

## Insight



# The Woodwork Effect: Costing Non-Expansion States Up to \$700 Million in 2014

CONOR RYAN | APRIL 9, 2014

Though the open enrollment period for the health insurance exchanges has come to a close, the total number of newly enrolled Medicaid beneficiaries is still climbing for 2014. Many questions have been raised regarding the number of newly enrolled individuals as a result of the Affordable Care Act (ACA). However, the ability to discern which individuals were previously eligible or are newly eligible is still a challenge. Data is not yet available for the states that have expanded their Medicaid programs, as many system wide hurdles exist in separating the enrollee determinations based on expansion vs. non-expansion eligibility. Also, Medicaid does not have an open enrollment period, and instead offers on-going enrollment throughout the year. In states that are not expanding Medicaid, some of the numbers are more transparent. Individuals joining Medicaid rolls in these states are part of what is known as the “woodwork effect:” previously eligible individuals that are coming out of the “woodwork” to apply for coverage. The addition of these enrollees in states that chose not to expand Medicaid will prove problematic for state budgets, causing an unplanned increase in Medicaid spending.

The [Congressional Budget Office](#) addressed this phenomenon, stating that individuals who were eligible for Medicaid prior to the ACA, but never enrolled, would be drawn to sign up because of the individual mandate or because of increased publicity surrounding health care reform. This effect has been seen in other large scale expansions of public entitlement programs. For example, during the Massachusetts health reform effort in 2006, Medicaid enrollment increased by 16.3 percent among parents already eligible for the program.<sup>[1]</sup> Even though these individuals were already eligible for Medicaid, they did not participate in the program until a health care overhaul was implemented in the state. Just as in Massachusetts, early ACA estimates show an increase in the pre-ACA eligible population of roughly 6 percent.<sup>[2]</sup>

Avalere Health recently estimated that, if enrollment rates continue at their current speed, states will see an increase of 3.7 million beneficiaries nationwide enrolled as a result of the ACA by the end of March.<sup>[3]</sup> According to the Centers for Medicaid and CHIP (CMCS) February enrollment report, Medicaid enrollment in states that did not expand their eligibility has increased by 380,000 individuals since October.<sup>[4]</sup> Unlike newly eligible enrollees in states expanding Medicaid, these additional beneficiaries come without the increased federal matching rate, and thus stress state budgets much more than a newly eligible population would.<sup>[5]</sup> Using average costs and federal matching rates from the Kaiser Family Foundation, these new enrollees will cost the non-expansion states \$700 million in 2014 alone.<sup>[6]</sup>

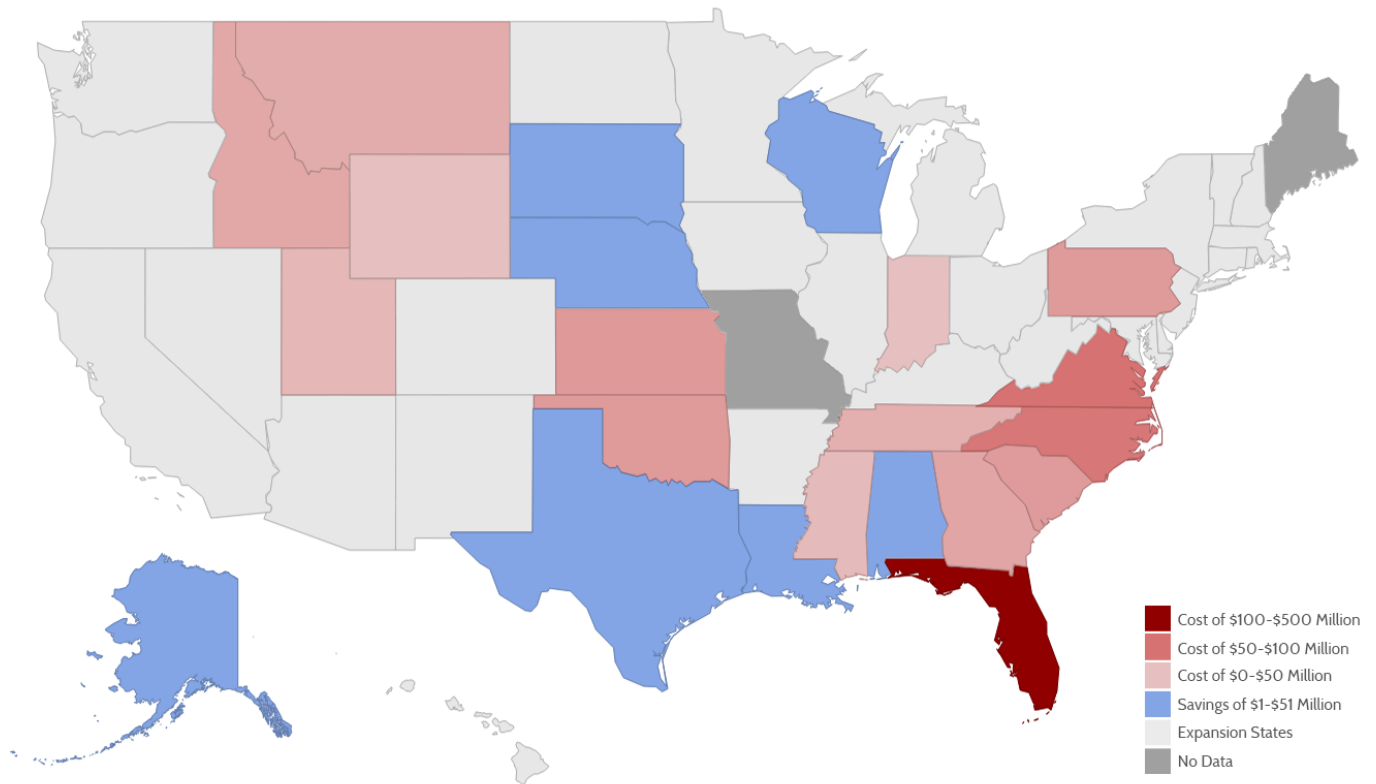
The following map and table further explain the woodwork impact on non-expansion states. The map depicts the cost incurred from the woodwork population, and some savings in states that are not experiencing increases in enrollment. States that experience higher enrollment and therefore higher Medicaid costs are darker shades of red, while the states in shades of blue saw decreases in Medicaid enrollment, realizing savings in state costs to the program. The table below explains the woodwork enrollment and cost estimates in non-expansion states.

