

Analyzing the Fiscal Impact of COVID-19, the Economic Downturn, and Recent Policy Changes

June 4, 2020

STATE
Health & Value
STRATEGIES
COVID-19

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About State Health and Value Strategies

State Health and Value Strategies (SHVS) assists states in their efforts to transform health and health care by providing targeted technical assistance to state officials and agencies. The program is a grantee of the Robert Wood Johnson Foundation, led by staff at Princeton University's Woodrow Wilson School of Public and International Affairs. The program connects states with experts and peers to undertake health care transformation initiatives. By engaging state officials, the program provides lessons learned, highlights successful strategies, and brings together states with experts in the field. Learn more at www.shvs.org.

Questions? Email Heather Howard at heatherh@Princeton.edu.

*Support for this webinar was provided by the Robert Wood Johnson Foundation.
The views expressed here do not necessarily reflect the views of the Foundation.*

Housekeeping Details

All participant lines are muted. If at any time you would like to submit a question, please use the Q&A box at the bottom right of your screen.

After the webinar, the slides and a recording will be available at **www.shvs.org**.

COVID-19 Resources for States

State Health and Value Strategies has created an accessible one-stop source of COVID-19 information for states at www.shvs.org/covid19/. The webpage is designed to support states seeking to make coverage and essential services available to all of their residents, especially high-risk and vulnerable people, during the COVID-19 pandemic.

About Manatt Health

Manatt Health, a division of Manatt, Phelps & Phillips, LLP, is an integrated legal and consulting practice with over 90 professionals in nine locations across the country. Manatt Health supports states, providers, and insurers with understanding and navigating the complex and rapidly evolving health care policy and regulatory landscape. Manatt Health brings deep subject matter expertise to its clients, helping them expand coverage, increase access, and create new ways of organizing, paying for, and delivering care. For more information, visit www.manatt.com/ManattHealth.aspx

Webinar Objectives



- **Review strategies for evaluating and modeling the impact of the COVID-19 pandemic and recession on Medicaid finances**
- **Share results from the Manatt Medicaid financing model and how they vary based on key assumptions**
- **Discuss implications for states and federal policymaking**

Agenda

- Background: The COVID-19 Recession
- Modeling the Medicaid Fiscal Impact
 - Enrollment growth
 - Changes in per enrollee expenditures
 - FMAP increase (size and duration)
- Projecting the Fiscal Impact of COVID-19 on Medicaid
 - Existing estimates
 - Results from the Manatt Medicaid Financing Model
- Key Takeaways
- Discussion

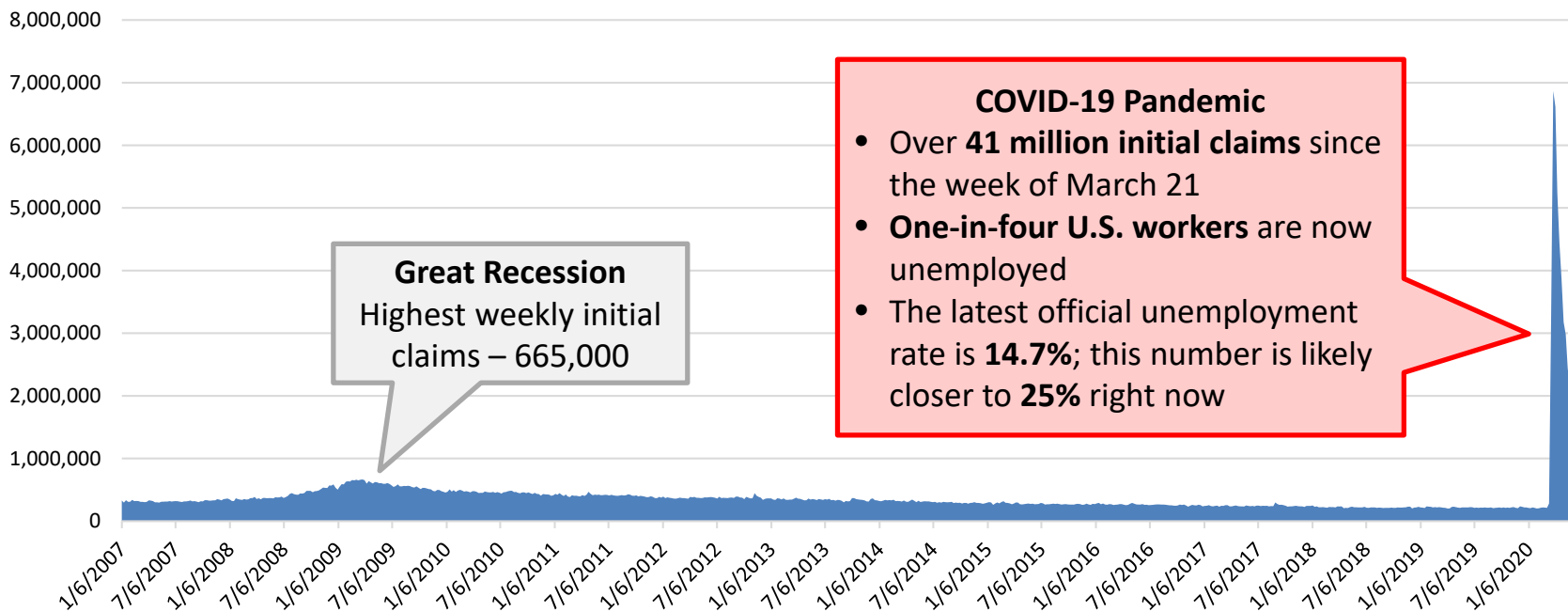


BACKGROUND: THE COVID-19 RECESSION

COVID-19 has led to staggering, unprecedented job loss

The COVID-19 pandemic has led to an unprecedented, abrupt drop off in economic activity, far surpassing the depths of the Great Recession

Initial Unemployment Claims (Seasonally Adjusted), 2007-2020



COVID-19 Pandemic

- Over **41 million initial claims** since the week of March 21
- **One-in-four U.S. workers** are now unemployed
- The latest official unemployment rate is **14.7%**; this number is likely closer to **25%** right now

