

NEW FEDERAL HEALTH LAW WILL SIGNIFICANTLY EXPAND MEDI-CAL ELIGIBILITY AND ENROLLMENT

In March, President Obama signed the Affordable Care Act (ACA), which will result in the largest expansion of health coverage since Medicare and Medicaid were signed into law in 1965.¹ The ACA aims to increase the share of nonelderly persons with health coverage to 94 percent by 2019, reducing the number of uninsured by 32 million. In California, the law is projected to reduce the number of uninsured by nearly two-thirds. The new law makes wide-ranging changes in how Americans pay for and receive their health coverage and the level of services their health coverage will be required to provide. In order to achieve near universal coverage, the new federal health law expands publicly funded coverage as well as health coverage purchased in the private market. This *Budget Brief* examines the impact of the ACA on eligibility and enrollment in California's Medi-Cal Program.

Health Law Vastly Expands Medi-Cal

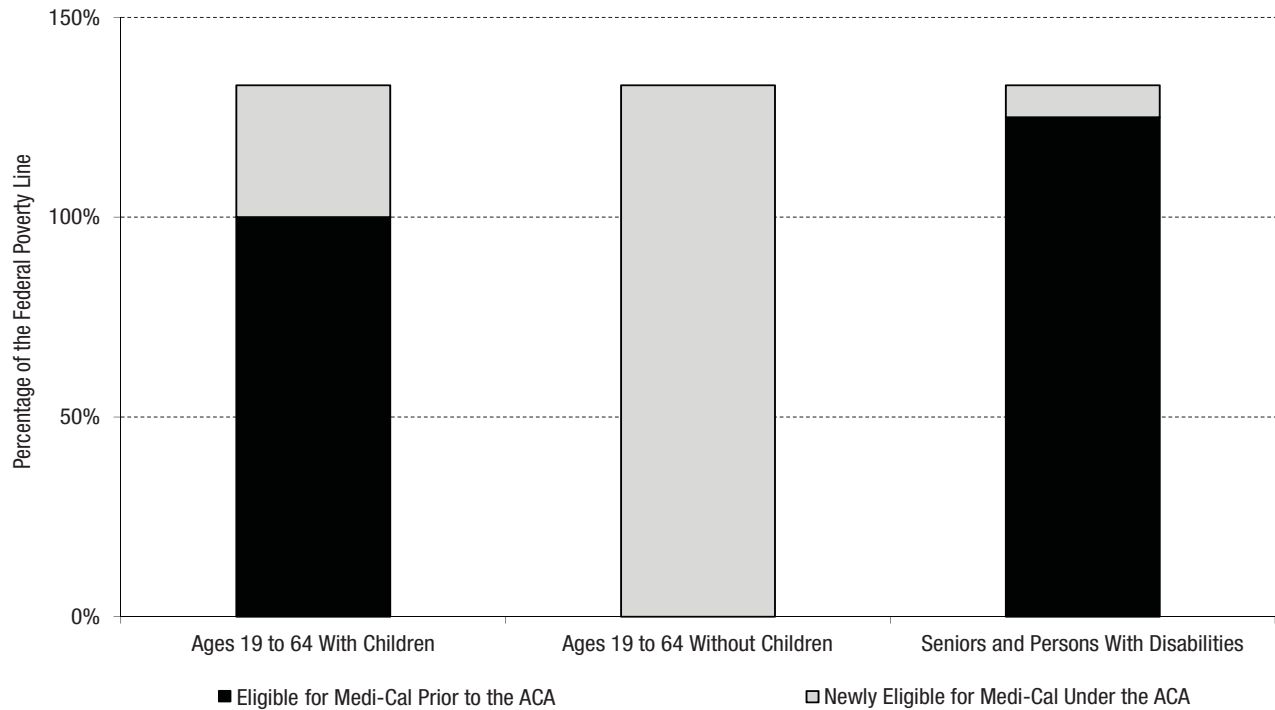
Under the new health law, California has the opportunity to significantly increase the number of individuals with health coverage through its Medicaid Program, called Medi-Cal, the state-federal health insurance program for low-income children, families, and persons with disabilities.² The ACA expands eligibility for Medicaid and is expected to increase public program enrollment by an estimated 16 million nonelderly individuals nationwide by 2019.³

