



Legislative Fiscal Bureau

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March 9, 2021

TO: Senator Jon Erpenbach
Room 130 South, State Capitol

FROM: Jon Dyck, Supervising Analyst

SUBJECT: Estimate of Medicaid Expansion Incentive Funding Under American Rescue Plan Act of 2021

At your request, this memorandum provides an estimate of the federal incentive funding that the state would receive under a provision of the American Rescue Plan Act of 2021 (ARPA) for adopting full Medicaid expansion in the 2021-23 biennium.

BACKGROUND

Under the federal Affordable Care Act of 2010 (ACA), states are eligible for enhanced federal matching funds for coverage of "newly-eligible" adults under Medicaid. Initially, the federal medical assistance percentage (FMAP) was 100% for coverage of newly eligible adults, beginning in 2014, and then gradually decreased before reaching 90% in 2020 and thereafter. For the purposes of this provision, an eligibility group is considered newly eligible if the state did not provide full benefit coverage to all group members as of December 1, 2009. In order to qualify for the enhanced FMAP, a state must establish the Medicaid income eligibility threshold for non-elderly, non-disabled adults at 133% of the federal poverty level (FPL).¹ Thirty-eight states and the District of Columbia have adopted and implemented this standard or have adopted the standard with implementation pending.

Wisconsin has not adopted the full Medicaid expansion eligibility standard under the medical assistance (MA) program to qualify for the enhanced FMAP. Instead, since 2014 the state has established the income eligibility for adults at 100% of the FPL, and received federal matching funds at the state's standard FMAP of approximately 60%.² If the state were to increase the income eligibility standard for medical assistance from 100% of FPL to 133% of FPL, the coverage for

¹ By federal statute, the income threshold for full Medicaid expansion is 133% of the FPL. However, for the purposes of determining Medicaid eligibility, a standard income disregard equal to 5% of the FPL is applied, effectively setting the income standard for a full expansion at 138% of the FPL.

² Currently, the standard FMAP is subject to a temporary increase of 6.2 percentage points, applicable during the public health emergency related to the COVID-19 pandemic. With this adjustment, the state's FMAP is now approximately 66%.

adults without dependent children (hereafter "childless adults") would be eligible for the enhanced FMAP, instead of the standard FMAP, since childless adults were not eligible for full benefit coverage in 2009. Coverage for parents or caretaker relatives with dependent children in the household would continue to be subject to the standard FMAP since parents with household income up to 200% of the FPL were eligible for coverage in Wisconsin in 2009.

The Governor's 2021-23 biennial budget bill (AB 68/SB 111) includes provisions that would implement the full Medicaid expansion, effective July 1, 2021. The bill's GPR appropriation for MA benefits reflects estimated savings of \$635 million in the biennium (\$329 million GPR in 2021-22 and \$306 million GPR in 2022-23) resulting from the state becoming eligible for the 90% FMAP for childless adult coverage.

MEDICAID EXPANSION INCENTIVE UNDER AMERICAN RESCUE PLAN ACT

The U.S. Congress is considering legislation that would provide a financial incentive to adopt full Medicaid expansion for states that have not yet done so. Under the American Rescue Plan Act of 2021 (ARPA), any non-expansion state that adopts full Medicaid expansion would be eligible for a temporary 5.0 percentage point increase to the state's FMAP, applicable for the two years following implementation. The FMAP increase would apply to most Medicaid expenditures that would otherwise be subject to the standard FMAP. The increase would not apply to the FMAP for the newly-eligible expansion population, which would remain at 90%. It also would not apply to the FMAP applicable for children covered under the Children's Health Insurance Plan (CHIP) or to disproportionate share hospital payments.

Both the House of Representatives and the Senate have passed versions of ARPA. The Medicaid expansion incentive provision is included, in identical form, in both versions.

ESTIMATE OF FULL MEDICAID EXPANSION INCENTIVE PAYMENT FOR WISCONSIN

As noted above, provisions in the Governor's 2021-23 budget bill would implement the full Medicaid expansion in Wisconsin, effective July 1, 2021. The bill reflects the administration's estimates of GPR savings resulting from the state qualifying for a 90% FMAP for childless adult coverage. However, the state could realize additional GPR savings during the biennium from adopting full Medicaid expansion under the proposed ARPA incentive provision. The amount of the additional savings would ultimately depend upon whether the final bill contains other changes to the program, such as provider reimbursement rate changes or other benefit and eligibility changes. For the purposes of this memorandum, the GPR savings resulting from the ARPA incentive FMAP are calculated in relation to the program baseline, using the administration's 2021-23 enrollment and expenditure estimates as the basis of the estimates, but also including the adjustments associated with adopting full Medicaid expansion, since that is a prerequisite for receiving the incentive.

Based on these assumptions, it is estimated that the state would receive ARPA incentive funding, resulting in equivalent GPR savings, of \$510 million in 2021-22 and \$515 million in 2022-23, for a biennial total of \$1,025 million.

The GPR savings resulting from incentive funding would be distinct from the GPR savings associated with qualifying for the 90% FMAP for childless adult coverage, amounts that are already reflected in the Governor's bill. As noted, the incentive payments apply for two years, and so the associated GPR savings would be temporary. In this way the incentive differs from the impact of the state's qualifying for the 90% FMAP, which would reduce GPR expenditures on an ongoing basis, relative to the program baseline.

If the state were to become eligible for an incentive under ARPA, this would also affect the GPR cost for any provider reimbursement rate increases or other program changes that are adopted for the 2021-23 biennium. The Governor's bill includes several such MA program changes, with a total GPR cost of \$103.2 million in 2021-22 and \$185.2 million in 2022-23. With the incentive FMAP, the GPR cost for these changes would be reduced by an estimated \$11.3 million in 2021-22 and \$21.0 million in 2022-23.

Please contact me if you have additional questions.

JD/ml