Great Recession

Highest weekly initial claims – 665,000

Source: U.S. Department of Labor, <https://oui.doleta.gov/unemploy/DataDashboard.asp>

State budgets are already feeling the economic impact of COVID-19

- With the widespread closure of businesses, states are seeing significant declines in tax revenue
- States are receiving some support from recent federal stimulus bills; however, they are still likely to face substantial shortfalls
- This will have dramatic implications for states' ability to fund healthcare, education, transportation, and other priorities

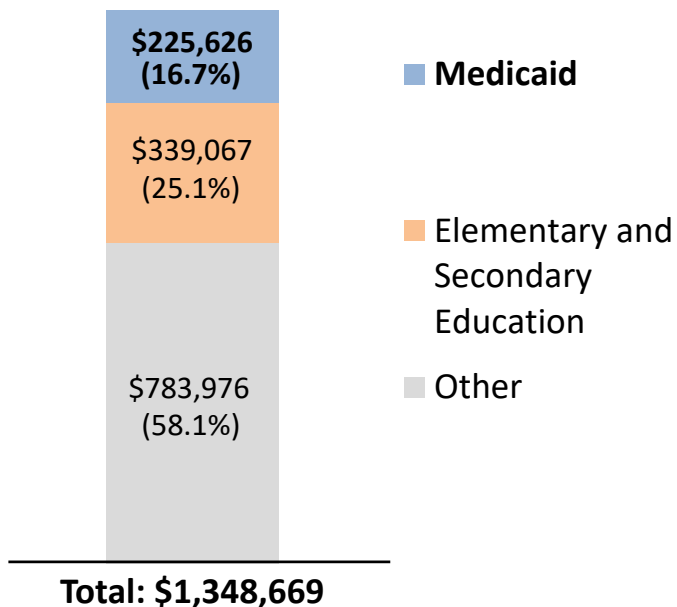
Current Projections

- Most states expect revenue **reductions of 5-15%** in SFY2020 and **reductions of 10-25%** in SFY2021
- One study projects a total state budget **shortfall of \$185 billion in 2020** and **\$370 billion in 2021** (approximately 14% and 19%, respectively)

States will face pressure to cut Medicaid, but this would come with substantial costs

States will face pressure to reduce Medicaid spending given its size, but also a strong push not to cut a vital healthcare program that brings in substantial federal funds in the midst of a pandemic and economic crisis

State General Fund and Other State Expenditures by Category, SFY 2018 (\$ millions)



- States are projected to face **budget shortfalls of approximately 14% in 2020 and 19% in 2021**
- In 2018, **state-only spending on Medicaid was approximately \$226 billion, or 16.7% of state general fund/other state expenditures**
- If states cut proportionately across all programs to deal with shortfalls, **this would require states to reduce state-only Medicaid spending by \$31 billion in 2020 and \$62 billion in 2021**
- At current match rates*, this would result in a **total Medicaid spending cut of \$81 billion in 2020 and \$162 billion in 2021**

*Assumes an overall match rate of 61.9% (derived from the latest publicly available CMS-64 expenditure data)

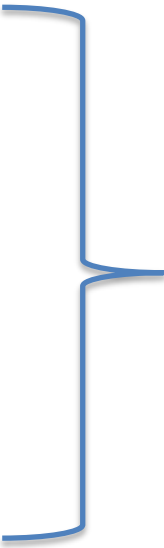


MODELING THE MEDICAID FISCAL IMPACT

Factors influencing Medicaid fiscal estimates

Fiscal estimates in Medicaid must contend with several factors that could potentially influence overall Medicaid expenditures

- 1 **Increases in Medicaid enrollment driven by the recession and recent policy changes**
- 2 **Potential changes in per enrollee expenditures**
- 3 **Increase in the Medicaid Federal Medical Assistance Percentage (FMAP) and duration of increase**



States will need to consider the relative weight of each of these factors in order to accurately assess Medicaid's fiscal picture over the coming weeks and months

As intended, the continuous coverage provision in the Families First stimulus package is increasing enrollment

States are seeing increased enrollment as people retain coverage throughout the pandemic as a result of the continuous coverage provision

Families First Continuous Coverage Provision

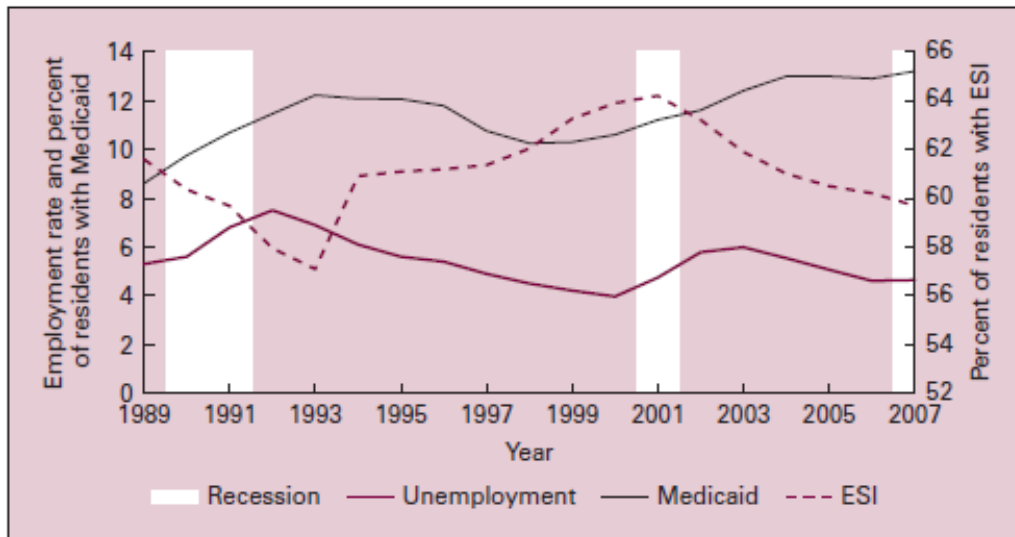
- To qualify for the increased federal matching rate under Families First (described on slide 21), states:
 - Must provide Medicaid coverage without cost sharing for testing and treatment of COVID-19
 - May not impose more restrictive eligibility standards, methodologies or procedures, or charge higher premiums than those in effect on January 1, 2020
 - May not disenroll individuals from Medicaid through the last day of the quarter in which the public health emergency ends
- For additional information on this provision, see [this](#) recent SHVS brief.