The ACA sets new income guidelines for the Medi-Cal Program, enabling individuals with incomes at or below 138 percent of the federal poverty line – \$14,945 for an individual in 2010 – to qualify for Medi-Cal beginning in 2014.⁴ The new guidelines represent a significant change from the criteria Medi-Cal currently uses to determine whether an individual is eligible. Medi-Cal currently considers a combination of factors including age, disability, and income when determining whether an individual qualifies for the program (Figure 1). Certain parents whose children are enrolled in the program may also join as long

as their incomes are at or below the poverty line – \$18,310 for a family of three in 2010. Childless adults under age 65 who have low incomes and who are not disabled, as well as parents whose incomes are higher than the poverty line are excluded from Medi-Cal. Starting in 2014, the health law enables these adults, who were previously barred from coverage due to income or because they were not parents of qualifying children, to enroll.⁵ More than 1 million Californians who could potentially participate in the program beginning on January 1, 2014 are adults who were previously excluded from joining Medi-Cal (Table 1).

The new law is expected to increase the number of individuals enrolled in Medi-Cal, not just by expanding coverage to previously ineligible individuals in 2014, but also by signing up those who are currently eligible but not enrolled. The latter group will likely gain coverage as a result of new efforts to enroll and retain participants, as well as new pressures for all people to have health coverage once the ACA is fully implemented.⁶ In total, a projected 2 million Californians who are currently not participating in Medi-Cal could join by 2019. By comparison, Medi-Cal currently enrolls more than 7 million children, adults, seniors, and persons with disabilities (Figure 2).

Figure 1: Some Adults Without Children Will Be Eligible for Medi-Cal Under Health Care Reform



Source: Affordable Care Act and the California HealthCare Foundation

Table 1: Medi-Cal Eligibility Will Increase Substantially Under the Affordable Care Act

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Newly Eligible Adults	0	0	0	0	1,093,000	1,104,000	1,115,000	1,127,000	1,138,000	1,150,000
Children Shifted to Medi-Cal*	0	0	0	0	338,000	340,000	341,000	343,000	344,000	345,000
Individuals Eligible for Medi-Cal Under Prior Law**	506,000	510,000	514,000	518,000	523,000	527,000	531,000	535,000	540,000	544,000
Total	506,000	510,000	514,000	518,000	1,954,000	1,971,000	1,987,000	2,005,000	2,022,000	2,039,000

Note: Estimates are rounded to the nearest thousand.

* Includes children who are enrolled in the Healthy Families Program (HFP) and will be moved to Medi-Cal under the ACA, as well as children eligible for the HFP but not enrolled.

** Reflects individuals who were eligible for Medi-Cal prior to passage of the ACA but had not enrolled. Many of these individuals are expected to enroll in Medi-Cal in the coming years due to the ACA's requirement that all individuals obtain health coverage.

Source: Affordable Care Act and CBP analysis of Congressional Budget Office, Department of Finance, Managed Risk Medical Insurance Board, and UCLA Center for Health Policy Research data

Federal Funds Will Pay for Most of the Cost of Expanding Medi-Cal

The federal government will pay most of the costs associated with expanding coverage to millions of Californians. From 2014 through 2016, federal funds will pay the full cost of coverage for adults newly eligible to join Medi-Cal under the ACA (Table 2).⁷ In the following years, the share of federal funds paying the cost of coverage will decline; however, even at their lowest share, federal funds will continue to cover the vast majority of the costs of Medi-Cal coverage for childless adults and parents with incomes above the poverty line. In 2020 and beyond, federal funds will continue to pay 90 percent of the cost of coverage for these individuals.⁸ Generous federal funding will mean that California will draw down nearly \$30 in federal funds for

each state dollar it invests in coverage for newly eligible adults between 2014 and 2019 (Table 3).⁹

Table 2: Federal Funds Will Pay Most of the Cost of Medi-Cal Coverage for Newly Eligible Californians

