

The Takeaway

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Medicaid Expansion's Impact in Texas

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Texas is one of twelve states that has chosen not to expand Medicaid, despite having the largest number of uninsured residents in the country. Ninety percent matching financing from the federal government means the state is missing out on not only any benefits to individuals but fiscal benefits to local economies. In this brief, we summarize research on fiscal impacts of Medicaid expansion and the number of Texans who would be eligible for expansion, as well as how much new federal annual spending would be expected if those Texans enrolled in Medicaid.

In Texas, adults without dependents or disabilities are not eligible for Medicaid regardless of income, and parents of dependent children are eligible only up to about \$251 in income per month for a family of 3 with two parents. That means Texas currently has a large gap between Medicaid eligibility and eligibility for federally subsidized private Marketplace plans,



WHAT'S THE TAKEAWAY?

Texas has the largest number of uninsured residents of any state, but has opted out of expanding Medicaid.

Medicaid can serve as an automatic stabilizer providing federal dollars to states during times of downturns.

At current funding rates, Medicaid expansion could bring \$5.4 billion in new federal dollars to Texas.

Medicaid expansion could provide the security of health insurance to nearly one million low-income Texans with little cost to the state.

which begin at an income of about \$1,810 per month for a family of three. So, many adults in poor working families make too much money for Medicaid, but not enough to qualify for a federal subsidy much less purchase unsubsidized private insurance. Partly as a result of this policy choice, 5 million Texans representing 17.7% of the population were uninsured as of 2018, more than twice the national average uninsured rate.

Popularity of the main tenets of the Affordable Care Act's (ACA) has continued to grow, and many states that were initially not eager to participate in the Medicaid expansion have changed their minds. Voters in Texas reflect these trends. In 2019, 59% of Texans reported believing the legislature is not doing enough to help low-income adults access health care.¹ A majority (57%) supported expanding access to health insurance as a top priority of the legislature, presumably through expanding Medicaid which stands at 64% support. State legislators are accountable to stakeholders in their local districts. Many health-related programs are administered and financed at the county level and supported through local funds, such as indigent healthcare programs mandated by the state through counties, hospital districts, and public hospitals, so considering the impact of expansion on local economies is particularly important.

FISCAL IMPLICATIONS OF MEDICAID EXPANSION

Since it began in 1965, Medicaid has been jointly financed between the federal and state governments. States receive a matching grant from the federal government to finance their

individual state programs that depends on their per capita income. As of 2020, Medicaid expansions are financed at a rate of 90%, so the state share is just 10%; by putting up just ten cents the state can bring down 90 cents in federal dollars.

The total fiscal impact is more than just this sticker price, however, since there may be additional offsets or expenses that result from the expansion. The state can offset some expenses because some individuals who were previously eligible under other Medicaid programs for special circumstances will enroll under the expansion instead. The state can also expect less spending on health care funded under programs for mental health and substance use treatment, some corrections-related health care, and provider subsidies for uncompensated care. Finally, the increased federal spending may have stimulus effects as typically associated with increased economic activity.

Reports from states that have expanded Medicaid, as well as new research, suggest that expansion under the ACA's financing terms can occur with marginal state budget impact.^{2,3} For example, despite a 24% increase in average Medicaid spending, states saw less than a 1% increase in their own spending, without reductions in other budget areas. Several states funded their expansions completely out of non-general fund sources, including provider taxes, and at least one state saw the need for existing county-level safety net programs completely replaced by Medicaid expansion.⁴

ESTIMATES OF EXPANSION'S IMPACT

Our estimates of eligibility and enrollment are based on the Census Bureau's American Com-

munity Survey (ACS), an annual survey representative of the US population and states.⁵ The most recent available data are from 2018, so we project the calculations to 2020 using the statewide population estimate from the Texas Demographic Center.

We estimate that there are roughly 1.4 million uninsured Texans ages 19-64 whose income and family status are in the range for a Medicaid expansion, and an additional 103,000 Marketplace enrollees who could become eligible instead for Medicaid. After adjusting for immigration-related eligibility restrictions, we estimate that approximately 1,274,000 people are likely to be newly eligible for Medicaid benefits under an expansion in 2020. Assuming a take-up rate of 73% among the uninsured and that 95% of current Marketplace enrollees will enroll, we estimate new Medicaid enrollment of 954,000 Texans. At an estimated cost of \$525 per enrollee per month, the annual federal dollars brought to Texas would be \$5.41 billion with a state share (before any savings and offsets) of just over \$600 million.

WHAT ABOUT COVID-19?

We are currently in the grips of a major economic downturn associated with the COVID-

19 pandemic. This downturn will likely mean significantly higher Medicaid enrollment in the short-run in an expansion than these projections suggest. We have based our analysis on pre-COVID data, which likely best represent the long-term enrollment scenario.

As a result of the pandemic, state and local governments are struggling with their budgets, which in Texas rely heavily on sales, property, and oil and gas taxes. The idea of spending more state dollars on such a program in a recession may seem counterintuitive. However, Medicaid can serve as an automatic stabilizer bringing federal dollars to states during times of downturns—as state needs increase because of higher enrollment or spending, federal spending automatically increases proportionately, if the state can fund its additional share.⁶ This is particularly important for the health care sector, as financial pressure on local health systems is high after mandated delays of non-emergent procedures and lower demand for services as fear of the virus led people to stay home. The pandemic may be an opportunity for the state to better position itself to weather this and future crises because the federal government can cover a large portion of the costs automatically through Medicaid.



CONCLUSION

Medicaid expansion would bring \$5.4 billion federal dollars to Texas, and more than 954,000 low-income Texans could gain the financial security that comes with health insurance. The experience of other states shows that it is feasible to implement an expansion with required state funding sourced in large part from budget offsets and provider taxes and very little general revenue. The potential fiscal benefits of expansion relative to its costs should be carefully considered by decision-makers in Texas.

A more expansive version of these estimates, including county-level projections, as well as complete details on the methods, can be found in our full report.⁷

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Notes:

¹ New EHF Texas health policy poll: Texans show sweeping support for protections for pre-existing conditions (2019, March).

Episcopal Health Foundation. <https://www.episcopalhealth.org/enews/new-ehf-health-policy-poll-texans-show-sweeping-support-protections-pre-existing-conditions/>

² Gruber, J. & Sommers, B. (2020, March). Fiscal federalism and the budget impacts of the Affordable Care Act's Medicaid expansion. NBER Working Paper 26862. <https://doi.org/10.3386/w26862>

³ Ward, B. (2020, May). The Impact of Medicaid expansion on states' budgets. <https://www.commonwealthfund.org/publications/issue-briefs/2020/may/impact-medicaid-expansion-states-budgets>

⁴ Duggan, M., Gupta, A. & Jackson, E. (2019, January). The impact of the Affordable Care Act: Evidence from California's hospital sector," NBER Working Paper 25488. <https://doi.org/10.3386/w25488>

⁵ We use the ACS microdata harmonized and made available by IPUMS USA, University of Minnesota, www.ipums.org.

⁶ Forbes, M. & Park, C. (2020, June). Considerations for countercyclical financing adjustments in Medicaid. <https://www.macpac.gov/publication/considerations-for-countercyclical-financing-adjustments-in-medicaid/>

⁷ Dague, L. & Hughes, C. (2020, September). County-level projections of Medicaid expansion's impact in Texas. <https://www.episcopalhealth.org/research-report/county-level-projections-of-medicaid-expansions-impact-in-texas/>

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