Implications for States

- The Families First continuous coverage provision is increasing enrollment
- Normally, a substantial share of Medicaid beneficiaries “churn” off of the program each month
- However, as a result of the Families First continuous coverage provision, those who would normally disenroll due to changes in circumstance, failure to renew, or other reasons are now being kept enrolled in Medicaid
- This is contributing to net increases in enrollment:
 - Most states saw enrollment increases of **1-3% from January through April**
 - Some states have seen increases of **5-10% from January through May**

A countercyclical program, Medicaid enrollment increases in recessions

Unemployment Rate vs. Share of U.S. Residents with Medicaid and ESI, 1988-2007



- Many individuals losing jobs will enroll in Medicaid
- Estimates suggest that for every one percentage point increase in unemployment, Medicaid enrollment increases by 800,000 to 1 million individuals nationwide

Source: Health Coverage in a Recession. The Urban Institute. December 2008.



Estimates for the impact of unemployment on Medicaid enrollment typically rely on pre-ACA data. The impact may be more pronounced now that more individuals are eligible.

Many states not seeing dramatic increases in new applications.....yet

States are reporting some new applications, but, for now, enrollment increases lag the experience of prior recessions

Possible Drivers of More Modest Than Expected Growth in New Applicants

- Individuals being furloughed rather than laid off; allows some people to keep employer-sponsored coverage
- Individuals more focused on food; SNAP applications were up 40% between March and April
- In recent months, it was difficult for many individuals to seek medical care, temporarily diminishing the urgency of securing coverage

Reasons Why Enrollment Will Likely Pick Up

- If downturn continues as expected, furloughs are likely to turn into permanent job loss
- Individuals cannot defer healthcare needs indefinitely and it is again becoming easier to secure medical care
- Many economists and business leaders anticipate that the economic recovery could last years – few anticipate a “V-shaped” recovery

Existing national enrollment estimates

Enrollment growth estimates are substantial, and vary in magnitude based on assumptions related to the unemployment rate and the responsiveness of Medicaid enrollment to increased unemployment

Unemployment Rate	Change in Medicaid Enrollment	
	Urban Institute, May 2020	Health Management Associates, April 2020
Baseline Enrollment	<i>50.3 million*</i>	<i>71 million</i>
15%	22% increase (+11.3 million)	21% increase (+15.0 million)
20%	32% increase (+16.2 million)	27% increase (+19.0 million)
25%	42% increase (+21.1 million)	32% increase (+23.0 million)

*Estimate excludes individuals over the age of 65 and are based on survey data.

Pandemic may be driving changes in spending on a per enrollee basis

Medicaid expenditures are impacted by changes in the cost per Medicaid enrollee; this may be changing as a result of the pandemic

Factors Increasing Costs

- Testing and treatment of COVID-19 positive patients
- Many states have implemented targeted rate increases or provided other, non-utilization-based support to help providers facing financial difficulties
- Many states have waived prior authorization under Section 1135; this could increase utilization and per capita costs
- Medicaid will likely see increased costs once a vaccine is developed
- Pent up demand may increase utilization once states begin re-opening

Factors Decreasing Costs

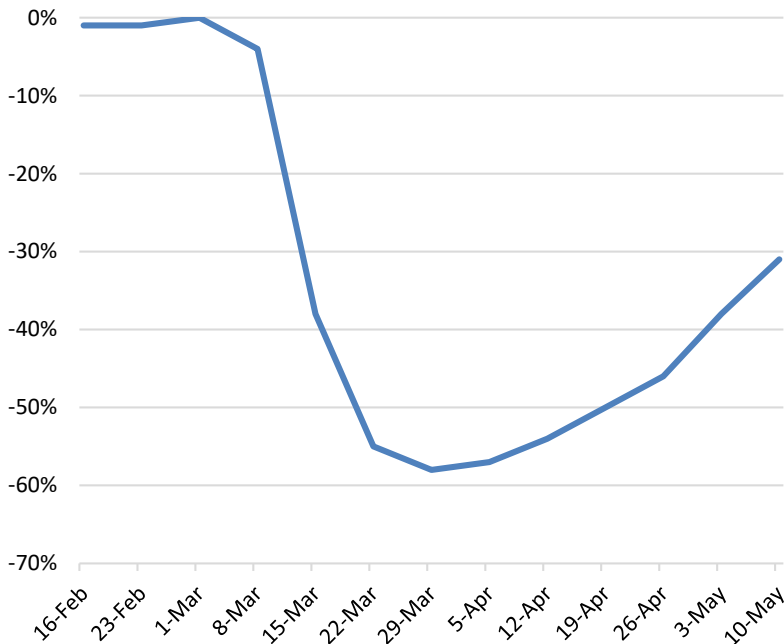
- Providers were required to cancel non-essential, elective procedures during the first wave of the pandemic
- Utilization is down for many types of services due to social distancing (and may continue to be depressed for an extended period of time)
- Even when in-person utilization is replaced by telehealth, costs to states may still be lower, depending on their reimbursement policies
- New enrollees may be healthier than existing enrollees

States with managed care delivery systems will likely see costs remain relatively stable in the immediate term, though these factors could impact managed care rates going forward

