

MEDI-CAL IN THE GOVERNOR'S PROPOSED 2014-15 BUDGET: HEALTH CARE REFORM BOOSTS ENROLLMENT AND FEDERAL FUNDING

This is the latest in a series of briefs from the California Budget Project examining key components of Governor Brown's proposed 2014-15 budget, which was released in January. This *Budget Brief* looks at the Medi-Cal Program, which provides health care for low-income Californians. Implementation of federal health care reform is projected to increase Medi-Cal enrollment by well over 1 million and boost federal funding for the program by more than \$10 billion through 2014-15. However, these gains coincide with the state's 10 percent cut to Medi-Cal provider payments, which could hinder access to care.

Well Over 1 Million Californians Will Enroll in Medi-Cal Due to Health Care Reform

Medi-Cal – California's Medicaid program – is a key source of health care coverage for low-income Californians. The state projects that Medi-Cal enrollment will slightly exceed 10 million in 2014-15, with 1.5 million residents having enrolled due to California's implementation of health care reform.¹ Specifically:

- **The Medi-Cal expansion is projected to increase enrollment by nearly 780,000.** As authorized by federal law, California expanded Medi-Cal eligibility – as of January 1, 2014 – to low-income parents and childless adults who previously were ineligible for the program and whose incomes are at or below 138 percent of the federal poverty line (\$16,105 for an individual in 2014).
- **Simpler program rules and other factors are projected to increase enrollment by more than 500,000.** Many Californians who were eligible for Medi-Cal prior to health care reform did not enroll. Enrollment among this group is expected to rise due to the adoption of simpler program rules and other factors associated with health care reform.
- **A new "Express Lane" process is projected to increase enrollment by more than 150,000.** California adopted a new process to reach out to certain Californians and expedite their enrollment in Medi-Cal based on information that is already available to the state. This process is primarily

targeted toward adults and children who receive CalFresh food assistance, but who are not yet enrolled in Medi-Cal.

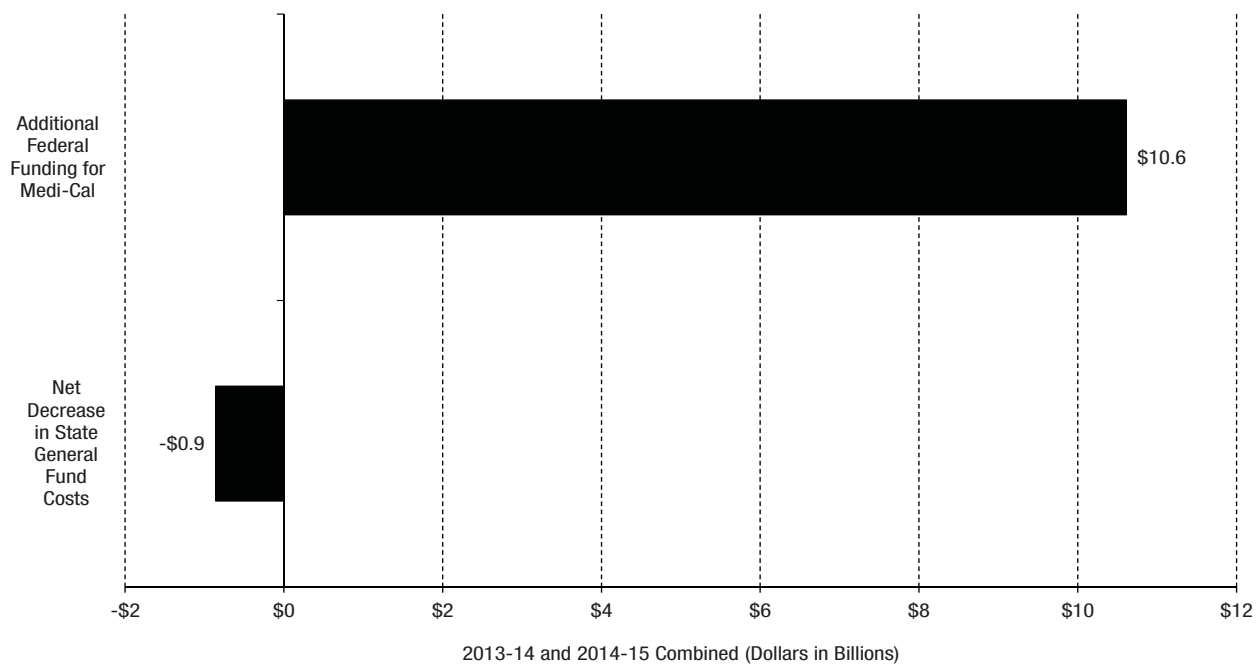
- **A new hospital-based option is projected to increase enrollment by more than 30,000.** Hospitals may now enroll Californians in Medi-Cal for up to two months based on preliminary information provided by patients. Individuals must subsequently submit an application and be found eligible in order to extend this temporary coverage.

