

MEMORANDUM

TO: Chairman Landwehr and Members of the Committee
Special Committee on Medicaid Expansion

FROM: Larry Campbell, Director of the Budget

DATE: November 13, 2019

SUBJECT: Informational Briefing Regarding Fiscal Impact of Medicaid Expansion

My name is Larry Campbell, and I serve as the Kansas Budget Director. Thank you for the opportunity to appear before you today to speak about the fiscal impact of Medicaid Expansion. I am pleased to serve as a source of information for this committee.

The Division of the Budget (DOB) oversees duties related to budget execution and financial administration. Our staff monitors cashflow and takes appropriate steps to assure State General Fund solvency throughout the year. We assist the Governor in the development of her budget recommendation and we work steadfastly to ensure her vision for Kansas is reflected at every stage of the process. However, at DOB we consider ourselves fiscal analysts – not policy advisors. I am not an expert on the complexities associated with the administration of the Medicaid program. My testimony will touch only on implications of certain approaches to expansion as they pertain to state finances.

It is also important for the committee to understand where these figures come from. DOB oversees the release of all fiscal notes, but the actual numbers are calculated by the relevant agency. After an agency submits its fiscal analysis to DOB, we review and standardize the information before ultimately providing it to the Legislature. DOB considers it a collaborative process, but the agency is always the subject matter expert. Secretary Norman and his team at KDHE will be best suited to answer specific questions about Kansas numbers and methodology when it comes to Medicaid Expansion.

House Bill 2066

KDHE estimates that House Bill 2066, as amended by the Kansas House of Representatives, would result in additional expenditures of \$33.9 million from the State General Fund, with a range of \$34 - \$38 million for ongoing costs in the out years. The estimate includes

various financial offsets, including the federal match, prescription drug rebates, managed care privilege fees, and shifts within the Medicaid population that will generate cost savings.

The \$33.9 million figure does not account for savings realized within the Department of Corrections, which are estimated at approximately \$3 million. Nor does it include offsets generated by economic growth. In March 2019, an independent analysis provided by the Kansas Hospital Association projected that a “clean” Medicaid expansion proposal could create more than 13,000 new jobs by 2021. The ripple effect of this economic activity could produce annual tax revenues of roughly \$30 million or more beginning in FY 2023.

As with any fiscal projection, the end results can be helped or hindered by several factors—especially the specific policy provisions contained within the legislation. But data from other states clearly indicates that a simple expansion of Medicaid as allowed by federal law will increase state tax revenues and meaningfully offset state costs.

It’s worth noting that both KDHE and DOB feel confident in the HB 2066 fiscal note because the policy provisions contained within the bill have been implemented elsewhere in some form. If complex, experimental provisions are added to the final package, our ability to accurately predict the impact on Kansas finances will substantially diminish. I urge lawmakers to be vigilant of this as you negotiate your way to an end product. Fiscal miscalculations that stem from experimental policies rarely emerge in the form of cost savings.

Senate Select Committee Proposal

The budget impact of the Senate Select Committee proposal is much more challenging to assess. The plan makes broad financial assumptions, many of which have never been approved by CMS or come to fruition in other states. Given the complex nature of the bill and lack of guidance from the Insurance Department, we are not yet able to produce a formal fiscal note. However, KDHE identified rough estimates of how some key provisions of the Senate bill will impact the overall price tag:

- **Partial Expansion:** If Kansas were to only expand to 100% of FPL and not receive enhanced funding, this would cost the State \$221 million more than full expansion, while covering approximately 50,000 fewer lives.
- **Premiums:** KDHE estimates that administering premiums would require around 2,700 hours of system changes, which would roughly cost about \$325,000. Operational costs would also include processing of payments, and mailings to beneficiaries. The agency estimates that ongoing administrative costs of this would be around \$2 million. Please note that administrative “add-ons” are not eligible for the enhanced federal match.
- **Tiered benefits plans with enhanced benefits for individuals who demonstrate healthy behaviors:** The implementation costs related to system changes would require around 1,300 hours and cost roughly \$156,000 for the state system. Similar costs will also be incurred by each MCO. This is estimated to total around \$468,000. The ongoing administrative costs for this are unknown, as only two other states have attempted such a complex tiered structure.