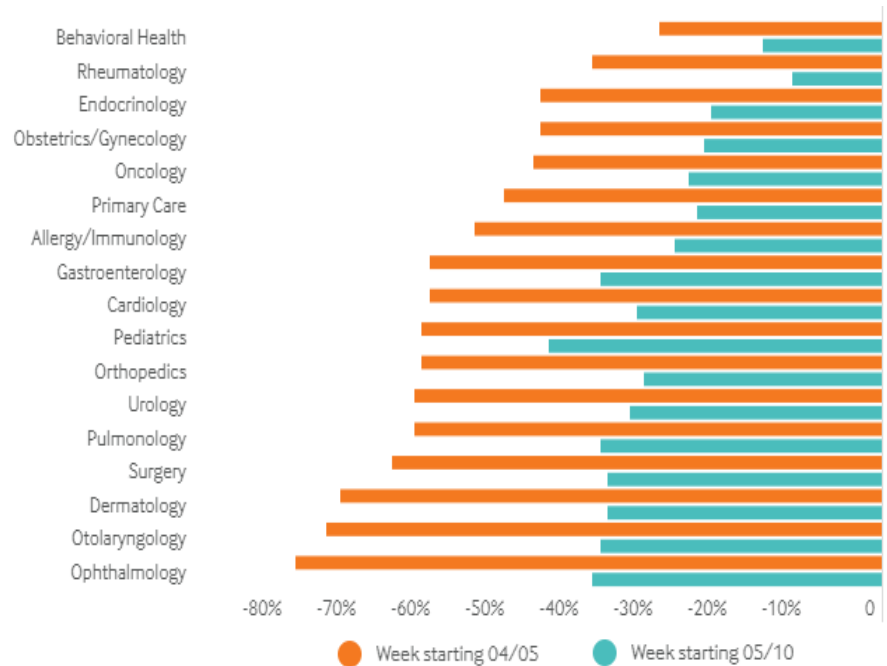
Significant changes in utilization patterns

In the early weeks of the pandemic, utilization fell substantially across all types of service; however, some types of utilization appear to be rebounding

Percent Change in Visits to Ambulatory Practices from Baseline, Feb. - May 2020



Percent Change in Visits from Baseline, Week of April 5, 2020 vs. Week of May 10, 2020



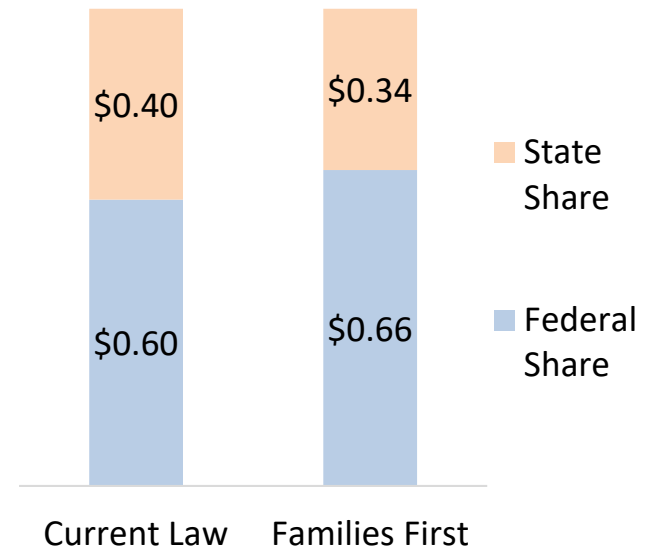
Source: The Impact of the COVID-19 Pandemic on Outpatient Visits: A Rebound Emerges . The Commonwealth Fund. May 19, 2020.

FMAP increase

As in prior recessions, Congress has enacted a temporary increase in the FMAP. The House has passed legislation with further increases, but the Senate has not yet taken action.

Bill	FMAP Provisions
The Families First Coronavirus Response Act (Families First) - enacted	<ul style="list-style-type: none"> • 6.2 percentage point increase in the regular FMAP through the end of the quarter in which the public health emergency ends, retroactive to January 2020 • Subject to requirement that states cover COVID-19 testing and treatment and not enact restrictive eligibility policies (described in more detail on slide 15)
Health and Economic Recovery Omnibus Emergency Solutions Act (HEROES) Act – adopted by House	<ul style="list-style-type: none"> • Maintains Families First FMAP increase through June 2021 or the end of the public health emergency (whichever is later) • Increases regular FMAP by an additional 7.8 percentage points from July 2020 through June 2021 (for a total increase of 14 percentage points) • States subject to maintenance of effort provision similar to Families First

Example: Federal vs. State Share, Families First FMAP Increase vs. Current Law, Per Dollar of Medicaid Expenditures