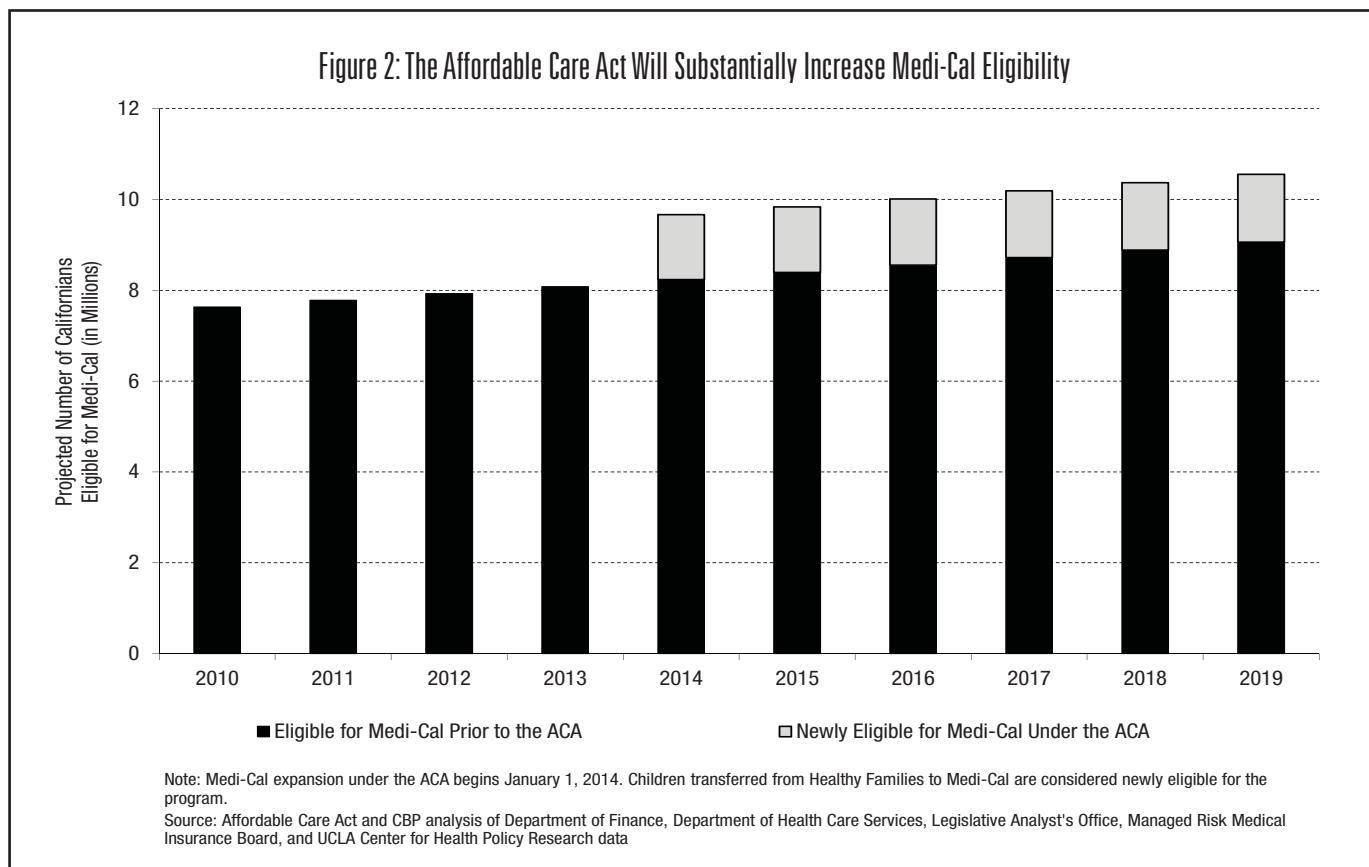
	Federal Share	State Share
2014	100%	0%
2015	100%	0%
2016	100%	0%
2017	95%	5%
2018	94%	6%
2019	93%	7%
2020 and Beyond	90%	10%

Source: Affordable Care Act

Table 3: Federal Funds Will Cover Most of the Cost of Newly Eligible Adults in Medi-Cal (Dollars in Millions)

