

Risks to Federal Health Care Funding

LEGISLATIVE ANALYST'S OFFICE

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On Health and Human Services
Hon. Joaquin Arambula, Chair





Overview of the Patient Protection and Affordable Care Act (ACA)

- ☑ **Major Provisions of the ACA.** The ACA made substantial changes to how health care services and health insurance coverage are provided nationwide. Major provisions include (1) insurance market changes, (2) enhanced federal funding, and (3) new federal revenues.

- ☑ **Enhanced Federal Funding.** In the following pages, we focus on the three major components of enhanced federal funding under the ACA and highlight the fiscal and programmatic impacts of these components in California:
 - Federal funding for an expansion of program eligibility in state Medicaid programs.
 - Subsidized coverage for qualifying individuals through federal and state Health Benefit Exchanges.
 - Additional federal financial participation in other health care programs and services.

ACA Federal Funding to California

(In Millions)

Payments to the State Government—2017-18

Medi-Cal optional expansion funding	\$17,335
Other enhanced federal financial participation in Medi-Cal	918
Prevention and Public Health Fund grants	60
Subtotal	(\$18,313)

Payments for Insured Individuals—Calendar Year 2017

Covered California premium subsidies	\$4,600
Subtotal	(\$4,600)

Payments to Insurers—Calendar Year 2017

Covered California cost-sharing reductions	\$800
Subtotal	(\$800)

Grand Total	\$23,713
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ACA = Patient Protection and Affordable Care Act.



Enhanced Federal Funding for the ACA Optional Medicaid Expansion

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The ACA Provision. States that opted to expand eligibility for their Medicaid programs to individuals under age 65 (children, parents, and childless adults) with household incomes at or below 138 percent of the federal poverty level (FPL) (commonly referred to as the ACA optional expansion population) receive enhanced federal funding for this population. (In 2017, 138 percent of FPL for an individual is \$16,394, and for a family of four is \$33,534.) The federal share of costs (referred to as the Federal Medical Assistance Percentage, or FMAP) over time for the ACA optional expansion population is shown in the figure below.

Federal Share of Costs for ACA Optional Expansion Population	
Calendar Year	Federal Medical Assistance Percentage ^a
2014	100%
2015	100
2016	100
2017	95
2018	94
2019	93
2020 and thereafter	90

^a Determines federal share of costs for covered services in state Medicaid programs.
ACA = Patient Protection and Affordable Care Act.

- ☑
Impact on California. Nearly three-quarters of the federal funding that California is expected to receive under the ACA in 2017-18 (\$17 billion) pays for the bulk of the costs of covering Medi-Cal’s ACA optional expansion population. The amount of federal funding for the ACA optional expansion is high because the federal government pays 95 percent of the ACA optional expansion population’s Medi-Cal costs in 2017. In 2017-18, Medi-Cal’s ACA optional expansion caseload is projected to be approximately 4 million enrollees.



Federally Subsidized Health Benefit Exchange Coverage

- The ACA Provision.*** Citizens and legal residents with incomes between 100 percent (or 138 percent for states opting in to the ACA optional Medicaid expansion) and 400 percent of FPL and for whom alternative forms of affordable health insurance coverage are not available are eligible for federal tax credits and cost-sharing reductions to help pay for health coverage through the Health Benefit Exchanges.

- Impact on California.*** Much of the remaining federal funding that California is expected to receive under the ACA in 2017 (\$4.6 billion) will pay for premium subsidies provided to most low-income Californians who purchase health insurance coverage through Covered California. Health insurers in California also receive \$800 million in federal funding as cost-sharing reductions for eligible individuals with the lowest incomes. As of June 2016, more than 1 million Californians were enrolled in health insurance coverage through Covered California. Of those, nearly 90 percent received premium subsidies from the federal government.



Enhanced Federal Funding for Other Health Care Programs

- The ACA Provision.** States receive enhancements to their existing FMAP for certain health care programs and services in a state's Medicaid program, including the Children's Health Insurance Program (CHIP) and the Community First Choice Option (CFCO). States may also apply for grants from the Prevention and Public Health Fund, created by the ACA.