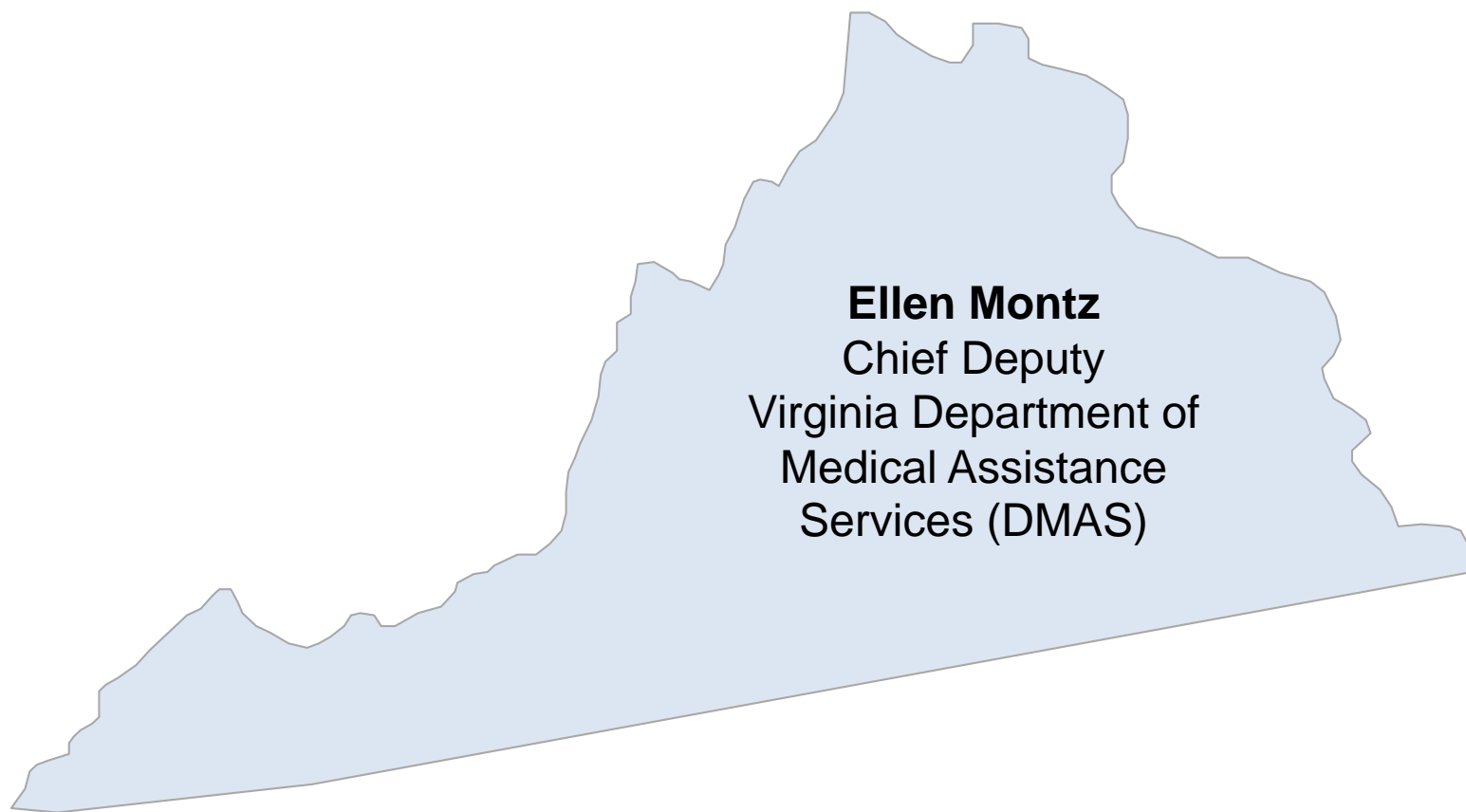


Note: Assumes state has a regular FMAP of 60%



STATE PERSPECTIVES: VIRGINIA

State perspectives: Virginia





PROJECTING THE FISCAL IMPACT OF COVID-19 ON MEDICAID

Existing estimates

National studies have separately estimated 1) the value of the increased FMAP, 2) expected changes in Medicaid enrollment, or 3) aggregate changes in expenditures. They generally have not provided state-by-state fiscal detail while also assuming recession/Families First enrollment impacts.

Study	Overview
FMAP Estimates	
Urban Institute: “Increasing Federal Medicaid Matching Rates to Provide Fiscal Relief to States during the COVID-19 Pandemic”	<ul style="list-style-type: none"> Estimates changes in federal and state spending across different FMAP scenarios by state Assumes no changes in enrollment or per enrollee expenditures from baseline
Center on Budget and Policy Priorities: “Pelosi Bill Includes Much-Needed Medicaid Funding for States”	<ul style="list-style-type: none"> Estimates change in federal funding under Families First by state Assumes no changes in enrollment or per enrollee expenditures from baseline
Center on Budget and Policy Priorities: “Medicaid Funding Boost for States Can’t Wait”	<ul style="list-style-type: none"> Estimates change in federal funding under Families First and HEROES Act by state Assumes no changes in enrollment or per enrollee expenditures from baseline
Enrollment Estimates	
Urban Institute: “How the COVID-19 Recession Could Affect Health Insurance Coverage”	<ul style="list-style-type: none"> Estimates enrollment increases under various recession scenarios Does not address continuous coverage requirement
Health Management Associates: “COVID-19 Impact on Medicaid, Marketplace, and the Uninsured, by State”	<ul style="list-style-type: none"> Estimates enrollment increase under various recession scenarios Does not address continuous coverage requirement
Aggregate Expenditure Estimates	
Congressional Budget Office: “Preliminary Estimate of the Effects of H.R. 6201, the Families First Coronavirus Response Act”	<ul style="list-style-type: none"> Estimates aggregate change in federal expenditures under Families First Estimates based on March 2020 CBO baseline and do not account for increased Medicaid costs associated with COVID-19 testing and treatment or increased enrollment as a result of the economic downturn
Milliman: “Estimating the impact of COVID-19 on healthcare costs in 2020”	<ul style="list-style-type: none"> Estimates change in total healthcare expenditures as a result of pandemic Accounts for shifts in enrollment across payers due to recession, deferral/elimination of services, increased cost of COVID-19 testing and treatment

Overview of Manatt Medicaid Financing Model

The Manatt Medicaid Financing Model estimates changes in federal and state Medicaid and CHIP expenditures based on changes in enrollment growth, per enrollee expenditures, and FMAP

Methods

- Estimates based on publicly available CMS expenditure and enrollment data
- Eligibility group detail developed using MACPAC tabulations of MSIS data
- Enrollment growth
 - Based on state-specific population growth estimates from AARP
 - Aggregate baseline enrollment growth, 2020-2021: 1.1%
- Per enrollee spending growth
 - Based on March 2020 CBO baseline