	2014	2015	2016	2017	2018	2019	Total
Federal Funds	\$3,768	\$3,961	\$4,164	\$4,158	\$4,325	\$4,498	\$24,874
State Funds	\$0	\$0	\$0	\$219	\$276	\$339	\$834

Note: Estimates are rounded to the nearest million. Estimates also assume that approximately 90 percent of adults and children will enroll at full implementation. Source: Affordable Care Act and CBP analysis of Congressional Budget Office, Department of Finance, Department of Health Care Services, Managed Risk Medical Insurance Board, and UCLA Center for Health Policy Research data



The state could also potentially receive additional federal funds for children transferred from the Healthy Families Program (HFP) into Medi-Cal. The federal government currently pays 65 percent of the cost of coverage through the HFP and will pay 88 percent beginning in 2015 – substantially higher than the 50 percent matching rate for the Medi-Cal Program. This federal matching rate could apply to children who shift from the HFP to Medi-Cal (Table 4).¹⁰ Altogether, the estimated state costs for the expected increase in Medi-Cal enrollment due to the federal health law for 2010 through 2019 is \$4.9 billion – less than 1 percent of projected state spending in the same period.¹¹ Meanwhile, the state will receive about \$31.8 billion from the federal government, a return of more than six times the state's investment (Table 5).

Conclusion: California Benefits by Rapidly Expanding Medi-Cal

California can maximize the federal funds it receives under the ACA if as many eligible individuals as possible are enrolled

in Medi-Cal when the federal government begins to pay the entire cost of coverage for newly eligible adults. Earlier this year, Connecticut became the first state in the country to alter its Medicaid program in order to begin enrolling newly eligible individuals in 2010.¹² Federal officials are also encouraging states to expand programs earlier, with particular emphasis on capturing those individuals who are currently eligible but not enrolled.¹³

California's budget constraints will limit its ability to expand Medi-Cal before 2014.¹⁴ However, California counties may begin using simplified procedures to help enroll low-income residents in county-based health coverage programs.¹⁵ The majority of these low-income adults could then be quickly transferred into Medi-Cal in 2014 when the state will receive higher federal payments. Generous federal cost-sharing, combined with the social and economic benefits of health coverage, provide an incentive for California to take the necessary steps now to ensure that qualified individuals are educated about the ACA's new eligibility rules and that newly eligible adults are enrolled when federal funds are available in 2014.

Table 4: Federal Funds Could Cover Most of the Cost for Children Transferred From Healthy Families to Medi-Cal (Dollars in Millions)

	2014	2015	2016	2017	2018	2019	Total
Federal Funds	\$405	\$467	\$615	\$652	\$690	\$684	\$3,513
State Funds	\$218	\$193	\$84	\$89	\$94	\$148	\$826

Note: Estimates are rounded to the nearest million. Estimates also assume that approximately 90 percent of adults and children will enroll at full implementation. Source: Affordable Care Act and CBP analysis of Congressional Budget Office, Department of Finance, Department of Health Care Services, Managed Risk Medical Insurance Board, and UCLA Center for Health Policy Research data

Table 5: Estimated Total Cost of Expansion of Medi-Cal Coverage (Dollars in Millions)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Federal Funds	\$63	\$267	\$358	\$456	\$4,539	\$4,813	\$5,184	\$5,235	\$5,463	\$5,652	\$32,030
State Funds	\$38	\$162	\$319	\$406	\$585	\$578	\$489	\$733	\$818	\$956	\$5,084
Total	\$101	\$429	\$677	\$862	\$5,124	\$5,391	\$5,673	\$5,968	\$6,281	\$6,608	\$37,114

Note: Estimates are rounded to the nearest million. Estimates assume individuals eligible under prior law, but not currently enrolled in Medi-Cal, will gradually sign up for the program over the next three years. Estimates also assume that approximately 90 percent of adults and children will enroll at full implementation. Source: Affordable Care Act and CBP analysis of Congressional Budget Office, Department of Finance, Department of Health Care Services, Managed Risk Medical Insurance Board, and UCLA Center for Health Policy Research data

Hanh Kim Quach prepared this Budget Brief. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, subscriptions, and individual contributions. Please visit the CBP's website at www.cbp.org.

