



# The Impact of Reversing Kentucky's Health Care Reforms

By Thomas Huelskoetter      November 13, 2015

In the wake of last week's gubernatorial election in Kentucky, the immediate future of health reform in the state remains unclear. Newly elected Gov. Matt Bevin (R), who opposes the Affordable Care Act, or ACA, has pledged to shut down Kynect, Kentucky's state health insurance marketplace, and switch enrollees to the federal marketplace.<sup>1</sup> Similarly, he also initially pledged to repeal Kentucky's Medicaid expansion immediately after taking office.<sup>2</sup> However, he backtracked in recent months on this second pledge, and lately, he has focused primarily on modifying the Medicaid expansion with a waiver from the federal government rather than repealing it outright.<sup>3</sup>

Yet what is perfectly clear is that any ideologically motivated rollback of Kentucky's successful health reforms would be a disaster. Repealing Medicaid expansion would blow a massive hole in the state's budget, imposing a negative fiscal impact of up to \$919 million over the next few years.<sup>4</sup> At the same time, repeal would cause the state to miss out on the creation of 28,000 jobs and up to \$30.1 billion in economic activity, as well as jeopardizing the 12,000 jobs that Medicaid expansion has already created. Furthermore, shutting down Kynect and switching to the federal marketplace would cost the state at least \$23 million and raise premiums by up to 2.5 percent for Kentucky marketplace enrollees.

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## Health reform has helped half a million Kentuckians find coverage

The human stakes of this debate could not be higher. According to the Centers for Medicare & Medicaid Services, as of March 2015, almost 418,000 Kentuckians who were newly eligible due to the Affordable Care Act had enrolled in Medicaid coverage.<sup>5</sup> All of these people would lose their coverage if Medicaid expansion were repealed.

Similarly, as of June 2015, more than 88,000 people were enrolled in private health insurance plans through Kynect.<sup>6</sup> Although they would be able to enroll through HealthCare.gov if Kynect were eliminated, such a change would be needlessly disruptive and would likely increase their premiums.<sup>7</sup>

Kentucky is one of the greatest health care success stories in the nation. Thanks to Kentucky's full implementation of the ACA, the state's uninsured rate dropped by almost half in 2014 alone, from 14.3 percent to 8.5 percent—the largest decrease in the country.<sup>8</sup> After expanding Medicaid, Kentucky has already seen dramatic improvements in preventive health care usage among low-income Medicaid beneficiaries; for example, rates of breast cancer screenings, preventive dental services, and cholesterol screenings more than doubled in 2014.<sup>9</sup>

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## Repealing Medicaid expansion would cost Kentucky money

Of course, Gov.-elect Bevin has undoubtedly heard the many statistics demonstrating the success of Kynect and Medicaid expansion. However, even if he chooses to ignore these historic improvements, he still needs to reckon with another consequence of repealing Medicaid expansion: the cost.

The fact of the matter is that Medicaid expansion is saving Kentucky money and boosting the state's economy. According to a comprehensive state evaluation of the program, Medicaid expansion will have a net \$819.6 million positive impact on Kentucky's state and local budgets from 2014 to 2021, both through budget savings from the federal funding and through higher revenue generated by the increase in economic activity.<sup>10</sup> All told, when the negative economic effects of nonexpansion are added to the positive impact of expansion, the financial difference between expansion and nonexpansion for Kentucky state and local budgets totals more than \$919 million through 2021.<sup>11</sup> In other words, repealing Medicaid expansion would effectively cost Kentucky's budget almost \$1 billion over the next few years. To put that in context, it represents \$208 for each woman, man, and child in Kentucky.<sup>12</sup>

Much of Kentucky's budget savings come from federal funding that replaces pre-existing state spending—including on behavioral health, people with disabilities, and corrections.<sup>13</sup> If Medicaid expansion were to be repealed, the state would have to reallocate money to fund those services. Thus, not only would repeal lead to the state missing out on federal funding, but it would also actually cost Kentucky millions of dollars in increased state spending merely to restore the level of health services that existed prior to Medicaid expansion.

From 2014 to 2021, Medicaid expansion will create more than 40,000 jobs and generate \$30.1 billion in economic activity in Kentucky—almost double what the state originally forecast prior to the expansion.<sup>14</sup> In 2014 alone, Medicaid expansion created an estimated 12,000 jobs, as the influx of federal funds into Kentucky spurred hiring in the health care sector and the resulting increase in economic activity passed through to

other industries.<sup>15</sup> Medicaid expansion is providing a particularly large economic boost to health care providers in the state. For example, new estimates show that Kentucky hospitals experienced a 70 percent drop in claims for uncompensated care from 2013 to 2014 and have already received \$1.4 billion in federal payments for Medicaid expansion patients since January 2014.<sup>16</sup>

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## Medicaid waiver could increase hardship for low-income families

While a federal waiver to pursue policy changes would clearly be preferable to repeal, that approach carries its own dangers. Gov.-elect Bevin has expressed interest in capping or freezing enrollment for the Medicaid expansion population.<sup>17</sup> Apart from being an arbitrary and unjust policy, this is a complete nonstarter. Federal law only gives the secretary of health and human services authority to approve waivers that promote the objectives of Medicaid and the Children's Health Insurance Program.<sup>18</sup> Limiting enrollment based on political opposition to the law, which would both halt public health improvements and increase costs to the state, is wholly inconsistent with the goals of Medicaid expansion.