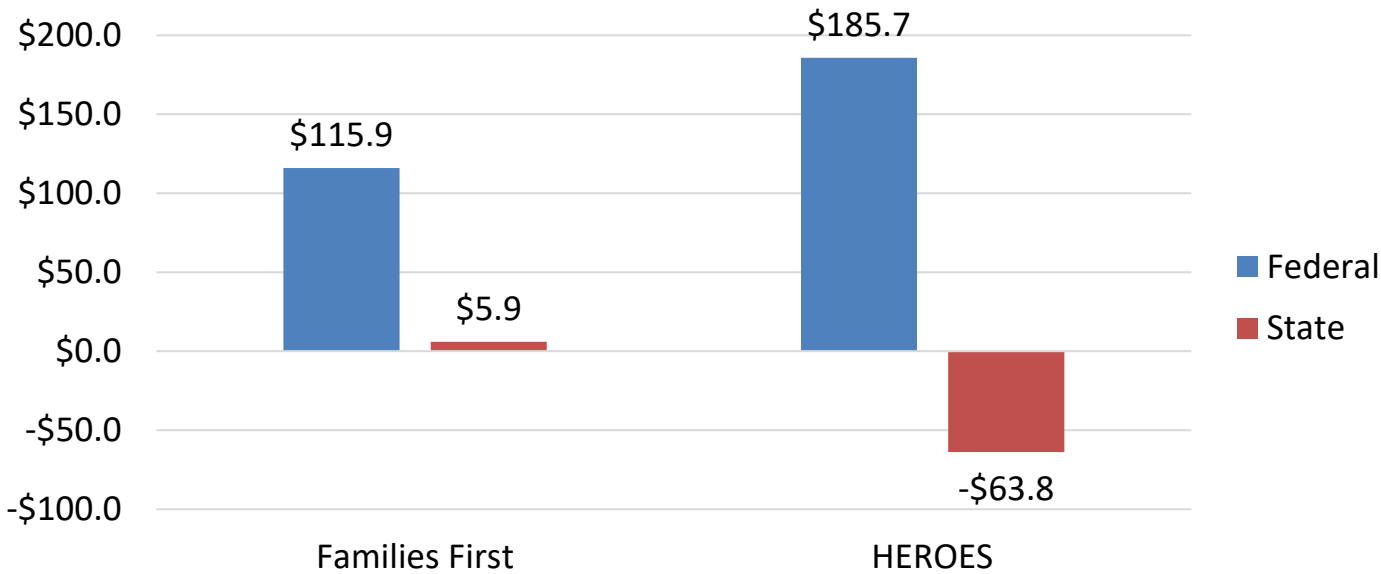
Modeling Scenarios

- Enrollment growth
 - Low growth: 23.8% from 2020-2021 (varies by state)
 - High growth: 49.3% from 2020-2021 (varies by state)
 - Assume rate of enrollment growth decreases by half following termination of public health emergency
- Per Enrollee Expenditures
 - Most scenarios: no change in per enrollee expenditures from baseline
 - Alternative scenario: Per enrollee expenditures fall by 25% in April 2020, and gradually return to normal by late 2020
- FMAP Policies
 - Families First
 - HEROES Act

Key results: low enrollment growth scenario

Under a low enrollment growth scenario, the Families First FMAP increase requires a small increase in state spending to cover expected enrollment growth. HEROES FMAP levels would allow states to cover expected enrollment growth, and reduce state expenditures by 12%.

Change in Federal and State Medicaid and CHIP Expenditures, January 2020 - December 2021 - Low Enrollment Growth Scenario (\$ billions)



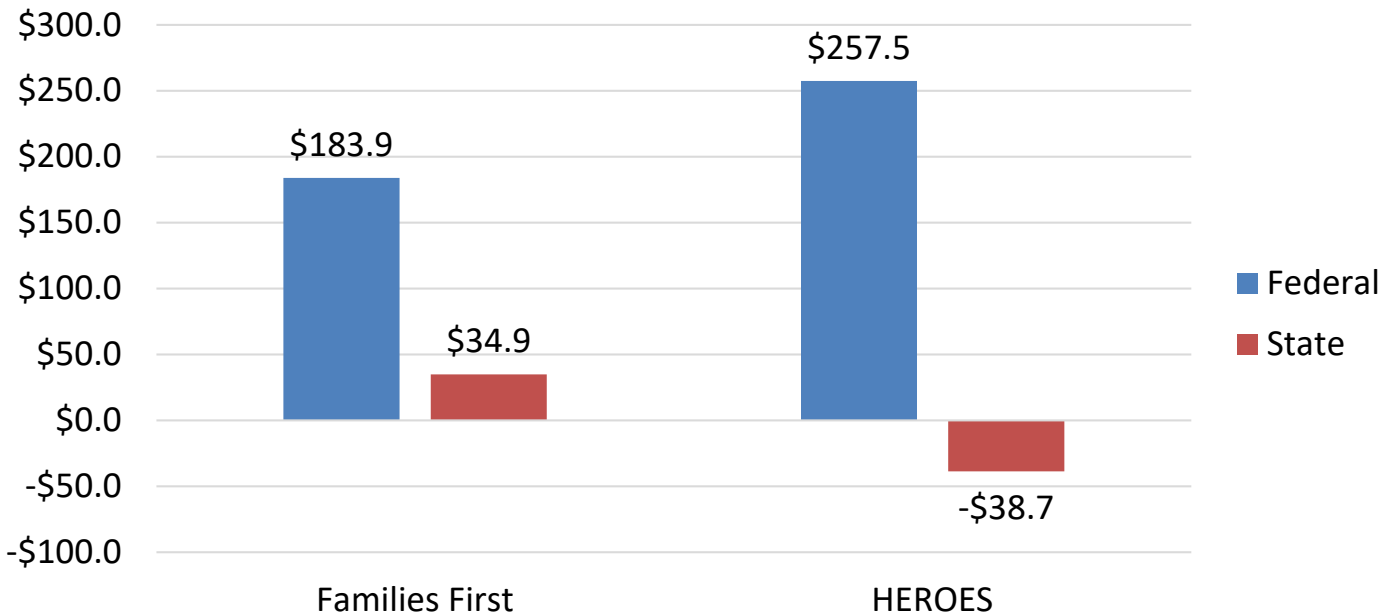
Total enrollment growth (Jan. 2020 – Dec. 2021):
23.8%

Note: Scenarios assumes public health emergency lasts through 2020 (i.e., Families First FMAP increase goes away beginning in January 2021; HEROES increase goes away in July 2021)

Key results: high enrollment growth scenario

Under a high enrollment growth scenario, the Families First FMAP increase would require states to increase state spending by 7%. The HEROES FMAP increase would decrease state expenditures by 8%.

