



Legislative Fiscal Bureau

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TO: Senator Jon Erpenbach
Room 310 South, State Capitol

FROM: Jon Dyck, Supervising Analyst

SUBJECT: Fiscal Effect of Full Medicaid Expansion on January 1, 2020

At your request, this memorandum provides an estimate of the fiscal effect in the 2019-21 biennium if the state were to adopt "full expansion" of Medicaid eligibility under the federal Affordable Care Act (ACA). For the purposes of this estimate, it is assumed that the full expansion would take effect on January 1, 2020.

BACKGROUND

The ACA made multiple changes to the private insurance market in the United States and to state Medicaid programs. As passed in 2010, the ACA would have required state Medicaid programs to cover all adults under the age of 65, in households with income up to 133% of the federal poverty level (FPL), beginning January 1, 2014.* The ACA also provides enhanced federal matching funds for services provided to any "newly-eligible" group that did not qualify for full Medicaid coverage prior to December 1, 2009. For newly-eligible individuals, the federal government funds 100% of benefit costs in calendar years 2015 and 2016, 95% in 2017, 94% in 2018, 93% in 2019, and 90% in 2020 and subsequent years. In Wisconsin, the percentage of most Medicaid benefit costs paid by the federal government (the federal medical assistance percentage, or FMAP) is currently approximately 59%.

The requirement that states expand Medicaid eligibility standards was one subject of the U.S. Supreme Court decision in *National Federation of Independent Business et al v. Sebelius*. The Court found the mandatory expansion of Medicaid coverage unconstitutional. As a result, each state may decide whether to expand its Medicaid program to the levels described in the ACA, and claim the enhanced federal matching funds for services provided to newly-eligible individuals.

* For the purposes of determining Medicaid eligibility under the ACA, household income equals modified adjusted gross income, plus an income disregard equal to 5% of the FPL, effectively setting the income standard for a full expansion at 138% of the FPL.

Medicaid income eligibility standards for nonelderly, nondisabled adults vary widely among states. In Wisconsin, prior to the 2013-15 biennial budget, parents and caretaker relatives (referred to in this memorandum collectively as "parents") with household income under 200% of the FPL qualified for full BadgerCare Plus coverage, while adults without dependent children ("childless adults") did not qualify for Medicaid coverage (with limited exceptions). For that reason, under a full Medicaid expansion, services provided to parents in Wisconsin would be funded with the standard FMAP of approximately 59%, and services for childless adults would be funded with the enhanced FMAP for newly-eligible individuals.

The Legislature considered the issue of Medicaid eligibility standards for nondisabled, non-elderly adults as part of the 2013-15 biennial budget and subsequent legislation, and adopted the Governor's recommendations to establish the standard at 100% of the FPL, effective April 1, 2014. This reduced the eligibility standard for parents from 200% to 100% of the FPL, while providing eligibility for all childless adults with income up to 100% of the FPL. This policy is commonly referred to as a "partial expansion" of the Medicaid program, since the income eligibility level was set at a level lower than specified in the ACA. The enhanced FMAP for newly-eligible populations is only available to states that implement a full expansion, so the standard FMAP applies to the cost of most services provided to childless adults enrolled in BadgerCare Plus.

FULL EXPANSION ON JANUARY 1, 2020

Under a partial expansion scenario, the costs that the state incurs for coverage of childless adults with household income up to 100% of the FPL is eligible for federal matching funds at the standard FMAP of approximately 59%. With full expansion in 2020, these costs would be eligible for 90% federal matching rate. Consequently, because of the higher FMAP under a full expansion scenario, the state could realize state GPR savings by replacing GPR funds with federal funds.

These GPR savings would be partially offset by the additional state costs arising from expanding coverage for parents. In order to qualify for the ACA enhanced matching rate under the full expansion scenario, the state would be required to establish the income eligibility threshold for parents at 133% of the FPL, rather than the current threshold of 100% of the FPL. Since parents are not considered a "newly-eligible" group under the ACA, the costs associated with covering parents between 100% of the FPL and 133% of the FPL would be subject to the standard FMAP rather than the enhanced FMAP, and the state's share of the expanded coverage for parents would be an additional GPR cost.

The following table provides the estimated net change to MA benefit expenditures for the 2019-21 biennium by fund source if the state were to adopt full expansion, beginning on January 1, 2020 (an 18-month impact). As shown in the final column, GPR expenditures would be reduced by an estimated \$279.4 million over the biennium, relative to the current law baseline. Federal Medicaid expenditures would be higher by \$792.6 million and MA expenditures from all funds would be higher by \$513.2 million over the biennium. These estimates are based on caseload and cost projections for MA included in the Department of Health Services' 2019-21 agency budget request.

Fiscal Change Associated with Full Expansion on January 1, 2020
Parents and Childless Adult Benefit Costs
(\$ in Millions)

<u>Fund Source</u>	<u>2019-20</u>	<u>2020-21</u>	<u>Biennial Total</u>
GPR	-\$94.5	-\$184.9	-\$279.4
FED	<u>247.4</u>	<u>545.2</u>	<u>792.6</u>
Total	\$152.9	\$360.3	\$513.2

It is estimated that once the full expansion is fully phased in, MA would cover approximately 76,000 additional parents and childless adults.

I hope that this information is helpful. Please contact me with any further questions.

JD/lb