ISSUE BRIEF
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The Unexpected Costs of Not Expanding Medicaid in Kansas

A 2022 study conducted by researchers at the University of Kansas Institute for Policy & Social Research examined and quantified the economic costs of the Kansas government's decision to forgo Medicaid expansion under the Affordable Care Act (ACA). The researchers looked at various expenditures in Kansas, as compared to states that expanded Medicaid in 2014 per the ACA and states that had not yet expanded Medicaid as of 2019. This issue brief highlights specific findings from the analysis.

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Review of Analysis

Kansas experienced a sizeable 23 percent increase in state Medicaid expenditures between 2014 and 2019. This is similar to the large Medicaid spending increases seen in states that expanded Medicaid to cover low-income, non-disabled adults under the Affordable Care Act.

However, Kansas is one of 12 states that has not expanded Medicaid as of February 2022. State lawmakers cannot point to large increases in Medicaid rolls to explain the spending surge. In comparison, the other 11 non-expansion states experienced flat spending during the same time period.

The rise in Medicaid expenditures is not the only unexpected economic consequence that the state of Kansas, as well as residents, have experienced since 2014. Private insurance spending and healthcare utilization also have grown. In addition, Kansans with employer-based insurance have had to absorb spikes in their insurance premiums and Kansas counties are using a larger share of property taxes to fund public hospitals.

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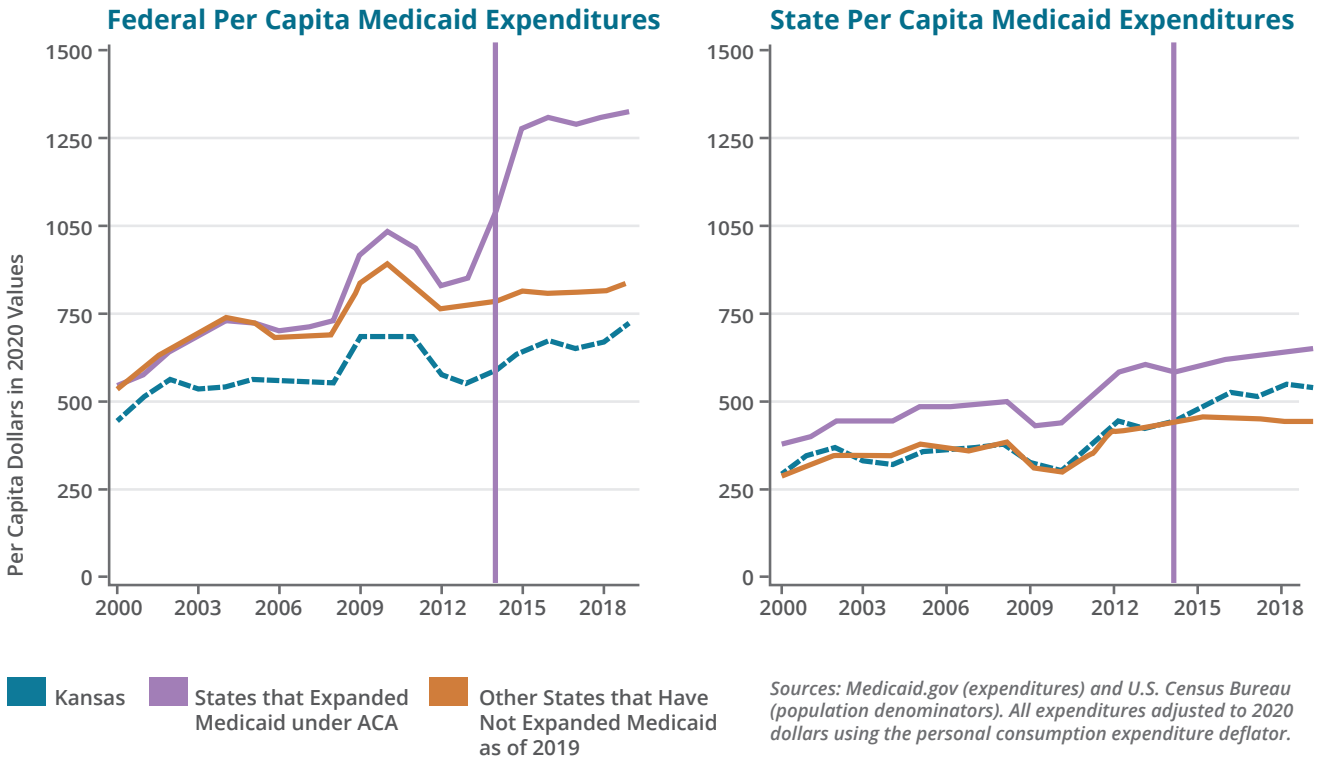
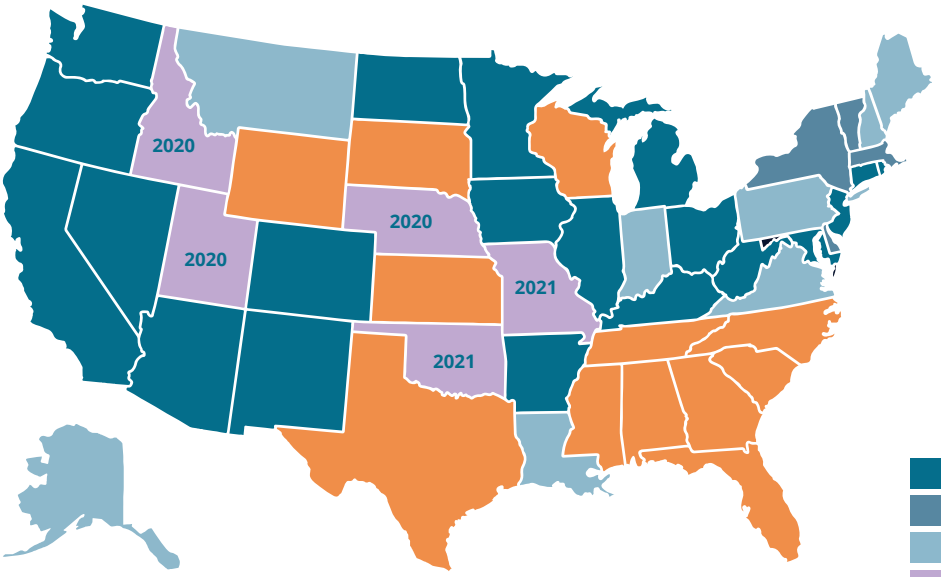
State Per Capita Medicaid Expenditures