Change in Federal and State Medicaid and CHIP Expenditures, January 2020 - December 2021 - High Enrollment Growth Scenario (\$ billions)



Total enrollment growth (Jan. 2020 – Dec. 2021):

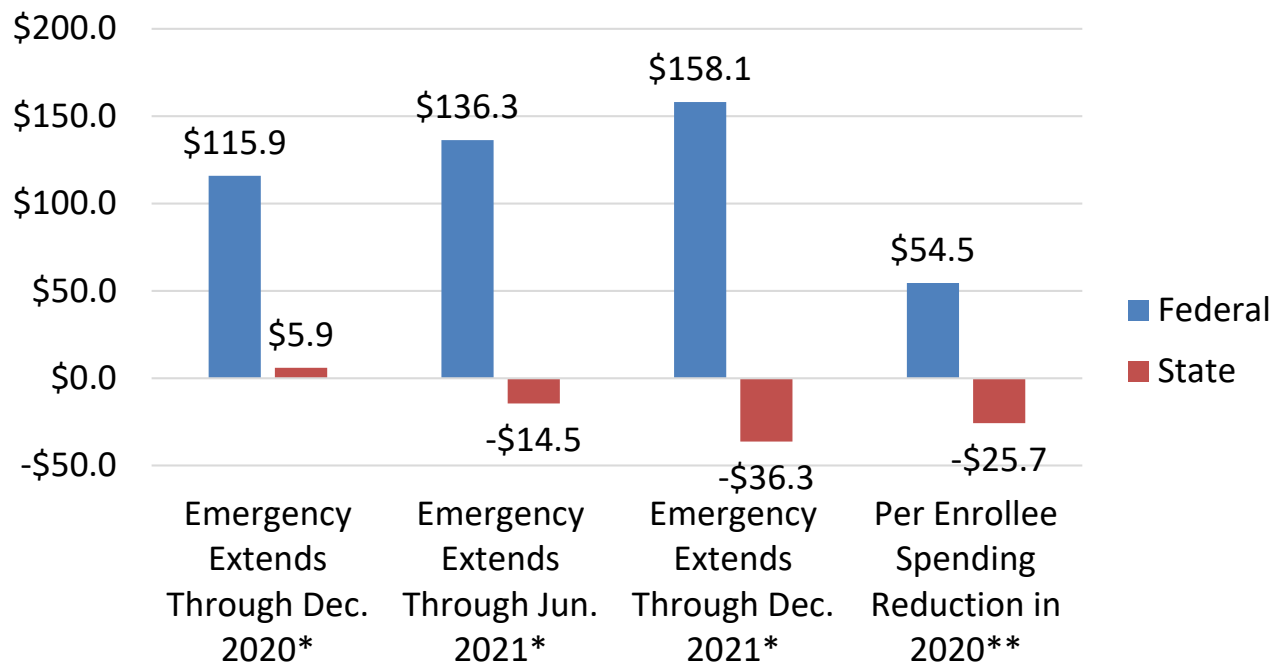
49.3%

Note: Scenarios assumes public health emergency lasts through 2020 (i.e., Families First FMAP increase goes away beginning in January 2021; HEROES increase goes away in July 2021)

Key results: Families First scenario sensitivities

The longer the public health emergency remains in place, the more helpful Families First is for states; falling per enrollee expenditures could also lessen the fiscal burden

Change in Federal and State Medicaid and CHIP Expenditures Under Families First, January 2020 - December 2021 (\$ billions)



Notes

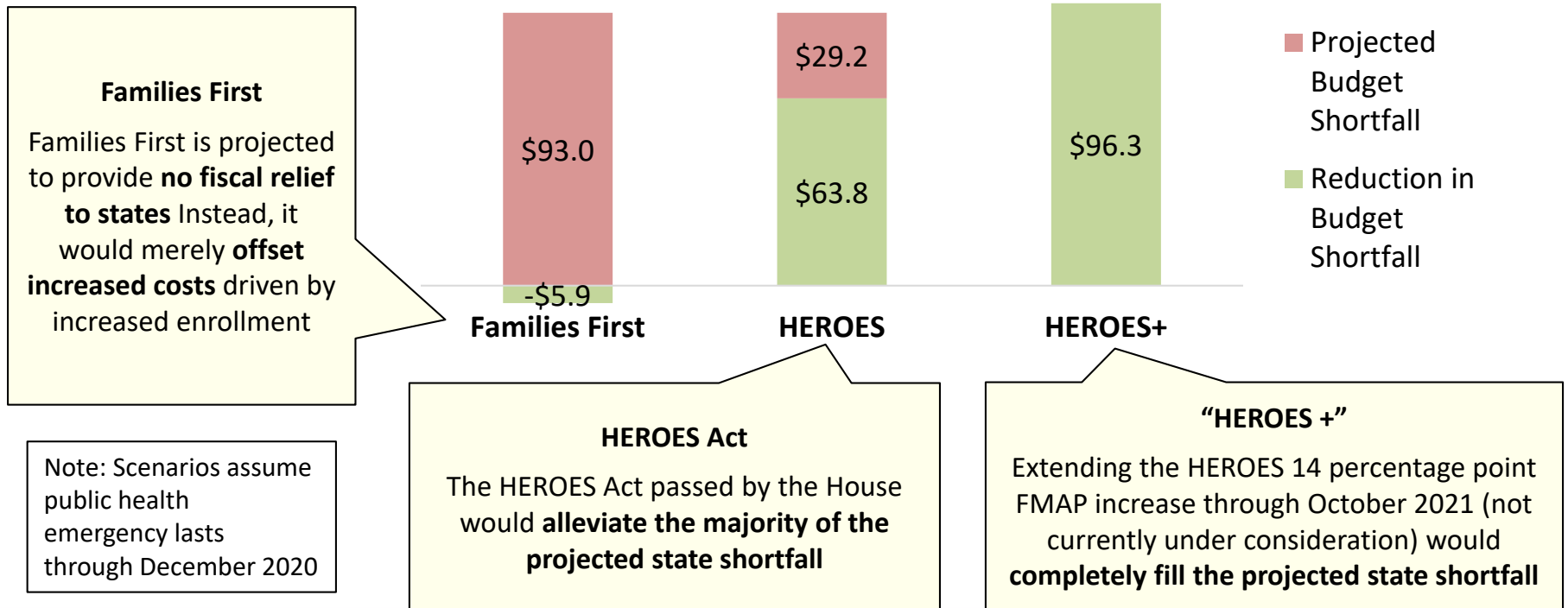
*Scenarios assume the rate of enrollment growth declines by half following termination of public health emergency. As a result, scenarios with a longer public health emergency assume additional growth in enrollment. However, these enrollment increases are offset by the increased FMAP.