Enrollment Gain Boosts Federal Funding

The enrollment increase that is attributable to health care reform is projected to boost federal funding for Medi-Cal by \$10.6 billion through June 2015 (Figure 1). These funds will flow to doctors, clinics, and other health care providers in communities throughout the state. The vast majority of these federal dollars – more than \$9 billion – will support services for Californians who enroll as part of the Medi-Cal expansion. The federal government will pay the full cost of providing health care services to these newly eligible enrollees through 2016, phasing down to a still-high 90 percent of the cost by 2020.

In contrast, increased Medi-Cal enrollment under health care reform is expected to result in a net *decrease* in state General Fund costs totaling nearly \$900 million through June 2015. Two factors explain why *rising* Medi-Cal enrollment would lead to a net *drop* in state costs. First, California's cost for the projected 1.5 million new Medi-Cal enrollees is relatively small. The state

Figure 1: Increased Medi-Cal Enrollment Due to Health Care Reform Will Boost Federal Funding
 Decrease in State Costs Largely Reflects a County-to-State Fund Shift That Was Adopted in Conjunction With the Medi-Cal Expansion



Source: Legislative Analyst's Office

currently has no cost for services provided to the Medi-Cal expansion population, and the state's share of the cost for other Californians who enroll in Medi-Cal due to health care reform is projected to be less than \$600 million through June 2015.

Second, these new state costs for Medi-Cal are more than offset by cost reductions that stem from policies that were adopted as part of the 2013-14 budget agreement. Most significantly, state policymakers permanently redirected – from the counties to the state – a substantial share of the state dollars that counties have historically used to provide health care to uninsured, low-income residents.² This shift was based on the assumption – not as yet supported by the available evidence – that counties will no longer need these funds as many previously uninsured adults enroll in Medi-Cal as a result of the expansion. Up to \$300 million will be shifted from counties in 2013-14, rising to an estimated \$900 million in 2014-15, with these dollars used to offset a portion of the state's cost for the CalWORKs welfare-to-work program.³

Ensuring Access to Medi-Cal Services

The boost in Medi-Cal enrollment due to health care reform comes on the heels of a 10 percent cut to Medi-Cal payments for doctors, dentists, and other providers. State policymakers approved this cut in 2011, but litigation delayed its implementation until late 2013. In January, Governor Brown indicated that the state will “forgive” the *retroactive* portion of the cut – going back to 2011 – for certain providers and services. However, the *ongoing* portion of the reduction would remain

in place under the Governor's budget proposal, resulting in a General Fund spending reduction of \$245 million in 2014-15 along with the loss of at least an equal amount of federal funds. This payment cut could discourage providers from participating in Medi-Cal or accepting new patients, potentially hindering enrollees' access to care. State policymakers should assess whether maintaining this 10 percent cut is sound public policy, particularly given the projected jump in Medi-Cal enrollment as well as the state's improved revenue outlook.

ENDNOTES

- Enrollment figures reflect monthly averages. Based on recent enrollment trends, the state's current projection of Medi-Cal enrollment attributable to health care reform may *understate* the caseload increase that actually occurs.
- Policymakers also established a tax on Medi-Cal managed care organizations (MCOs) through 2015-16. A portion of these tax proceeds will be used to offset state General Fund costs for Medi-Cal; increased enrollment in MCOs due to health care reform will boost these General Fund offsets.
- While this fund shift is permanent, the amount that will be shifted each year after 2014-15 is uncertain.

Scott Graves prepared this Budget Brief. The CBP was established in 1995 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.