Kansas is the only state which opted to not expand Medicaid that saw an increase in per capita Medicaid expenditures between 2014 and 2018. The spending increase in Kansas was similar to what was experienced by states that expanded Medicaid under the ACA, adding low-income adults to Medicaid rolls.



Sources: Medicaid.gov (expenditures) and U.S. Census Bureau (population denominators). All expenditures adjusted to 2020 dollars using the personal consumption expenditure deflator.

States by Medicaid Expansion Status as of 2022



Kansas is one of only 12 states that have not expanded Medicaid under the Affordable Care Act, despite the federal government covering more than 90 percent of the cost along with additional federal incentives. Kansas is now entirely bordered by states that expanded Medicaid following adoption of expansion in Missouri and Oklahoma in 2021.[1]

- Regular Expansion
- Full Prior Expansion
- Late Expansion through 2019
- Expanded after 2019
- Non-Expansion

Medicaid Expenditures Rise Despite Managed Care Approach

Like many other states, Kansas has adopted a managed care approach to Medicaid, referred to as KanCare. The state of Kansas contracts with private insurance companies to manage at least 70 percent of Medicaid enrollees. KanCare launched in 2013 and became fully operational in 2015.

States generally adopt managed care models with the intent of slowing the rise in state Medicaid expenditures. However, this does not seem to have occurred in Kansas. Between 2014 and 2019, state Medicaid expenditures grew from $438 to $539 on average per person (or per capita), according to data from the Centers for Medicare and Medicaid Services and the U.S. Census Bureau.

In comparison, other states with Medicaid managed care programs, including Arizona and Iowa, kept their costs relatively flat between 2014 and 2019. This was true for both Medicaid expansion and non-expansion states.

The rise in Medicaid spending in Kansas needs to be studied further. Contributing factors range from the types of populations included in KanCare to overly generous fees paid to providers.

Spending Increased for Residents with Private Insurance

Historically, total healthcare spending for residents with either employer-based or individual market insurance has been lower in Kansas than in other states.

However, between 2014 and 2018, total spending for these privately insured residents increased at a faster rate in Kansas than in other states, including both Medicaid expansion and non-expansion states. The cumulative growth of spending (including the patient and insurer shares) exceeded 20 percent, according to data from the Health Care Cost Institute (HCCI). In comparison, during the same period, spending growth was 17.7 percent in other non-expansion states and 19.5 percent in expansion states.

