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Health, Education and Human Services Division

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July 18, 1997

The Honorable Thomas J. Bliley, Jr.
Chairman, Committee on Commerce
House of Representatives

Subject: Medicaid: Projected Cost of Expanding Coverage for Children

Dear Mr. Chairman:

This letter responds to your January 3, 1997, request for an estimate of the cost of expanding Medicaid coverage to include all children who are under age 18 and living in families with incomes below 300 percent of the federal poverty level (FPL). You also asked for information on the number of additional children who would be covered under an expanded program and Medicaid spending per child on a state-by-state basis.

In summary, we estimated there are 32.3 million children under age 18 living in families with incomes below 300 percent of FPL and currently not enrolled in Medicaid. Using estimates of the proportion of potentially eligible children who would actually enroll based on studies of past program expansions, we calculated that between 6 million and 9.5 million additional children might enroll in the program if it was expanded, at an additional cost ranging from \$6.8 billion to \$10.6 billion per year. The cost calculation was based on fiscal year 1995 Medicaid spending as reported by the Health Care Financing Administration (HCFA). As agreed with your office, we are not reporting this information by state, because we are uncertain about the accuracy of state-level data. Instead, the cost calculations are based on national average costs by age group.

First, to estimate the number of eligible children, we used data from the Current Population Surveys (CPS) to tabulate the number of children who were under 18, living at below 300 percent of FPL, and not enrolled in Medicaid. Because CPS counts are based on samples, we used a 3-year average, from 1994 to 1996, to improve the reliability of the estimates. This approach yielded an estimate of 32.3 million eligible children.

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Studies of program expansions during the late 1980s and early 1990s concluded that children without private health insurance enrolled in Medicaid at rates ranging from 70 to 90 percent of those eligible.¹ Prior studies concluded that children with private insurance enrolled at much lower rates: About half continued their insurance but also enrolled in Medicaid, and up to 15 percent switched from private insurance to Medicaid.² We excluded from our estimates the eligible children who continued their private insurance because Medicaid is the payer of last resort. We assumed the costs for children jointly enrolled were small enough to be ignored. Moreover, HCFA does not collect the cost data necessary to include these children in our analysis.

Since previous research provides a range of enrollment rate estimates, we made enrollment calculations under three possible scenarios. The first scenario assumed that the uninsured would enroll at a rate of 70 percent and that the insured would not enroll in Medicaid. The second scenario assumed the uninsured would enroll at a 90-percent rate and that the insured would not

¹See Lisa Dubay and Genevieve Kenney, Revisiting the Issues: The Effects of Medicaid Expansions on Insurance Coverage of Children (Washington, D.C.: The Urban Institute, Oct. 1995), p. 9. The authors estimated that 70 percent of the uninsured enrolled in the program during past expansions of eligibility. See also David M. Cutler and Jonathan Gruber, "Does Public Insurance Crowd Out Private Insurance?" Quarterly Journal of Economics (May 1996), p. 407. These authors estimated that 90 percent would enroll.

²The following two studies estimated that none of the privately insured dropped their insurance and enrolled in Medicaid: Esel Y. Yazici, "Medicaid Expansions and the Crowding Out of Private Insurance," presented at the 18th Annual Research Conference of the Association for Public Policy Analysis and Management, Pittsburgh, Penn., Nov. 2, 1996, p. 21, and Lara Shore-Sheppard, "The Effect of Expanding Medicaid Eligibility on the Distribution of Children's Health Insurance Coverage," prepared for the Cornell/Princeton conference on "Reforming Social Insurance Programs," Sept. 1996, p. 18. David M. Cutler and Jonathan Gruber, "Peer Review: Medicaid and Private Insurance: Evidence and Implications," Health Affairs (Jan./Feb. 1997), p. 198, found that 15 percent of the insured dropped their insurance and enrolled. Finally, Dubay and Kenney, Revisiting the Issues: The Effects of Medicaid Expansions on Insurance Coverage of Children, estimated that about half the children covered by private insurance kept their private insurance and also enrolled in Medicaid when they became eligible.

enroll. The last scenario assumed that the uninsured would enroll at a 70-percent rate and the insured at 15 percent.³

To estimate the cost of this expansion of Medicaid eligibility, we obtained information on fiscal year 1995 spending per child from HCFA. Spending per child ranged from \$875 for children aged 1 to 5 to \$2,176 for children under age 1. We calculated the cost increase for four age groups: under age 1, ages 1 to 5, ages 6 to 14, and ages 15 to 17.⁴ We multiplied fiscal year 1995 spending per child by the estimated increase in enrollment.⁵

The enrollment rate assumptions and the associated estimates of increased enrollment and cost are summarized in table 1. Scenario 1 represents the lowest cost estimate, \$6.8 billion, based on enrollment rates of 70 percent for the uninsured and 0 percent for the insured. Alternatively, scenario 3 yields the highest cost estimate, \$10.6 billion, based on enrollment rates of 70 percent for the uninsured and 15 percent for the insured.

