962. Hilltop also assumes that this population will fall by 0.5% annually.

It is not the case that all newly eligible individuals will enroll in Medicaid; only a fraction of individuals will "take up" eligibility and complete enrollment. To account for this, Hilltop applied take-up rates from prior research in order to estimate the population that will actually enroll. Hilltop estimates that Medicaid expansion in Mississippi will result in 192,065 to 217,969 additional enrollees from 2023 to 2028. This is consistent with other Mississippi Medicaid expansion research (Miller & Collins, 2021; Ku & Brantley, 2021; Manatt Health 2021).

Costs

Hilltop relied on capitation rate certification reports for data on enrollee costs. Capitation rates are monthly payments paid directly to coordinated care organizations (CCOs) by the state. They include plans' administrative costs, expected profit margin, and premium taxes in addition to expected costs of participants' medical care. These are the most up-to-date data on Mississippi Medicaid costs that we were able to access. The use of these data is consistent with the assumption that the Medicaid expansion population would be covered through the state's Medicaid managed care program. After adjusting for the expected demographics of the expansion population, Hilltop estimates that the annual cost per additional participant will be $8,262 in 2023. For future years, we assume annual growth of 2.5%.

[2] 42 USC § 1396d(ii)

Increases in Tax Revenue

Medicaid expansion adds significant Medicaid expenditures to the state that would not have otherwise occurred. Given the assumption that the expansion population will be enrolled through the state's managed care program, this expenditure would flow to the three constituent coordinated care organizations (Magnolia, United, and Molina) as capitated monthly payments. Mississippi currently levies a 3% premium tax on all health insurers within the state, including Medicaid CCOs (Milliman, 2019). After making adjustments in order to focus on the *new* premiums that Medicaid expansion would generate, Hilltop estimates that this would lead to an additional $38.3 to $42.4 million in premium tax revenue for the state from 2023 to 2028.

The CCOs will remit most of these capitated payments to health service providers in Mississippi in order to pay for health care for new Medicaid participants. The health service providers will then spend this additional Medicaid revenue on supplies and salaries; their employees, then, will spend this additional revenue on goods and services in the state. Thus, the infusion of federal Medicaid funding will ripple through the state economy and will lead to further tax revenue for the state. Research has shown that failing to account for this source of tax revenue omits a "significant fiscal benefit to the state" due to expansion (Levy et al., 2020). Hilltop estimates that this would lead to an additional tax revenue of $51.5 to $58.4 million per year from 2023 to 2028. This accords with research from other states demonstrating that Medicaid expansion can lead to significant increases to state and local tax collections (Arkansas Health Reform Legislative Task Force, 2016; Richardson et al., 2019; Commonwealth of Kentucky, 2015; Levy et al., 2020; Ward, 2021).

Cost Offsets

Eligibility Shifts

As a result of Medicaid expansion, certain individuals who might otherwise have been eligible for Medicaid in a traditional eligibility group will also be eligible for coverage through the expansion group. Such individuals can, in certain circumstances, enroll through the expansion group, allowing the state to save the difference in FMAP. For example, if an individual with a disability *would* have been in traditional Medicaid with an FMAP of 77.76% and incurred total spending of $1,000, then the state would have been responsible for paying $222.40 of those dollars, and the federal government would have paid the balance of $777.60. If that same individual had been enrolled through the expansion group, however, their FMAP would be 90%, meaning Mississippi would only be responsible for paying $100, and the federal government would pay the balance of $900. Thus, Mississippi Medicaid would have saved $122.40 ($222.40 - $100).

Hilltop estimates that Medicaid expansion will lead to savings on pregnant women, individuals with disabilities, and individuals enrolled in the Healthier Mississippi Waiver. Annual savings are estimated to be $2 to $4 million for pregnant women, $1 to $2 million for individuals with disabilities, and $4 to $7 million on the Healthier Mississippi Waiver, for a total of $7 to $13 million during the study period.

Service Funding Changes

When states expand Medicaid, certain health services that used to be funded by the state can now be funded through Medicaid (which, because of the 90% federal match, is largely federal funding). This represents another source of savings to the state. Hilltop estimates that two such sources of savings for Mississippi are savings on medical care for correctional inmates, and a reduction on state funding for mental health programs. Hilltop estimates that annual savings on offsite correctional medical care would range from $8 to $10 million, and that annual savings in state funding for mental health services would range from $8 to $11 million.

