Legislative Analysis

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FREEDOM TO WORK

Senate Bill 564 (Reported without amendment)
Sponsor: Sen. Tonya Schuitmaker
House Committee: Appropriations
Senate Committee: Appropriations

Complete to 11-8-2012

A SUMMARY OF SENATE BILL 564 AS REPORTED BY COMMITTEE 11-8-2012

Senate Bill 564 would amend the Social Welfare Act (MCL 400.106a) to revise the eligibility criteria and premium payments for the Freedom to Work (FTW) Medicaid program. Under current law, a person is eligible for FTW if he or she

1. Is found disabled under federal Supplemental Security Income (SSI) or Social Security Disability Income (SSDI), or would be found disabled except for earnings above levels established by the federal Social Security Administration.
2. Is age 16 through 64.
3. Has unearned income (e.g. SSDI or SSI) less than 100% of the federal poverty guidelines ($11,170 for FY 2013).
4. Is a current Medicaid recipient, or meets income, asset, and eligibility requirements.
5. Is employed.

Senate Bill 564 would revise initial eligibility in three ways. First, the initial income eligibility criteria would change from unearned income less than 100% of federal poverty guidelines to countable income (earned and unearned income less income disregards) less than 250% of federal poverty guidelines ($25,925 for FY 2013). Second, the bill removes the requirement that the individual is a Medicaid recipient, or meets Medicaid income, asset, and eligibility requirements. Third, the bill would require the individual to meet the asset limits of Medicare Part D Low Income Subsidy and Medicare Savings program.

The bill would also change ongoing eligibility by increasing the amount of allowable unearned income from 100% to 250% of federal poverty guidelines.

Under current law, FTW recipients with net earned income exceeding 250% of the federal poverty guidelines have to pay a premium fee. The monthly premium fee has four tiers of $50, $190, $460, or $920 per month based on the person's net earned income. The last premium tier is 100% of the average medical assistance cost, as determined by the Department of Community Heath, and would be required for individuals with more than $75,000 in net earned income.

Senate Bill 564 would replace the monthly premium tiers for individuals with net earned income greater than 250% of federal poverty guidelines with a premium fee equal to 7.5% of earned and unearned income for persons with income above 138% federal poverty guidelines ($15,415 for FY 2013). The bill would continue current policy of requiring individuals with gross income more than $75,000 to pay for 100% of the average medical assistance cost. Although the bill does replace "average medical assistance recipient cost" with "average freedom to work program participant cost."

In addition to changes to eligibility and premium payment requirements, Senate Bill 564 would require the state to exclude accumulated retirement assets while the individual is participating in FTW from eligibility consideration for other Medicaid programs; would allow for temporary breaks in employment for relocation purposes due to employment; removes the requirement for the individual to report earned income changes that would result in a different premium within 30 days (there are similar reporting requirements elsewhere in the Social Welfare Act that would still apply); and removes a legislative report required that last time this section was amended.

FISCAL IMPACT:

The proposed amendment of Senate Bill 564 would modify, as well as expand, the current Freedom to Work (FTW) program which is administered within the Department of Human Services. Appropriations for the direct services costs (and revenue) reside within the Department of Community Health budget and administration costs within the Department of Human Services.

The fiscal impact to the State of the proposed changes is difficult to project with accuracy given the number of unknowns. The example which follows is based on assumptions of some of the moving parts of this legislation.

It is assumed that there would be 3,300 new enrollees in the expanded FTW program. This number is derived from other states Medicaid buy-in programs which Michigan would look more like with passage of SB 564. There are about 6,700 current FTW enrollees, bringing the total to an estimated 10,000 with the expansion. Data suggests that of the 3,300 new program enrollees, 1,980 of them are currently receiving Medicaid benefits as "spend down" eligibles. This would leave 1,320 individuals that would add cost to the expanded program. We project an annual Medicaid cost of $8,868 per year for these program participants, resulting in a Gross cost of $11.7 million, line "a". The Federal share of this expanded Medicaid buy-in program in FY 2012-13 is 66.39% of the Gross costs, $7.8 million which is line "b", and line "c" $4.0 million GF/GP being Michigan's share. The cost to collect the additional premiums has been estimated by DCH to be $500,000.

Offsets to program expansion costs include additional State income tax, sales tax and program premiums collected. A May 2007 Mathematica Policy Research, Inc. article postulates that 40% of new Medicaid buy-in enrollees increased their earnings (http://www.mathematica-mpr.com/publications/PDFs/WWDparticipants.pdf). An increase earnings amount of $3,150 (inflation adjusted to 2013) annually was also indicated. The estimated State income tax revenue increase of $176,700 on line "e" is the result of 40% of the new enrollees, the increased earnings and a tax rate of 4.25%.

Line	Assumptions/Estimates	Amount
a	Enrollee expansion cost, *1,320 new enrollees x $8,868 annual cost*	$11,705,760
b	Federal portion, *$17,558,640 x .6639 (FMAP rate)*	$7,771,454
c	Michigan's GF/GP match portion, *difference between "a" and "b"*	$3,934,306
d	Premium collection costs	$500,000
e	State income tax collected, *1,320 x $3,150 x 4.25%*	($176,715)
f	State sales tax collected, *((1,320 x $3,150) - "e") x 6.0%*	($119,439)
g	Premiums collected	($2,512,323)
h	Net increase in GF/GP costs, *sum of items "c" through "g"*	$1,625,829

Income subject to sales tax is first reduced by the income tax, reduced by half, then multiplied by 6.0%, which is line "f". It is assumed that halving the new income acknowledges that much of that income will be used for expenditures where Sales tax would not apply.

Line "g" in the amount of $2.5 million is a DCH estimate of premiums earned through revision of the premium structure. We accept this estimate.

Given the assumptions above, the expansion may cost the State $1.6 million in GF/GP. An exact number is indeterminate. Amounts will vary on the number of individuals opting to enroll (or disenroll) in the program, how much the enrollee is making currently, additional earnings generated due to the expansion, taxable status of the individuals and how they spend their disposable income. No savings assumptions are made as to individuals who successfully advance (economically) due to the program and off from Medicaid, and other social services, which is certainly a goal.

There may be ongoing administrative costs to track excluded accumulated retirement assets while the individual is participating in FTW who participates in another Medicaid program. These ongoing administrative costs could be offset by fewer persons in the Medicaid Spend-Down program which are more labor intensive. There may also be one-time administrative costs to for information technology revisions and training costs to reflect this policy revision. These costs are not included in the table above.

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