At the same time, Kansans with employer-based plans have seen their share of costs rise. Since 2014, employee premium contributions for family plans have increased 77 percent in Kansas, according to data from the Medical Expenditure Panel Survey. In comparison, employee premium contributions have only risen by 26 percent in all other non-expansion states and 25 percent in expansion states.

More research is needed on the cause(s) of these spending and premium increases in Kansas. Insurers may be increasing their profit margins or paying providers higher rates than in previous years.

Healthcare Utilization Has Risen

Another explanation for increased spending is that Kansans have been using more healthcare services since 2014 when the state decided not to expand Medicaid. Even after adjusting for complex, resource-intensive patients, HCCI data show that healthcare utilization increased for privately insured Kansans by 10 percent between 2014 and 2018 in four areas:

- Inpatient admissions
- Outpatient visits
- Professional procedures
- Prescription drugs

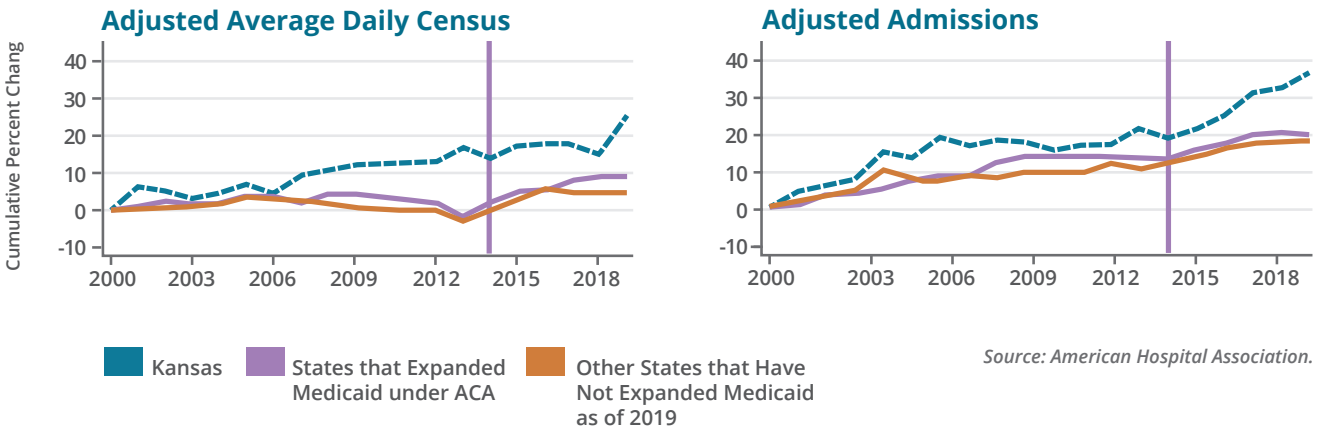
This 10 percent increase in utilization surpasses that of both expansion and non-expansion states.

These trends were corroborated using data on all hospital patients from the American Hospital Association. Between 2014 and 2019, the average daily census increased by 10 percentage points in Kansas hospitals and inpatient admissions increased by 15 percentage points.

As part of the ACA, hospitals were expected to lose extra payments for significant uncompensated care caseloads. These cuts in disproportionate share payments (DSH) are scheduled to take place in federal fiscal year 2024. Faced with increased uncompensated care costs due to the threat of DSH payment cuts, hospitals may have responded by increasing admissions. Hospitals may also have increased the mix of services provided. The Commonwealth Fund estimates that if non-expansion states choose to expand Medicaid, uncompensated care costs will fall by $6.2 billion.[2]

Cumulative Percentage Change in Adjusted Hospital Daily Census and Admissions

Compared to other states, Kansas saw significantly higher increases in adjusted hospital admissions and average daily census between 2014 and 2018.



Source: American Hospital Association.

More Property Taxes Going to Cover Public Hospital Costs

Kansas currently has 76 public hospitals. These hospitals are funded, in part, through hospital mill levies or property taxes earmarked for hospitals.

After Kansas decided not to expand Medicaid, counties and hospital districts across the state increased their allocation of mill levies to hospitals. Between 2014 and 2016, hospital mill levies jumped 34 percent, according to data from the Kansas Department of Revenue. In some counties, including Barber, Crawford, Haskell, Sumner, and Washington, hospital mill levies more than doubled between 2014 and 2021.

