MONTANA BUDGET & POLICY CENTER

Medicaid Expansion Waivers
Providing Options, Protecting Montanans
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Montana has the opportunity to extend health care coverage to 70,000 low- and moderate-income adults across the state, injecting billions of federal dollars into the state economy. While providing direct access to Medicaid by expanding eligibility tends to be more cost-effective, policymakers in some states used alternative ways to insure low-income citizens and access federal investment. Because of flexibility in the federal health care law, Montana has the ability to craft a plan to expand health care coverage in a way that works for our state. One of these options, implemented in other states, is the use of a Section 1115 waiver from the federal government. This would enable thousands of Montanans to access health care.

How Expansion Works

- Montana has the opportunity to extend health coverage to most adults with incomes less than **138%** of the Federal poverty line. That means making less than $**16,000** for a single person, or $**27,000** for a family of three
- Up to **70,000** Montanans could gain coverage
- The federal government will pay **100%** of the costs through 2016, and no less than **90%** after that.

It would also be a boon to Montana's economy. Expanding coverage would create 12,000 good-paying jobs in health care and related fields and bring in over $5 billion in federal funds by 2021, boosting local economies across the state.[1]

Medicaid expansion has been a success in the 28 states (and the District of Columbia) that embraced it, including the four that have done so through a Section 1115 waiver. The number of people without insurance in those states has dropped dramatically, from 16 percent to 10 percent.[2] In Arkansas, nearly 200,000 more people have health care coverage, and over 400,000 in Michigan.[3] States that expanded Medicaid also experienced a significant reduction in unpaid hospital bills and other costs incurred for treating people without health insurance.[4]

How Section 1115 Waivers Work

Section 1115 waivers, also known as demonstration waivers, allow states to pursue experimental, pilot, or demonstration projects that promote the objectives of Medicaid, namely, to keep low-income families healthy. The waiver allows the federal government to fund costs not typically covered under Medicaid and to waive states' compliance with certain federal requirements.[5] To qualify for a waiver, a state must demonstrate that its plan will not cost the federal government more than a straightforward Medicaid expansion.[6]

Although the majority of states expanded Medicaid as described in the Affordable Care Act (ACA), several pursued a Section 1115 waiver to design their own plans. To date, the federal government has approved Medicaid expansion plans for four states through the 1115 waiver process and is reviewing two other states' proposals.[7] **Despite the differing method of expansion, waivers**

approved by the Center for Medicaid and Medicare Services (CMS) must promote the goals of the Medicaid program and protect enrollees. CMS has issued some direction for states interested in expanding Medicaid through a Section 1115 waiver:

- The federal government will pay 100% of the cost through 2016, and no less than 90% after that, for newly covered adults, as long as a state's expansion plan fully covers adults with incomes up to **138%** of the Federal Poverty Line (FPL). That is $16,000 for an individual or $27,000 for a family of three. The federal funding (or "match") is much higher than the amount the federal government normally provides for its share of the cost of Medicaid, which is jointly funded with the states. If a state only expanded Medicaid to adults with incomes up to 100% of the FPL, for instance, it would not receive the higher match rate from the federal government.
- A state cannot limit the number of eligible people who can be enrolled under the Medicaid expansion. [8]

Arkansas, Iowa, Michigan, Pennsylvania, and Indiana designed plans under Medicaid expansion waivers approved by CMS. New Hampshire also pursuing waivers. Table 1 shows elements of these waivers that have and have not been approved by CMS.[9]

Table 1: Elements of Medicaid Expansion Waivers	Approved	Not approved
Premiums for adults between 100 and 138% FPL	✓	
Healthy behavior incentives	✓	
New rules about transparency and public input	✓	
Premiums for adults below 50% FPL		X
Restriction of certain Medicaid benefits		X
Cost sharing in amounts greater than those allowed under federal law		X
Employment or work search requirements		X[10]
Cancel coverage for non-payment of premiums for those below the poverty line		X

A look at two expansion strategies under Section 1115 waivers

Premium Assistance Waivers

Some states are expanding Medicaid through "premium assistance." This involves using Medicaid funds to help low- and moderate-income individuals pay premiums for private insurance plans they purchase on the new insurance Marketplace. The federal government will approve a limited number of Section 1115 waivers to test the use of premium assistance.[11] A waiver proposing premium assistance must: 1) ensure enrollees have access to essential health benefits, such as emergency services and maternity and newborn care; 2) give beneficiaries the option of at least two insurance plans that are available in the Marketplace; 3) exempt people from having to enroll in a private plan if they are medically frail and allow them to use Medicaid instead; and 4) end on December 31, 2016, at which point states can apply for a state innovation waiver.[12] This waiver will give states flexibility in their implementation of the ACA, including Medicaid expansion, as

long as the state's plan covers as many people, offers equally comprehensive coverage, and does not increase costs for the federal government.