³The estimate of a 90-percent participation rate was derived from the assumption that all enrollees came from the pool of uninsured children. Therefore, the only scenario we developed that assumed a 90-percent participation rate also assumed none of the insured would enroll in the program.

⁴Because HCFA does not collect data on Medicaid spending for 15- to 17-year-old children, we used a proxy for this age group: the spending per child for 15- to 20-year-old children

⁵See table I.1 in the enclosure for CPS counts, table I.2 for expected enrollment increases by age group, table I.3 for spending per child by age group, and table I.4 for cost calculations by age group.

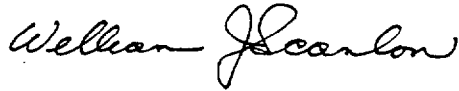
Table 1: Scenarios for Enrollment Rate and Estimated Increases in Enrollment and Costs Under Medicaid Expansion, Fiscal Year 1995

Scenarios	Enrollment rates (percentages)		Increased enrollment		Increased cost	
	Insured	Uninsured	Enrollees (in millions)	Percentages ^a	Amount (in billions)	Percentages ^a
1	0	70	6.0	45.0	\$6.8	47.1
2	0	90	7.7	57.8	8.7	60.5
3	15	70	9.5	71.8	10.6	73.9

^aThe percentage increase was calculated using the number of Medicaid enrollees obtained from CPS.

If you have any questions regarding this letter or if we can be of further assistance, please call me at (202) 512-7114 or Jerry Fastrup, Assistant Director, at (202) 512-7211.

Sincerely yours,



William J. Scanlon
 Director, Health Policy and Financing Issues

Enclosure

ENROLLMENT AND COST ESTIMATES BY AGE COHORT

This enclosure provides detailed information on our calculations by age group. Table I.1 shows the estimated numbers of eligible children by age group. Table I.2 shows the estimated increased enrollment for the three scenarios by age group. Table I.3 shows the cost per child. Table I.4 shows additional cost calculations by age group.

Table I.1: Three-Year Average Estimates of Number of Children Who Would Be Eligible Under Medicaid Expansion, by Age Group

In millions

Eligible children	Under age 1	Aged 1 to 5	Aged 6 to 14	Aged 15 to 17	Total
Insured	1.1	6.8	12.3	3.5	23.7
Uninsured	0.5	2.3	4.2	1.6	8.6
Total	1.6	9.1	16.5	5.1	32.3

Source: CPS 1994-96.

Table I. 2: Estimates of Increased Enrollment Under Three Enrollment Rate Scenarios, by Age Group

Scenarios	Enrollment rates (percentages)		Increased enrollment (in millions)				Total
	Insured	Uninsured	Under age 1	Aged 1 to 5	Aged 6 to 14	Aged 15 to 17	
1	0	70	0.3	1.6	3.0	1.1	6.0
2	0	90	0.4	2.1	3.8	1.4	7.7
3	15	70	0.5	2.6	4.8	1.6	9.5

Table I.3: Medicaid Cost per Enrollee, by Age Group, Fiscal Year 1995

	Age groups				
	Under 1	Aged 1 to 5	Aged 6 to 14	Aged 15 to 17	Aged 15 to 20
Cost per child	\$2,176	\$875	\$881	\$1,846	\$1,170

Table I.4: Additional Cost of Expanding Medicaid Coverage, by Age Group

Scenario	Enrollment rates (percentages)		Additional cost (in millions)				Total
	Insured	Uninsured	Under age 1	Aged 1 to 5	Aged 6 to 14	Aged 15 to 17	
1	0	70	\$720	\$1,395	\$2,601	\$2,055	\$6,771
2	0	90	926	1,793	3,344	2,643	8,706
3	15	70	1,089	2,285	4,230	3,029	10,634^a

^aBecause of rounding, dollar amounts do not equal total.

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