Uncompensated Hospital Care

Hospitals in Mississippi incurred over $600 million of uncompensated care in 2019 (Mississippi Legislature, 2020). Medicaid expansion has been demonstrated to reduce hospitals' uncompensated care burdens and to improve their financial position (Callison et al., 2021; Rhodes et al., 2020; Blavin & Ramos, 2021). The Hilltop model assumes that Medicaid expansion will lead to a 25% reduction in uncompensated care for Mississippi hospitals.

Hilltop includes this measure in its model of net state costs because of Mississippi's unique hospital landscape. Over 40% of hospitals in Mississippi are owned by the state or local jurisdictions (Kaiser Family Foundation, 2019). As such, any gains or losses are the corresponding jurisdiction's gains or losses. New Medicaid revenue could be used to invest in hospital infrastructure, higher salaries for hospital staff, or reduced rates for hospital services. While state revenue is not directly affected, the reduction in uncompensated care improves the value of governmental asset holdings and thus offsets the state's cost of Medicaid expansion. Using Medicare Cost Report data, Hilltop estimates that Medicaid expansion will reduce uncompensated care in government-owned hospitals by roughly $60 million annually, and that all acute care hospitals across the state will experience a reduction of $164 to $191 million in uncompensated care.[3]

American Rescue Plan Act Enhanced Federal Match

The ARP Act offers states that expand their Medicaid programs up to 138% of the FPL an additional 5 percentage points of FMAP for their traditional Medicaid populations for the first two years of expansion (Park & Corlette, 2021). This is an additional incentive for states to expand their Medicaid programs beyond the current incentive of 90% FMAP for the expansion population.

Estimates of ARP Act enhanced federal match for Mississippi range from $622 million to $739 million (Ku & Brantley, 2021; Rudowitz et al., 2021; Striar et al., 2021). Assuming that Medicaid

[3] The general reduction in hospital uncompensated care and attendant improvement in Mississippi hospitals' financial position may also forestall additional hospital closures or bankruptcies in Mississippi: five Mississippi hospitals have closed since 2010, and four rural Mississippi hospitals declared bankruptcy in 2018 (Mississippi Governor's Rural Health Task Force, 2019).

expansion occurs on January 1, 2023, and that the federal public health emergency ends by January 2022, Hilltop estimates that the additional federal funding will amount to $338 million in 2023 and $339 million in 2024, totaling $676.4 million for the first two years of expansion.

Other Economic Effects

As noted, Medicaid expansion infuses significant federal expenditure into the state that would not have otherwise occurred. This expenditure will ripple throughout the state, leading not only to additional tax revenue, but also to additional employment and economic growth. To estimate these additional economic effects, we rely on IMPLAN, a widely used economic impact software that models the linkages of the different components of a particular state's economy. After adjusting for reductions in ACA marketplace enrollment and resulting foregone advanced premium tax credits, Hilltop estimates that Medicaid expansion will lead to roughly 11,000 additional jobs per year and will result in $800 million to $900 million in additional economic activity in the state. This represents an addition of roughly 0.7% to the state's current gross product (FRED Economic Data, 2021).

Limitations

This study is confined to examining the impact of Medicaid expansion on Medicaid enrollment, the state budget, the state's economy, and the financial impact on hospitals. Medicaid expansion has been demonstrated to impact a wide variety of factors relating to individuals' health and health care utilization, but we do not address these here (Guth et al., 2020; Guth & Ammula, 2021). Additionally, much of this work necessarily relies on assumptions of key parameters. The full technical report makes note of these assumptions, and we strive to validate our results with the broader literature where possible.

Conclusion

This study estimated the likely effects of Medicaid expansion on Mississippi's Medicaid program, state budget, wider economy, and providers. The available evidence suggests that Medicaid expansion in Mississippi would result in substantial state budgetary savings in 2023 and 2024, with significant additional benefit to the state's hospitals and economy. Moreover, given the relatively low annual net cost of expansion thereafter, Mississippi could potentially use its ARP Act enhanced federal match to fully offset its net costs of expansion for the foreseeable future.

Full details of this analysis are available in the technical report.

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