However, the analysis did not find that counties increased overall mill levies (or total property taxes used to fund all public services). This suggests that local policy makers may be reallocating money from other local services to subsidize public hospitals.

Public hospitals tend to serve large numbers of uninsured patients and ultimately must absorb those costs. If Kansas had decided to expand Medicaid to low-income adults under the ACA, public hospitals and other hospitals across the state would have received a significant financial windfall, assuming the hospitals' uninsured patients obtained Medicaid coverage. This could have eliminated or reduced the need to increase hospital mill levies.

An Opportunity to Improve Economic Consequences

Kansas residents have borne a number of economic consequences as the result of the Kansas Legislature's decision to not expand Medicaid, despite documented strong public support.

First, Kansans are paying federal taxes to fund the expansion of Medicaid in other states but not their own. Kansas has already lost out on an estimated $4.9 billion in federally available Medicaid funds between 2014 and 2021. In addition, the state missed out on the additional economic activity that can be spurred by the influx of federal Medicaid dollars.

At a 90 percent federal match, this means that every federal dollar of Medicaid funding in the state would likely generate $1.35 in additional economic activity.[3] The Biden administration has added an additional 5 percent of federal funding through 2022, creating an even greater reimbursement incentive for states to expand Medicaid.

Second, state taxes paid by Kansans are being used to fund an increase in state spending on Medicaid

despite the state's move to a managed care model that was intended to curtail spending.

Third, privately insured Kansans are paying more for health insurance and are receiving a higher volume of services relative to residents of other states.

Fourth, in those counties with a much-needed publicly supported hospital, Kansans are spending a higher share of their total property taxes to support those hospitals.

As a state, Kansas has options: Kansas can accept federal Medicaid dollars that will support its hospitals, reduce or stabilize local tax rates for public hospitals, and contribute to economic growth. Or Kansas can continue on the path of higher healthcare costs, increased local taxes, foregone benefits of federal funding, and the potential risk of hospital closures, reducing healthcare access for vulnerable and mostly rural populations.

Key Points

- Kansas lost out on an estimated $4.9 billion in federally available Medicaid funds between 2014 and 2021, as well an estimated $6.62 billion in additional economic activity spurred by the influx of Medicaid funds.
- Kansas saw a sizeable 23 percent increase in state Medicaid expenditures between 2014 and 2019, despite launching a Medicaid managed care program. Other states with Medicaid managed care programs kept their costs relatively flat during this time period.
- Between 2014 and 2018, total spending for privately insured residents increased at a faster rate in Kansas than in other states, including both Medicaid expansion and non-expansion states.
- Since 2014, employee premium contributions for family plans have increased 77 percent in Kansas compared to 26 percent in other non-expansion states and 25 percent in expansion states.
- Healthcare utilization increased for privately insured Kansans by 10 percent between 2014 and 2018.

Kansas is the only state which has not expanded Medicaid that saw an increase in per capita Medicaid expenditures between 2014 and 2018.

1. Notes: Medicaid expansion status of the states are determined using data from Kaiser Family Foundation, Status of State Action on the Medicaid Expansion Decision (KFF, retrieved February 22, 2022; Robert Kaestner et al., "Effects of ACA Medicaid Expansion on Health Insurance Coverage and Labor Supply," Journal of Policy Analysis and Management 36, no 3 (2017): 608–642; David J.G. Slusky and Donna K. Ginther, "Did Medicaid Expansion Reduce Medical Divorce?" Review of Economics of the Household, 19, no. 4 (December 2021): 1139–1174; and Sarah Miller, Norman Johnson, and Laura R. Wheery, "Medicaid and Mortality: New Evidence from Linked Survey and Administrative Data," Quarterly Journal of Economics 136, no. 3 (August 2021): 1783–1829.

2. David Dranove, Craig Garthwaite, and Christopher Ody, The Impact of the ACA's Medicaid Expansion on Hospitals' Uncompensated Care Burden and the Potential Effects of Repeal (Commonwealth Fund, May 2017). https://doi.org/10.26099/b04p-1018

3. Chernew, M.E. (2016). The economics of Medicaid expansion. Health Affairs Forefront. March 16, 2021. https://www.healthaffairs.org/do/10.1377/forefront.20160321.054035