



Legislative Fiscal Bureau

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TO: Senator Dianne Hesselbein
Room 3 South, State Capitol

FROM: Jon Dyck, Supervising Analyst

SUBJECT: Estimate of the Fiscal Effect of Adopting Full Medicaid Expansion in the 2025-27 Biennium

At your request, this memorandum provides an estimate of the state fiscal effect of adopting full Medicaid expansion at the start of the 2025-27 biennium. The estimate includes the ongoing reduction in GPR costs that would be associated with qualifying for an enhanced federal matching rate for childless adults, as well as the two-year 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. All estimates are shown in relation to the projected baseline costs for the program, which reflects the current law income eligibility thresholds.

The expenditure and enrollment projections that form the basis of the estimate are generally taken from the Department of Health Services' 2025-27 biennial budget request. These projections will be subject to revision with the introduction of the Governor's budget bill and legislative deliberations on the budget, which would, in turn, change the estimates contained in this memorandum. However, any such changes would not substantially change the magnitude of the fiscal effects.

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 138% of the federal poverty level (FPL).¹ Forty states and the District of Columbia have adopted and implemented this standard.

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%. If the state were to increase the income eligibility standard for medical assistance from 100% of FPL to 138% of FPL, the coverage for adults without dependent children ("childless adults") would become eligible for the 90% 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.

In addition to the ongoing GPR savings associated with adopting full Medicaid expansion, the state would become eligible for temporary federal incentive funding. Under the American Rescue Plan Act of 2021 (ARPA), any non-expansion state that adopts full Medicaid expansion is eligible for a 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. Under the scenario examined in this memorandum, this incentive funding would apply to both years of the 2025-27 biennium.

ESTIMATE OF ONGOING FISCAL EFFECT

With the implementation of full Medicaid expansion, the state would become eligible for the enhanced FMAP beginning on July 1, 2025. The following table shows the estimated GPR savings for each of the three fiscal years, the additional federal expenditures associated with full Medicaid expansion, and the net change on an all funds basis.

Estimated Funding Changes for the Medical Assistance Program with Full Medicaid Expansion on July 1, 2025 (\$ in Millions)

	<u>2025-26</u>	<u>2026-27</u>	<u>2025-27 Biennium</u>
GPR	-\$240	-\$250	-\$490
FED	<u>470</u>	<u>580</u>	<u>1,050</u>
All Funds	\$230	\$340	\$570

Note: Totals do not add due to rounding.

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.

As shown in the table, the state would realize GPR savings of \$490 million over the biennium. This fiscal effect reflects the impact of the state qualifying for a 90% FMAP for childless adults, net of the additional state cost associated with covering the expansion population. Since the GPR savings associated with the 90% FMAP exceed the additional cost of extending coverage, the net effect is a reduction in GPR costs, relative to the baseline. This effect would be ongoing, relative to the current law partial expansion scenario.

The fiscal effect shown in the table reflects assumptions on the enrollment growth that would occur with an increase to the MA income eligibility threshold to 138% of the FPL. Based on enrollment patterns seen in other states that have adopted full Medicaid expansion, it is estimated that adult enrollment would increase in Wisconsin by approximately 68,000 (once fully phased in), or by 37,000 for parents and caretaker relatives and by 31,000 for childless adults.

For its agency budget request for the 2025-27 biennium, the Department of Health Services also developed an estimate of the fiscal effect for full Medicaid expansion. While the Department's estimate differs somewhat from the estimate presented in this memorandum, the overall magnitude of the estimated fiscal impact is similar. The Department estimates the GPR savings at \$212 million annually, a difference of approximately \$28 million in 2025-26 and \$38 million in 2025-26, relative to the estimates presented in this memorandum. This difference can be attributed primarily to an assumption that enrollment would increase by 91,000 (61,000 for parents and caretaker relatives and 30,000 for childless adults), once fully phased in, which is about 34% higher than the projections used for this memorandum. Given that there is a degree of uncertainty with any Medicaid enrollment projections, the Department's estimates fall within a range of what could reasonably be expected with the adoption of full Medicaid expansion.

ESTIMATE OF FEDERAL INCENTIVE FUNDING

With the implementation of full Medicaid expansion, the state would qualify for the two-year ARPA incentive funding. Based on the projections of 2025-27 program costs under the baseline scenario prepared for its budget request, the Department estimates that the state would receive additional federal matching funds--resulting in equivalent reduction in GPR costs--of approximately \$625 million in 2025-26 and \$663 million in 2026-27, for a biennial total of \$1,288 million.

Please contact me if you have additional questions.

JD/ml