Arkansas was the first state to use a Section 1115 waiver to expand Medicaid through this method, also known as a "private option." Iowa has a similar plan but it only uses premium assistance for those above 100 percent of the FPL ($11,670 for a single person and $19,790 for a family of three) and instead is enrolling those whose incomes are less than 100 percent of FPL directly in Medicaid.[13]

Because premium assistance waivers will expire at the end of 2016, participating states will have a defined time period to test the benefits while still receiving the higher match rate from the federal government. In 2017, states will have the option to apply for a state innovation waiver.[14]

Premium Charges

Other states used Section 1115 waivers to expand Medicaid by charging modest premiums to certain enrollees; however, this policy has been found to deter some low-income families from enrolling. Iowa and Michigan included premium charges in their waivers, and Indiana has submitted a proposal as well. In addition to Iowa's premium assistance waiver described above, Iowa's plan allows the state to charge those whose incomes are between 100 and 138 percent of the FPL a $10 monthly premium who are enrolled in a private healthcare plan. For Iowans between 50 and 100 percent of the FPL, they are enrolled in traditional Medicaid and the state may not charge more than $5 for those between 50 and 100 percent of FPL. While waivers require states to ensure the expansion population can access health care, studies found that even modest premiums can inhibit some low-income people from enrolling in the plans.[15]

It is important to note that CMS will not approve a plan that cancels coverage if enrollees do not pay their premiums. In Iowa, enrollees can be exempt from the charge if they comply with healthy behavior incentives or attest to hardship. Healthy behavior incentives include completing a health-risk assessment and getting a wellness examination. Under Michigan's waiver, those with incomes between 100 and 138 percent of the FPL pay a monthly premium into a "health account," equal to no more than 2 percent of their income. They also are responsible for copayments. Beneficiaries with incomes below the poverty line will contribute to their accounts for copayments, but will not be charged premiums.[16]

Section 1115 Waivers provide benefits and protections

Expanding Medicaid through the use of Section 1115 waivers provides the opportunity for thousands of low- and moderate-income Montanans to receive the health care coverage they need, while boosting the state's economy. The CMS regulations would help ensure that Montanans who receive health care through a Section 1115 waiver can access quality and affordable health care that meets their needs.

Arkansas has seen the benefits of expanding Medicaid. Over 200,000 Arkansans gained health care coverage through the Marketplace, with premium assistance from the private option.[17] Forty-six percent of these enrollees are between the ages of 19 and 34, a key demographic for insurance plans since younger people tend to be healthier and cheaper to insure, keeping premiums down overall.[18] In addition to helping more Arkansans get health care coverage, the private option has helped increase the number of carriers in the state, boosting competition among health plans.[19] Additionally, architects of the Arkansas plan predict the system will be more stable, with fewer people dropping in and out of plans (which the industry calls "churn"), since individuals near 138% of the FPL will be able to keep their plans if they move above the income limit for private option eligibility. The state will evaluate whether the private option allowed individuals to have more continuity of coverage.[20]

States receive protections while they adjust to the implementation of a waiver. When judging whether a plan adds to federal costs or not, the federal government uses *a three-year average* to measure costs.[21] So states have the opportunity to make up for initial cost overruns in later years and will not be liable for preliminary estimates that were off. At the end of the three-year period, the federal government allows the state to request an adjustment to the terms of the waiver. For example, if the cost of covering the expansion population is higher than originally predicted or if the enrolled population was older or sicker than originally predicted (meaning the cost of straightforward expansion would have also been higher), the state can adjust the estimated monthly per-member cost in the waiver.[22]

Conclusion

Providing up to 70,000 Montanans health care coverage is a vital move for Montana's economy and its communities. While straightforward Medicaid Expansion may yield a more efficient result, a Section 1115 Medicaid waiver is a viable option to enable Montana to craft an expansion plan to provide quality health care coverage to Montanans who currently cannot afford health insurance. With lessons from other states that applied for and implemented Section 1115 waivers, Montana can move forward with a proposal to expand Medicaid that provides protections to those enrolled. Montana should act now to provide health care coverage to 70,000 people in need.

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[9] Jesse Cross-Call and Judith Solomon, "Approved demonstrations offer lessons for states seeking to expand Medicaid through Waivers," Center on Budget and Policy Priorities, August 20, 2014. http://www.cbpp.org/files/8-20-14health.pdf
[10] Historically, CMS has never approved waivers that tie Medicaid eligibility to any work requirement.
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