ENDNOTES

- ¹ This *Budget Brief* uses the phrase “Affordable Care Act” (ACA) to refer to the two bills that enacted federal health reform: the Patient Protection and Affordable Care Act (Public Law 111-148) and the Health Care and Education Reconciliation Act of 2010 (Public Law 111-152).
- ² As was the case with the pre-reform Medicaid law, eligible individuals must be citizens or legal immigrants who have resided in the US for at least five years. Any legal residents may purchase health coverage through other provisions of the health law.
- ³ This estimate includes individuals enrolled in both Medicaid and the state Children’s Health Insurance Program (CHIP).
- ⁴ The new law changes how eligibility is calculated. While the health reform law specifies an income threshold of 133 percent of the federal poverty line, it disregards the first 5 percent of income, effectively raising the income eligibility level to 138 percent of the poverty line.
- ⁵ Former foster children under age 26 will also be eligible for Medi-Cal. Approximately 4,500 foster children leave the foster care system annually. Research shows that many former foster children have low incomes, likely qualifying them for Medicaid under new income eligibility rules. The remaining population that would qualify for Medi-Cal as former foster children, rather than as low-income adults, is expected to be small.
- ⁶ This *Budget Brief* assumes that approximately 90 percent of people who are eligible will actually enroll in Medi-Cal.
- ⁷ Federal funds to expand Medi-Cal will gradually decline from 100 percent in 2014, 2015, and 2016 to 95 percent in 2017, 94 percent in 2018, and 93 percent in 2019, before settling at 90 percent in 2020 and beyond.
- ⁸ Children and adults who were previously eligible for Medi-Cal before the health law was enacted, but did not enroll in the program, will continue to draw down the state’s standard federal Medi-Cal matching rate. The state and federal government each generally pay 50 percent of the cost of coverage for most individuals in Medi-Cal, including children.
- ⁹ Estimates assume that approximately 90 percent of adults newly eligible for Medi-Cal coverage will enroll.
- ¹⁰ Pre-ACA laws specify that states may claim CHIP matching rates for children who were not eligible for federal medical assistance prior to 1997. This includes children who are now eligible for CHIP, but who will become eligible for Medicaid under the ACA. The federal health law increases the federal matching rate for CHIP by 23 percentage points beginning October 2015 through September 2019, meaning that the federal share for the Healthy Families Program will increase to 88 percent. It is likely that children moved from CHIP to Medicaid will also benefit from this increased apportionment, though the Centers for Medicare & Medicaid Services will need to further clarify the law. Personal communication with Georgetown University Health Policy Institute (March 31, 2010).
- ¹¹ CBP analysis of Department of Finance data. Assumes a 2.5 percent annual increase in General Fund spending.
- ¹² The deadline to amend the state’s Medicaid plan to expand coverage to newly eligible individuals beginning in 2010 was June 30. Connecticut has begun enrolling adults with annual incomes up to 56 percent of the poverty line – \$6,650 for an individual in 2010.
- ¹³ John Reichard, “‘Eligibility Equals Enrollment’ the New Paradigm at Medicaid, CHIP, Mann Says,” *CQ Healthbeat* (September 24, 2010).
- ¹⁴ Until January 1, 2014, states will receive their typical federal Medicaid matching rate, which in California is 50 percent. Starting in 2014, the federal government will provide a higher matching rate for individuals who are newly eligible for Medicaid under the ACA. The federal government will continue to pay 50 percent of the cost of coverage for Medi-Cal beneficiaries who were eligible prior to the federal health law.
- ¹⁵ California is in the process of renewing its Medicaid Section 1115 waiver, which will enable it to continue to receive federal funds while implementing new rules for the Medi-Cal Program. Under the Medi-Cal waiver, the state has said it intends to expand local coverage programs to 512,000 individuals with incomes up to 200 percent of the poverty line – \$36,620 for a family of three in 2010. Of those, approximately 385,000 will have incomes below 133 percent of the poverty line and therefore would be eligible to transition to Medi-Cal on January 1, 2014. See State of California, *California Section 1115 Comprehensive Demonstration Project Waiver, A Bridge to Reform: A Section 1115 Waiver Proposal* (June 2010), p. 10.