There are several other administrative “add-ons” included in the Senate proposal that will undoubtedly increase the cost beyond that of House Bill 2066 or the Governor’s original proposal. As KDHE develops a more comprehensive analysis, I concur with a warning they offered during the Senate Select Committee: every single administrative layer added to Medicaid Expansion will increase the overall cost to Kansas taxpayers. The most fiscally responsible approach to Medicaid Expansion—the approach that will best contain the cost and size of state government—is the simplest one.

Reinsurance

From a budget lens, attaching a reinsurance program to this bill raises the most concern. After spending my career as a banker, I pay special attention to risk when new state investments are proposed. These are the financial risk factors I see in my capacity at DOB when I evaluate the merits of combining reinsurance with Medicaid Expansion:

- **Unknown price tag:** The only way to develop a reliable cost estimate for a reinsurance program is to conduct in-depth actuarial and economic analyses. This has not occurred in Kansas. Any projection offered to date qualifies as a guess, at best.

Also, the agency responsible for administering reinsurance, the critical subject matter experts, declined to issue a fiscal note or any type of bill analysis. DOB requested input from the Insurance Department regarding the Senate proposal, but they indicated they will not engage until a bill is formally introduced.

These points are relevant because the cost of reinsurance varies tremendously among the handful of states that have pursued this option (outlined below). It is influenced heavily by the structure of the 1332 waiver and the conditions of each state’s marketplace. Neither of those factors appear to be fully understood in Kansas.

- Alaska state cost: \$55 million
- Colorado: \$87 million
- Maine: \$59.6 million
- Maryland: \$365 million
- Minnesota: \$271 million
- Oregon: \$90 million

- **The Senate reinsurance plan includes no definitive pay-for.** A \$50 million tax increase has been suggested as a funding mechanism. As previously explained, there is no way to know if \$50 million is an appropriate revenue target. Beyond concerns of accuracy, there’s no guaranteed funding stream identified within the bill at all. A tax increase would need to pass first in order to ensure that reinsurance would not put the State General Fund at risk.
- **Financial risk is always greatest when complex policies move forward too hastily.** With this in mind, I feel duty-bound to caution that this is the very first year reinsurance has been a part of the Kansas healthcare discussion. Only 12 states have implemented reinsurance programs, beginning just two years ago in 2017, with mixed results. Some

states began implementing reinsurance but later withdrew their 1332 waiver applications after deeper analysis revealed that it would be cost prohibitive.

In contrast, the 2020 legislative session will mark the seventh year Kansas has deliberated Medicaid Expansion. During that time, 36 states proceeded with expansion, none of which reversed their decision. Finally, no other state in the nation has attempted to link Medicaid Expansion to reinsurance, which further points to the experimental nature of the Senate approach and the prudence of keeping the two policy concepts separated.

“Big Picture” Impact

My perspective as Kansas Budget Director, decades in banking, and years as a fiscally conservative, Republican legislator have taught me that cost-effective public policy rises to the top when proven data drives the discussion. Below are three proven, big picture data points to illustrate why Medicaid Expansion is a fiscally responsible choice for Kansas:

- A clean Medicaid Expansion bill will cost **less than one half of one percent of our State General Fund** while expanding health care coverage to roughly **150,000 Kansans**.
- By declining to expand Medicaid, Kansas has forfeited nearly **\$3.7 billion** in federal funding since 2014. For a tangible comparison, this equates to **47% of our entire State General Fund in FY21**.
- In Medicaid’s **54-year existence**, the federal match was reduced only **once, temporarily**, in 1981. After it sunset, President Reagan signed into law **three of the largest expansions of Medicaid** in the program’s history prior to 2010.

Hundreds of peer-reviewed studies prove the positive outcomes of Medicaid Expansion. I offer this information merely to highlight what a good budget bargain it can be for Kansas, if we take the most straightforward approach.

Thank you again for the opportunity to speak with you today.