

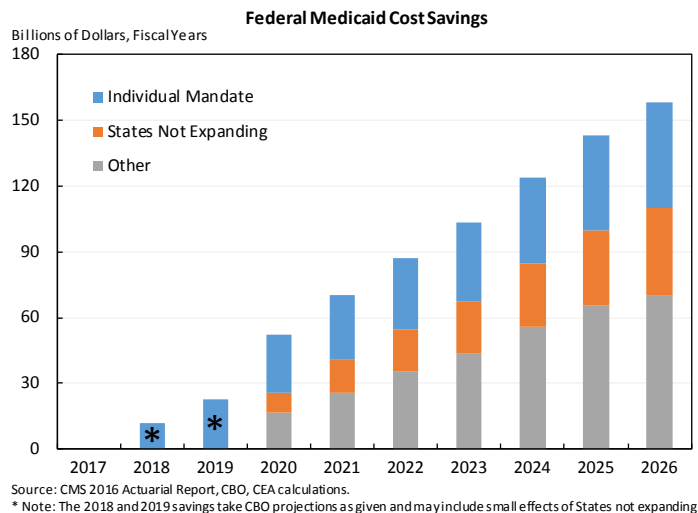
COUNCIL OF ECONOMIC ADVISERS

July 11, 2017

TO: BRIAN BLASE, NATIONAL ECONOMIC COUNCIL

SUBJECT: Medicaid Savings

- **The Congressional Budget Office (CBO) estimates the Senate’s proposed Better Care Reconciliation Act (BCRA) results in 12 million fewer Medicaid enrollees by 2026 due to the repeal of the individual mandate and additional States not adopting the Affordable Care Act (ACA) Medicaid expansion.¹ CEA estimates that these two provisions alone would reduce Federal expenditures by \$459 billion over the next 10 years.² BCRA also generates meaningful Federal Medicaid cost savings by reducing the Federal reimbursement rates to States for newly eligible adults and by imposing a per-capita cap on Federal expenditures to the States for Medicaid costs or block granting the funds.³**
 - *BCRA removes tax penalties imposed by the ACA on individuals who do not obtain health insurance, commonly referred to as the individual mandate. According to CBO, removing the individual mandate reduces the insured Medicaid population by 4 million people in 2018 and an additional 3 million people by 2026 due to individuals choosing not to have health insurance. This results in \$289 billion in savings over the next 10 years (chart below depicts annual savings).⁴*
 - *BCRA prevents States that have not already adopted ACA Medicaid expansion from receiving enhanced Federal funding if expanding Medicaid to new populations (States are exempt if they already expanded). This results in 5 million fewer people enrolling in Medicaid by 2026 and a savings of \$170 billion over the next 10 years (chart below depicts annual savings).⁵*



¹ For our analysis, we are taking this estimate of the reduction in enrollment as given.

² The data and projections in this memo are taken from the CBO cost estimate of the BCRA published on June 26, 2017, the 2016 Actuarial Reports produced by the CMS, and the CBO projections of the individual mandate published in December 2016, located at <https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/52142-budgetoptions2.pdf>.

³ In this memo, we define costs as the Medical Assistance Payments (MAP). MAP accounts for approximately 95% of Medicaid expenditures. It excludes administrative payments, the Vaccines for Children Program, and collections.

⁴ The CBO report does not provide information on States not expanding prior to 2020. It is likely that a small amount of the savings value calculated for the individual mandate in 2018 and 2019 should be attributed to States not expanding.

⁵ See footnote 4.

- *The rest of the Medicaid savings, estimated by CEA to be \$313 billion, primarily comes from two other sources. ACA promised Federal reimbursement rates to States for newly eligible adults on Medicaid greater than those of other enrollment groups on Medicaid. BCRA begins to reduce this higher reimbursement rate in 2021, matching that of other enrollment groups by 2024. Finally, BCRA limits the currently open-ended Federal funding to States' Medicaid programs promised by setting, for each State, per-capita caps on Medicaid expenditures.⁶*

⁶ Alternatively, States can apply for a block grant from the Federal government for their Medicaid expenditures instead of receiving reimbursements subject to the per-capita caps. The methods to devise the per-capita caps and grants are beyond the scope of this memo.