



Expanding Medicaid Makes Financial Sense for Tennessee

The Supreme Court ruled in June that the new health reform law permits, rather than requires, states to expand their Medicaid programs to cover people with incomes up to 138 percent of the federal poverty line. Now, Tennessee must choose whether to expand Medicaid. Some have argued that this expansion is too expensive. In fact, Medicaid expansion will not significantly increase costs for the state. In fact, it could even lower state Medicaid spending. This is because Medicaid expansion will reduce the amount of money the state spends paying for health care for people who do not have health insurance.

- The federal government will pick up *all* of the cost of Medicaid expansion for the first three years (2014-2016). It will continue to cover at least 90 percent of the cost after that. This will bring an estimated **\$10.5 billion additional federal dollars to Tennessee between 2014 and 2019.**¹
- Medicaid expansion in Tennessee would cover 330,000 additional people. Between 2014 and 2019, the expansion would **increase state spending by 1.5 percent (\$421 million)** over what the state would spend without expansion.² **But the state will get some or all of that money back through other savings**, as explained below.
- The 1.5 percent increase in state spending overstates the net impact of Medicaid expansion on the state budget. It does not count the money the state will save on health care for people who are now uninsured but will be covered by the Medicaid expansion. State and local governments now pay about 30 percent of the cost of care that is provided to uninsured patients who cannot afford to pay.³ Expanding Medicaid will greatly reduce the number of people without health insurance and thus the costs of uncompensated care. The new law will **lower state costs for uncompensated care by as much as \$1.6 billion between 2014 and 2019**, with much of the reduction due to the expansion of Medicaid.⁴ Hospitals, doctors, and other health care providers will also be paid for much of the care that they now provide without being paid.
- This still does **not** count all of the savings that Tennessee will experience if it expands its Medicaid program. Other savings include:
 - Lower state costs for providing mental health services to the uninsured (including costs to local governments, because many people with mental illness currently end up being warehoused in jails for lack of treatment);
 - Potential state savings on the Children's Health Insurance Program (CHIP) after 2015;
 - Higher federal payments for some people who are already eligible for TennCare;
 - Higher state revenue from taxes on insurance premiums, which will rise with the number of people insured; and,
 - Higher sales tax receipts resulting from the increased payments to hospitals and other health care providers.
- Just like a new factory or federal project, Medicaid expansion will bring a lot of money into Tennessee's economy. That money will be spread among all 95 counties. It will increase incomes for all types of

health care service providers, including hospitals and their employees, doctors and nurses, nursing homes, and medical suppliers. Health care providers and businesses will spend large portions of their revenues and salaries in the local economies. As a result, the Medicaid expansion will create jobs in all parts of the state economy.⁵ Between 2014 and 2019, if Tennessee expands Medicaid, the federal funding will produce 18,000 jobs.⁶

- Medicaid Expansion will keep Tennesseans' federal taxes in Tennessee. If Tennessee does not accept Medicaid expansion, other states like California, New Jersey and Washington, which have already approved expansion, will get the benefit of Tennesseans' federal tax dollars. This means a significant loss of jobs and revenue in Tennessee.

¹ John Holahan and Irene Headen, *Medicaid Coverage and Spending in Health Reform: National and State-by-State Results for Adults at or below 133% FPL*, Kaiser Commission on Medicaid and the Uninsured (May 2010) at 40, Table 6, available at <http://www.kff.org/healthreform/upload/Medicaid-Coverage-and-Spending-in-Health-Reform-National-and-State-By-State-Results-for-Adults-at-or-Below-133-FPL.pdf>.

² *Id.* at 40, Table 6.

³ Matthew Buettgens et al., *Consider Savings as Well as Costs*, at 10, Robert Wood Johnson Found. & Urban Institute (July 2011).

⁴ *Id.* at 11, Table 7.

⁵ John E. Gnuschke, et al., *A Study of the Economic Impacts of the Patient Protection and Affordable Care Act on Tennessee*, Sparks Bureau of Business and Economic Research, The University of Memphis (March 2012), at 24-25, available at http://www.thcc2.org/PDFs/economic_impact_of_hcr.pdf.

⁶ This estimate is based on the estimates of Gnuschke, et al., *supra*, but limited to only the increased federal funding for Medicaid, instead of the Affordable Care Act as a whole.



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