Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: http://legis.wisconsin.gov/lfb

April 3, 2017

TO: Representative Peter Barca
Room 201 West, State Capitol

FROM: Jon Dyck, Supervising Analyst

SUBJECT: Fiscal Effect of Full Medicaid Expansion -- April, 2014 through the 2017-19 Biennium

At your request, this memorandum provides an estimate of the state fiscal effect of the state's decision to adopt a partial expansion of Medicaid eligibility for low-income adults in 2014, relative to a "full expansion" scenario under provisions of the federal Affordable Care Act (ACA). For the purposes of this estimate, the period examined is the 2013-15 and 2015-17 biennia, plus the continuing impact through the end of the 2017-19 biennium. The beginning date for the full expansion scenario is assumed to be April 1, 2014, the date that the state's partial expansion took effect.

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) has been approximately 58% to 59% in the past few years.

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

* 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.

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.

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 58% to 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 April 1, 2014

Under a partial expansion scenario, the costs that the state has incurred (and will incur in the future) for coverage of childless adults with household income up to 100% of the FPL have been eligible for federal matching funds at the standard FMAP of approximately 58% to 59%. With full expansion, these costs would have been eligible for the enhanced ACA federal matching rate in the 2013-15 and 2015-17 biennia (100% in calendar years 2014, 2015, and 2016 and 95% in calendar year 2017), and would continue be eligible for enhanced matching rates in the 2017-19 biennium (94% in 2018 and 93% in 2019). Consequently, because of the higher FMAP, the state could have realized state GPR savings by replacing GPR funds with federal funds if it had adopted the full expansion.

These GPR savings are partially offset by the additional state costs arising from two sources. First, in order to qualify for the ACA enhanced matching rate under the full expansion scenario, the state would have been 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. Second, beginning in 2017, the enhanced federal match declines, requiring the state to pay a portion of the cost of the coverage for the childless adult group. In calendar year 2017, the state share would be 5% and would increase annually thereafter until reaching 10% in 2020. Because the savings associated with replacing the standard FMAP with an enhanced ACA FMAP for currently-eligible childless adults is much larger than these additional costs, the state would realize net GPR savings by accepting the full expansion. [Given the magnitude of the childless adult savings, the state would also continue to realize savings into the future, even after the enhanced FMAP reaches 90%.]

The following table provides the estimated net fiscal effect of a full expansion in the 2013-15, 2015-17, and 2017-19 fiscal biennia, if the expansion had occurred on April 1, 2014 (the effective date of the partial expansion). As shown in the final column, over the three biennia (slightly more than five years of full implementation), GPR expenditures would be an estimated $1,070.4 million higher under partial expansion than they would be under the full expansion scenario, while federal expenditures would be $2,778.9 million higher under the full expansion scenario than under partial expansion.

Comparison of Current Law and Full Expansion on April 1, 2014
Non-pregnant, Non-disabled Adult Benefit Costs
($ in Millions)

	2013-15*	2015-17	2017-19	Total
GPR				
Current Law	$617.1	$1,069.0	$1,143.6	$2,829.7
Full Expansion	368.3	627.7	763.3	1,759.3
Difference	-$248.8	-$441.3	-$380.3	-$1,070.4
FED				
Current Law	$872.1	$1,497.1	$1,634.4	$4,003.6
Full Expansion	1,493.3	2,580.0	2,709.2	6,782.5
Difference	$621.2	$1,082.9	$1,074.8	$2,778.9
All Funds				
Current Law	$1,489.2	$2,566.1	$2,778.0	$6,833.3
Full Expansion	1,861.6	3,207.7	3,472.5	8,541.8
Difference	$372.4	$641.6	$694.5	$1,708.5

*Under this scenario, the full expansion would have occurred in April, 2014, so FY 2013-14 only includes expenditures made for BadgerCare adults in April, May, and June of 2014.

The fiscal estimates shown for the 2017-19 biennium are based on the baseline assumptions for medical assistance enrollment and costs included in the Governor's budget. In the coming weeks, this office will review the administration's enrollment and cost assumptions, and will develop a reestimate of the baseline program costs, if warranted. As the baseline estimate changes, the fiscal effect of the full expansion scenario would also change. Consequently, the fiscal estimate shown for the 2015-17 biennium should be considered preliminary.

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

JD/sas