Importantly, states that fail to offer coverage for the full Medicaid expansion population do not qualify for the higher federal payment rate that the Affordable Care Act provides for Medicaid expansion.<sup>19</sup> If a state sought to cover only a portion of the Medicaid expansion population, the ordinary matching rate would apply. That means that instead of paying for 90 percent of the care for Kentuckians who qualify for Medicaid thanks to the ACA, the federal government would only pay 70 percent of those costs if Gov.-elect Bevin cuts access to the program.<sup>20</sup> As a result, limiting enrollment would require Kentucky to pay a higher rate for the current expansion enrollees and thus could potentially cost the state as much as or even more than full expansion.

Other waiver options that the federal government might find legally acceptable, such as one modeled after Indiana's waiver, could involve increasing cost sharing and imposing premiums. Perhaps most worryingly, Indiana's waiver permits the state to not only disenroll beneficiaries above the federal poverty line who fail to pay premiums but also allows it to lock them out from re-enrolling for six months.<sup>21</sup> If implemented in Kentucky, such a waiver would reduce the affordability of health care services for low-income families, increase administrative costs and complexity, and likely deter enrollment. Furthermore, there is still no evidence that these types of Medicaid waivers actually produce better health outcomes in the long term.<sup>22</sup> While another option would be an Arkansas-style waiver, which uses Medicaid expansion funding to enroll beneficiaries in private marketplace health plans,<sup>23</sup> the vast majority of Kentucky's Medicaid enrollees are already covered by privately run managed care plans rather than traditional Medicaid fee-for-service plans.<sup>24</sup> Finally, pursuing and negotiating a waiver would be a lengthy process, and implementing one along these lines would add red tape and additional costs to the administration of Kentucky's Medicaid program.

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## No reason to abandon Kynect

In addition to seeking repeal or changes to Medicaid expansion, since his election, Governor-elect Bevin has also clarified that he intends to shut down Kynect by the end of 2016.<sup>25</sup> This might make some sense if Kentucky were struggling to afford Kynect or to maintain a reliable website—but neither is remotely the case.

Kynect is not a burden on the state budget. Rather, it is fully funded through a 1 percent fee on health insurance plans in the state, which even raises additional funding that could be used to cover part of the state's future share of Medicaid expansion costs.<sup>26</sup> By contrast, the federal marketplace is funded via a 3.5 percent fee on marketplace plans.<sup>27</sup> The state's insurers would surely object to being double taxed if Kynect were shut down, so the federal marketplace's 3.5 percent fee would likely replace rather than supplement Kentucky's 1 percent fee. Since these fees are at least partially passed through to enrollees' premium rates, switching to the federal marketplace likely would result in Kentucky marketplace enrollees having to pay higher premiums. In 2016, for example, the second-lowest-cost silver plan in Louisville, Kentucky, has a monthly premium of \$227 for a 40-year-old nonsmoker before premium tax credits are applied.<sup>28</sup> If the full 3.5 percent fee were passed through to premiums, then this 2.5 percentage point increase would raise the premium to \$232.7 per month, or an extra \$68 over the course of the year. Family plans would see even larger increases.

In addition to the marketplace being on sound financial footing, Kynect's website has been a model for the nation. While the federal HealthCare.gov and several state marketplace websites initially floundered before being repaired, Kynect operated smoothly and effectively from day one.<sup>29</sup>

Finally, shuttering Kynect and switching to the federal marketplace would be expensive—costing Kentucky an estimated \$23 million.<sup>30</sup> Kynect is integrated closely with the state's Medicaid eligibility and information technology systems. This makes it easier and less confusing for consumers to enroll but would add to the cost and complexity of eliminating Kynect. In addition, the federal government awarded the state more than \$253 million to plan and establish Kynect; while that funding is now a sunk cost, throwing away the successful and financially self-supporting product of that investment would be a blatant waste of taxpayer money.<sup>31</sup> Furthermore, the federal government requires one year's notice before a state can close its health insurance marketplace—thus, the earliest Kynect could be closed would likely be January 1, 2017.<sup>32</sup>

As the facts above make clear, there are no operational or financial reasons to abandon Kynect—only ideological ones. Switching to the federal marketplace would be unnecessarily disruptive to current enrollees and likely raise their premiums, while costing the

state millions of dollars. In addition to the enrollment website, Kentucky has been enormously successful in tailoring Kynect’s consumer assistance, outreach, and marketing functions to Kentucky’s specific needs.<sup>33</sup> If Kynect were completely shut down, much of this work would be lost.

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## Kentucky cannot afford to go backward

Kentucky’s high uninsured rates and historically poor health outcomes frequently led its current governor, Steve Beshear (D), to argue that few states needed health care reform more urgently than Kentucky. In 2013, he wrote that, “Here in Kentucky, we cannot afford to waste another day or another life.”<sup>34</sup> Those words were true then and remain true today. The Affordable Care Act is working in Kentucky—boosting the state’s economy and improving the lives, health, and financial security of hundreds of thousands of Kentuckians every day. Notably, this success did not come about simply because Kentucky needed the ACA, but because Kentucky policymakers rose to the task and proved more effective at implementing reform than most states.<sup>35</sup>

This is progress of which state leaders should be proud. Rather than recklessly playing partisan games with the ACA to score ideological points, Gov.-elect Bevin should work responsibly to improve health reform in his state. Kentuckians deserve no less.

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## Endnotes

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