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BILL ANALYSIS

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Senate Bill 564 (as reported without amendment) *(as enrolled)*
Sponsor: Senator Tonya Schuitmaker
Committee: Appropriations

CONTENT

The bill would amend the Social Welfare Act to make changes in the "Freedom to Work" program. Public Act 32 of 2003 established the Freedom to Work program in Michigan. This program, which serves presently about 7,200 individuals, provides continued Medicaid coverage to employed disabled individuals subject to certain conditions. An individual has to meet Federal Supplemental Security Income (SSI) or Social Security Disability Insurance (SSDI) disability standards, be between the ages of 16 and 64, have unearned income below the poverty level, be Medicaid eligible, and be employed.

Individuals meeting these criteria continue to be Medicaid eligible even if they generate earned income (as long as they stay within the unearned income limit), accumulate assets up to $75,000, or save money for retirement. They are eligible for Medicaid services as defined elsewhere in the Social Welfare Act, with the exception of personal assistance services in the workplace.

The coverage continues without cost up to 250% of the Federal Poverty Level (FPL) for a single individual (about $28,000). At that point, a sliding scale premium is charged, with a person paying the estimated full cost of the Medicaid coverage at an income of $75,000.

Senate Bill 564 would make changes in program eligibility and would lead to an expansion in the number of people eligible for the program. The requirement that the applicant be a current Medicaid recipient or meet the eligibility requirements for Medicaid would be removed.

The limitation on unearned income would be replaced by a requirement that one's countable income be less than 250% of the FPL for a family of one. The individual's asset limit would be equivalent to the Medicare Part D Low Income Subsidy and Medicare Savings program.

The bill would remove the statutory ban on covering personal assistance services in the workplace. Due to Federal rules, this ban was never enforced, so the change would have no impact on policy. The bill would clarify that retirement savings would be excluded from Medicaid eligibility consideration even if the individual were no longer eligible for Freedom to Work Medicaid.

The bill would create a new, more extensive premium scale based on the individual's earned and unearned income. For those with an income below 138% of the FPL for one person (about $15,400 in 2012), there would be no premium. A person with an income between 138% of the FPL and $75,000 would be charged a premium of 7.5% of his or her gross income. A person with an income above $75,000 would be charged a premium equal to the average Freedom to Work Medicaid participant cost.

MCL 400.106a

FISCAL IMPACT

The bill would expand the number of people covered by the Freedom to Work program, potentially expand benefits, and make major changes to the premium structure for current and new program clients. To the extent these changes led to some increased costs, these costs would, to some degree, be offset by new taxes paid by those new clients who would enter the workforce.

Due to the many assumptions contained in the analysis, there is not a definitive answer as to the costs and cost offsets of this bill; thus, the fiscal impact is indeterminate. There is the potential for significant costs and significant cost offsets.

The most obvious cost increase is the increase in the Medicaid population due to the expanded eligibility for the Freedom to Work program proposed by the bill. This would not be as costly as one would assume at first glance because many of those who would become eligible for the program are already on Medicaid. If a person who is presently SSI eligible and thus Medicaid eligible takes a job and continues to receive Medicaid benefits under Freedom to Work, there is no increase in Medicaid expenditures. On the other hand, if someone who is presently not eligible for Medicaid due to income or assets were to become eligible under the bill's changes to the Freedom to Work program, there would be a cost increase to the State in the range of $3,000 GF/GP per case (based on Medicaid capitation rates for disabled individuals and the Medicaid match rate).

Premium revenue is one of the key offsets to costs. Individuals with incomes greater than 138% of the FPL for a single adult (about $15,400) would pay a premium equal to 7.5% of their income. For a Freedom to Work client with an income of $25,000 per year, this would equate to $1,875. Since the bill would expand the current program, the increase in revenue due to the bill would be the estimated revenue from the new premiums less the current premium collections.

Some of the people who would be eligible for the expanded program are from the Medicaid "spend down" population, who are Medicaid eligible only for part of each month. Advocates have noted that shifting from a spend down eligibility to a categorical eligibility would reduce the workload for Department of Human Services (DHS) caseworkers. However, without any specific plans to reduce DHS staff as a result of this bill, no savings from a reduction in workload can be assumed.

Individuals with greater income would pay more in income taxes and presumably would be able to purchase more items subject to the sales and use taxes. Due to the many exemptions and credits involved, estimating increased income tax revenue is not as simple as multiplying the increase in income by the 4.35% income tax rate. Similarly, due to the exemption of food, drugs, and services from the sales tax, estimating increased tax revenue is not as simple as multiplying the increased income by the 6.0% sales and use tax rate. In the end, the increase in revenue from the income, sales, and use taxes is likely in the range of 5.0% of the total increase in income.

Estimating the increased tax revenue requires one to estimate the increase in income for two subsets of the Freedom to Work cohort: Those who will not take a job under current law but who would take a job if the bill were enacted, and those who, in response to passage of the bill, would increase their hours worked. Those who are already working and did not change their hours worked after the bill passed would not pay more taxes to the State. In the end, as with the other items discussed here, it comes down to one's assumptions.

One way to look at this issue is to look at an admittedly oversimplified cohort of 100 individuals who would be eligible for the expanded Freedom to Work program and see how the numbers would work out. In this scenario, it is assumed that 50 of these people are already enrolled in Freedom to Work, that 25 of them are Medicaid recipients who would choose to start working due to the bill, and that 25 others are already working but would become Medicaid eligible due to the bill. It is also assumed that the Medicaid capitation cost for these individuals is $10,000 per person (with 34% of that being a State cost) and that 5.0% of their income will return to the State in income or sales taxes. Finally, it is assumed that one-third will earn $10,000, one-third will earn $20,000, and one-third will earn $30,000. Overall, the average income would be $20,000.

In this scenario, the 25 people who are already working would become Medicaid eligible, at a cost of $10,000 per person per year, or $250,000 Gross, $85,000 GF/GP.

Under the current system, premium revenue would be about $1,000 per person among the one-third of the original 50 people (rounded to 17) who earn $30,000 or $17,000. Under the proposed system, the one-third who earn $10,000 would pay no premium, while the two-thirds who earn $20,000 or $30,000 would pay 7.5% of their income as a premium, or $125,000. Thus, the net increase in premium revenue would be $108,000.

Finally, one must consider the taxes paid by those who are not working now but who would be working if the bill passed. This would apply to the 25 people who would start working, who would be earning an average of $20,000, for a total income of $500,000. Of that amount, 5.0% would be $25,000.

The total revenue gain from premiums and taxes would be $133,000, while the total GF/GP cost would be $85,000, for net savings of $48,000 for this cohort of 100.

This is not to state definitively that this would be the average net fiscal impact of the bill; it is just a simplified way to show how one could calculate the costs. The number is driven by the assumptions and good faith assumptions could lead to results showing a cost increase or a cost decrease. Therefore, the fiscal impact of the bill is indeterminate.

Date Completed: 9-13-12 Fiscal Analyst: Steve Angelotti