

Economic Effects of Expanding Home- and Community-Based Services in Medicaid

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Overview

H.R. 5376, the Build Back Better Act, as passed by the House of Representatives, includes several provisions that would result in new federal spending for home- and community-based services (HCBS) provided through Medicaid. Those provisions would increase federal deficits by \$150 billion from 2022 to 2031, the Congressional Budget Office estimates.¹

In addition to the effect on the federal budget, those provisions would affect states, caregivers, and people who use HCBS. This document describes the key channels through which those changes could affect the economy—answering some questions asked by Members of Congress. Understanding those channels would be important for identifying any potential effects on the agency’s economic forecast if such policies were enacted. The document also describes channels through which such policies could continue to affect the labor market in the longer run.

If those policies were enacted, the number of workers providing those services would grow, and their earnings would increase. Some people who are currently providing HCBS to family members would be paid for that work, and some would return to their primary occupations. In anticipation of lower costs for such services in the future, some people might save less today.

This document does not examine economic effects that would arise from how the additional spending was financed.

¹ That estimate applies to Rules Committee Print 117-18 incorporating a manager’s amendment by Congressman Yarmuth. See Congressional Budget Office, “Estimated Budgetary Effects of Title III, Committee on Energy and Commerce, H.R. 5376, the Build Back Better Act” (November 17, 2021), www.cbo.gov/publication/57623.

Background—Home- and Community-Based Services

HCBS are long-term services and supports (LTSS) provided to people with significant physical and cognitive limitations who need assistance with the activities of daily living (ADLs). HCBS allow people to remain in their homes or in home-like settings and to be active in their community.

HCBS encompass an extremely broad range of services, such as these:

- Personal care (direct assistance in performing ADLs),
- Home health,
- Private duty nursing,
- Adult day care, and
- Supported employment.

People receive HCBS in the following ways:

- Family, friends, or charitable organizations provide services for which they are not paid.
- Direct care workers, who tend to have low wages and to be relatively low-skilled, provide paid care.

Background—Home- and Community-Based Services in Medicaid

About two-thirds of paid HCBS is financed through Medicaid, which is funded jointly by the states and the federal government. All states provide some HCBS, but individual state programs differ markedly in terms of what services they offer, who is eligible to receive those services, and how much direct care workers are paid.

State programs share some common eligibility rules. All recipients must have very low income, few assets, and significant functional limitations.

Medicaid provides states with several options that allow people to factor in their spending on health care and LTSS when establishing eligibility. In states that have established such programs, some people whose financial resources would otherwise be too great are able to meet financial eligibility criteria after subtracting their spending on health care and LTSS. However, in CBO's assessment, the limited scope of services leads some people who might be eligible for Medicaid if they needed LTSS to save enough to purchase HCBS privately.

Home health services are the only benefits states are required to provide. Other HCBS benefits are optional. If states opt to provide other benefits, they generally limit the number of people receiving certain benefits or the amount of spending on specific services.

Many states use wait lists to keep track of people who would like to receive HCBS but cannot do so because of states' limits on the number of users or spending on HCBS. In 2018, 41 states had wait lists totaling nearly 1 million people. The number of people grew by an average of 10 percent per year from 2002 to 2018.

Home- and Community-Based Services—User Eligibility

Under H.R. 5376, services would be available to those Medicaid beneficiaries living in participating states who met the following criteria:

- They had income and assets lower than their state’s requirements for Medicaid (the maximum income and assets might increase in some states under the legislation).
- They met their state’s functional eligibility criteria for Medicaid HCBS (which might become more inclusive under the legislation). Beneficiaries generally would have to demonstrate that they
 - Needed a level of care equivalent to that provided in a nursing facility or other institution, or
 - Had limitations on a specific number of ADLs, which are defined on a state-by-state basis.

How Caregivers' Earnings and Employment Would Be Affected

The total amount of HCBS that people used would increase, and the employment of direct care workers who provide HCBS funded by Medicaid would increase to cover additional services and enrollees.

CBO expects that wage increases would be sufficient to increase the supply of workers to cover those hours once the policy was fully implemented. (Wages would also increase in other sectors of the economy employing workers with similar skills.) The total labor supply—including HCBS and other sectors—would increase.

The earnings of most paid caregivers and many unpaid caregivers would increase.

- Direct care workers would receive higher wages and work more hours.
- Some of those caregivers who are currently unpaid would be paid for the care they provided to family or friends.
- Some people who are currently providing unpaid care, such as a daughter or son with an elderly parent, would return to their primary occupation if paid care became available, thus increasing their earnings.
- Some people who would have provided unpaid care under current law would be less likely to leave their primary occupation when relatives or friends developed the need for HCBS, which would increase their earnings.

How Spending on Health Care Would Be Affected

Medicaid spending on HCBS would increase to meet the following goals:

- Raising the wages of direct care workers;
- Expanding Medicaid's funding of existing HCBS spending, which would reduce the out-of-pocket costs for users;
- Providing paid HCBS in place of unpaid HCBS; and
- Providing paid HCBS for some people who would otherwise live in an institution.

CBO estimates that Medicaid payment rates for institutional LTSS would also increase so that facilities did not lose too many workers because of higher payment rates in home-based settings. CBO also expects that Medicaid would realize savings because some recipients would use HCBS rather than institutional care (which is generally more expensive), but those savings would be much smaller than the increased costs of institutional care arising from the higher payment rates.

CBO expects that the rates that Medicare or other users pay for HCBS would not change because those rates are substantially higher than Medicaid's rates under current law.

How Some People Would Change Their Decisions About Spending and Saving

Caregivers would use the additional income they received to both spend and save more.

Increasing the scope and amount of HCBS available to Medicaid beneficiaries and increasing the number of people who would be eligible would reduce expected out-of-pocket expenses for LTSS for many people.

The reductions in expected out-of-pocket expenses would cause some people to save less money for future LTSS needs and increase their spending on other goods and services.

About This Document

This document was prepared to enhance the transparency of the Congressional Budget Office's work and to encourage external review of that work. In keeping with CBO's mandate to provide objective, impartial analysis, the document makes no recommendations.

Alice Burns, Justin Falk, and Jaeger Nelson prepared the document with assistance from Julia Heinzl and guidance from Xiaotong Niu and Julie Topoleski. Molly Dahl, Sebastien Gay, and Jeffrey Werling provided comments, and Daniel Barczyk of McGill University provided feedback on an earlier draft. Participants in the June 2021 meeting of CBO's Panel of Economic Advisers also commented on the analytical approach. The assistance of external reviewers implies no responsibility for the final product; that responsibility rests solely with CBO.

Mark Doms, Jeffrey Kling, and Robert Sunshine reviewed the document. Caitlin Verboon edited it and prepared the text for publication. The document is available on CBO's website at www.cbo.gov/publication/57632.

CBO seeks feedback to make its work as useful as possible. Please send comments to communications@cbo.gov.