**Scenario assumes that the public health emergency ends after December 2020

What would it take to prevent programmatic cuts to Medicaid?

In order to mitigate programmatic cuts to Medicaid, any FMAP increase would need to reduce state Medicaid spending by approximately \$93 billion from 2020-2021; Families First falls short, while HEROES would get states most of the way there.

Impact of FMAP Policies on Projected State Budget Shortfall, 2020-2021 (\$ billions)





KEY TAKEAWAYS

Key takeaways: modeling considerations

- The historical relationship between unemployment and Medicaid enrollment may not be the best guide to new application growth in near-term, but, it remains salient for the longer-term
- For now, the continuous coverage requirement is a more important driver of enrollment trends
- Assumptions regarding the depth and duration of the economic downturn – and whether these line up with duration of public health emergency (given the link to FMAP and continuous coverage standard) – are key to estimates
- Changes in healthcare utilization as a result of the pandemic are still coming into focus but may not be clear for months
- Managed care states are likely to see less immediate expenditure impacts, but these will likely still manifest over the long term

Key takeaways: fiscal impact

- FMAP increase in Families First is helpful, but falls short of what is needed to avoid net increases in state spending on Medicaid through 2021 given expected enrollment growth.
- If adopted, HEROES would allow states to meet the growing need for coverage and partially mitigate budget-driven pressures to reduce Medicaid expenditures
- To fully mitigate pressures to reduce Medicaid expenditures during the pandemic, a more substantial and extended FMAP increase is required to allow states to cover rising enrollment even as state revenues fall

Discussion

The slides and a recording of the webinar will be available at www.shvs.org after the webinar

Thank You

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COVID-19 has led to staggering, unprecedented job loss (Slide 10)

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State budgets are already feeling the economic impact of COVID-19 (Slide 11)

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Budget shortfalls will strain funding for Medicaid (Slide 12)

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As Intended, the continuous coverage provision in Families First is increasing enrollment (Slide 15)

1. Early State Trends Signal Massive Surge in Medicaid Enrollment Related to COVID-19. Families USA. May 2020. https://familiesusa.org/wp-content/uploads/2020/05/MCD_Early-Trends-in-COVID-and-Surge-in-Medicaid_Fact-Sheet.pdf

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As a countercyclical program, Medicaid experience enrollment increase in recessions (Slide 16)

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Many states not seeing dramatic increases in new applications.....yet (slide 17)

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Existing national enrollment estimates (Slide 18)

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Pandemic may be driving changes in spending on a per enrollee basis (Slide 19)

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Significant changes in utilization patterns (Slide 20)

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Existing estimates: impact of FMAP increase and enrollment growth (Slide 25)

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Existing estimates: aggregate expenditures (Slide 26)

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APPENDIX

Existing estimates: impact of FMAP increase and enrollment growth

National studies have separately estimated 1) the value of the increased FMAP, and 2) expected changes in Medicaid enrollment. They generally have not examined the impact of these two important changes together on a state-by-state basis

Study	Focus	Key Assumptions	Key Results
Urban Institute: Increasing Federal Medicaid Matching Rates to Provide Fiscal Relief to States during the COVID-19 Pandemic	Change in federal and state spending across different FMAP scenarios	No changes in enrollment or per enrollee expenditures from baseline	<ul style="list-style-type: none"> Families First would increase federal Medicaid spending by \$40 billion in 2020 (with state spending decreasing by an equal amount) Other FMAP policy options that Congress could consider would increase federal spending by \$113 billion (CHIP FMAP for all categories) to \$278 billion (100% FMAP for all categories)
Center on Budget and Policy Priorities: Pelosi Bill Includes Much-Needed Medicaid Funding for States	Change in federal funding under Families First	No changes in enrollment or per enrollee expenditures from baseline	<ul style="list-style-type: none"> \$35.7 billion increase in federal funding under Families First through December 2020
Center on Budget and Policy Priorities: Medicaid Funding Boost for States Can't Wait	Change in federal funding under Families First and HEROES Act	No changes in enrollment or per enrollee expenditures from baseline	<ul style="list-style-type: none"> \$63 billion increase in federal funding under Families First through June 2021 \$117 billion increase in federal funding under HEROES Act through June 2021

See Slide 18 for enrollment growth estimates

Existing estimates: aggregate expenditures

Other analyses have estimated the impact of the pandemic on aggregate Medicaid expenditures; however, these have generally not provided state-by-state detail either

Study	Focus	Key Assumptions	Key Results
Milliman: Estimating the impact of COVID-19 on healthcare costs in 2020	Change in healthcare expenditures as a result of pandemic	<ul style="list-style-type: none"> • Shifts in enrollment across payers due to recession • Deferral/elimination of services • Increased cost of COVID-19 testing and treatment 	<ul style="list-style-type: none"> • If care is deferred through the end of June, the net reduction in 2020 healthcare costs will be between \$140 billion and \$375 billion nationally • If care is deferred through the end of 2020, the net reduction in 2020 healthcare costs will be between \$75 billion and \$575 billion nationally • Medicaid payers are likely to experience a net increase in costs due to increased enrollment
Congressional Budget Office: Preliminary Estimate of the Effects of H.R. 6201, the Families First Coronavirus Response Act	Change in federal expenditures under Families First	<ul style="list-style-type: none"> • Estimates based on March 2020 CBO baseline and do not account for increased Medicaid costs associated with COVID-19 testing and treatment or increased enrollment as a result of the economic downturn 	<ul style="list-style-type: none"> • \$50 billion increase in federal Medicaid expenditures from 2020-2022 as a result of the Families First increased FMAP and continuous coverage provisions