- Impact on California.** The impact varies by program, as follows:

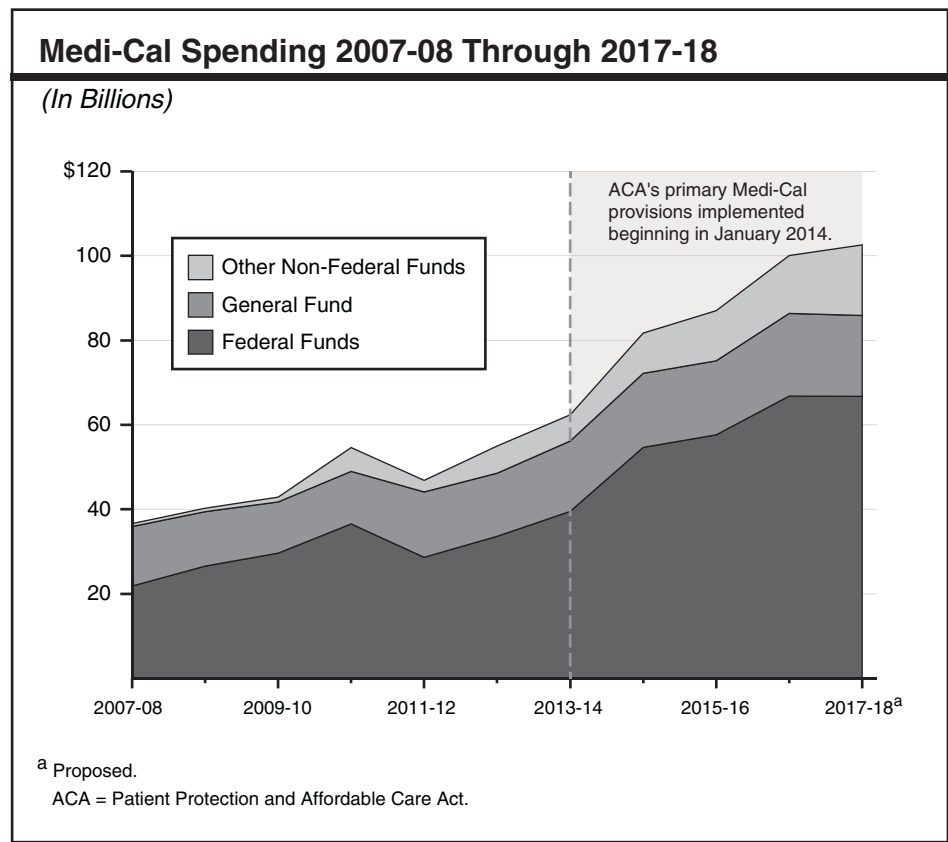
 - **CHIP:** California's base-level FMAP for CHIP is 65 percent. With the ACA's 23 percentage-point enhancement that started in October 2015, California's CHIP FMAP is currently 88 percent. This enhanced CHIP rate will generate an estimated \$600 million in additional federal funding for Medi-Cal in 2017-18.
 - **CFCO:** Most in-home supportive services provided to Medi-Cal beneficiaries shifted into the CFCO effective December 2011. The FMAP enhancement of 6 percentage points over the base FMAP of 50 percent for services provided through the CFCO will generate an estimated \$300 million in additional federal funding for Medi-Cal in 2017-18.
 - **Public Health Grants:** Though federal grant amounts vary year to year, grants to the California Department of Public Health and other state agencies from the Prevention and Public Health Fund are projected to total \$60 million in 2017-18.



Potential Impacts of Changes to Major Components of the ACA in California



ACA-Related Federal Funding Responsible for Much of the Growth in Medi-Cal Spending. Since 2007-08, federal funding for Medi-Cal has grown from \$22 billion to a proposed \$67 billion in 2017-18. About one-third of the increase in federal funding occurred after January 2014, when much of the ACA was fully implemented. Total state spending for Medi-Cal has grown from \$15 billion in 2007-08 to a proposed \$36 billion in 2017-18. The figure below charts the growth in Medi-Cal spending from 2007-08 through 2017-18.





Potential Impacts of Changes to Major Components of the ACA in California

(Continued)

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- Ultimate Impact of ACA Changes to California Is Highly Uncertain.*** It remains unclear which (if any) of the ACA's provisions will be repealed and at what time the repealed provisions would become inoperative. Given the substantial uncertainty around a possible ACA repeal, any proposed changes to the law will need to be evaluated in their entirety to best determine how they will affect California.
 - ACA Provisions Most at Risk for Repeal—Setting the Stage for What Is “At Stake.”*** Some of the components most at risk for repeal include (1) federal funding for the ACA optional expansion, (2) federal funding for premium subsidies and cost-sharing reductions through Health Benefit Exchanges, and (3) enhanced federal funding for other health care programs and services in Medicaid.
 - Changes to Potentially Repealed ACA Components—Absent Replacement Policies—Would Have Major Fiscal Consequences for California.*** These consequences include, but are not limited to:

 - The potential loss of as much as \$18 billion in annual federal funding for Medi-Cal.
 - The uncertain survival of Covered California absent premium subsidies and cost-sharing reductions of \$5.4 billion annually.
 - A potentially considerable increase in the number of uninsured Californians. The costs of providing health care to this population could shift back to the state and counties.