Sixteen states are seeing an increase in Medicaid beneficiaries despite the decision to maintain pre-ACA eligibility levels. Florida in particular is seeing a drastic increase in Medicaid enrollment, an 8 percent increase

in beneficiaries over the last five months.<sup>[7]</sup> Since Medicaid has a continuous enrollment policy, these numbers will continue to increase throughout 2014, incurring more costs for states. Though most non-expansion states are experiencing an increase in enrollment, data indicates a handful of states are seeing decreases in costs as a result of decreased enrollment.

The changes in enrollment over the last five months are the best available data on observing the magnitude of the woodwork effect in non-expansion states. However, the changes in Medicaid enrollment could also be influenced by seasonal effects or a recovering economy—the national unemployment rate has fallen 0.5% since October.<sup>[8]</sup> These increased cost estimates do not take into account any approximation of the effect of economic growth or seasonality on enrollment.

## Increased Cost of Medicaid in Non-Expansion States



## Estimated Medicaid Enrollment and Cost due to Woodwork Effect in Non-Expansion States

<b>State</b>	<b>Increased Enrollment</b>	<b>Average Enrollee Cost</b>	<b>Federal Matching Rate</b>	<b>Cost Estimate</b>
Alabama	-29,900	\$4,150	69.0%	-\$38,530,000

Alaska	-4,200	\$9,310	50.0%	-\$19,670,000
Florida	245,400	\$4,430	59.7%	\$438,200,000
Georgia	23,900	\$3,920	66.9%	\$31,000,000
Idaho	16,700	\$6,020	71.8%	\$28,340,000
Indiana	200	\$4,790	66.5%	\$280,000
Kansas	17,300	\$6,000	56.6%	\$44,980,000
Louisiana	-11,600	\$5,200	62.1%	-\$22,900,000
Maine	No Data	\$5,970	61.9%	No Data
Mississippi	6,200	\$5,010	73.6%	\$8,250,000
Missouri	No Data	\$6,880	63.5%	No Data
Montana	9,600	\$7,140	65.9%	\$23,470,000
Nebraska	-17,600	\$6,170	53.3%	-\$50,560,000
North Carolina	42,200	\$5,800	65.9%	\$83,570,000
Oklahoma	24,800	\$4,780	62.3%	\$44,760,000
Pennsylvania	12,700	\$7,290	51.8%	\$44,500,000
South Carolina	29,000	\$5,120	70.6%	\$43,560,000
South Dakota	-500	\$5,780	51.6%	-\$1,360,000
Tennessee	10,900	\$5,570	65.0%	\$21,190,000
Texas	-16,300	\$5,280	58.1%	-\$36,070,000

Utah	7,900	\$4,890	70.6%	\$11,320,000
Virginia	29,900	\$5,990	50.0%	\$89,340,000
Wisconsin	-15,000	\$5,230	58.3%	-\$32,710,000
Wyoming	200	\$6,210	50.0%	\$530,000
Notes:				

Positive cost values reflect additional costs, and negative cost values reflect savings.