Legislative Fiscal Bureau

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TO: Senator Jon Erpenbach
Room 104 South, State Capitol

FROM: Sam Austin, Fiscal Analyst

SUBJECT: LRB Draft 1238/2: Alternative Option for Full Medicaid Expansion under the ACA

At your request, this memorandum provides a summary and preliminary fiscal estimate of LRB Draft 1238/2 ("the bill") that would establish a premium assistance program to purchase private insurance coverage for parents, caretaker relatives, and adults without dependent children with household income between 100% and 133% of the federal poverty level (FPL), and would require the Department of Health Services to seek enhanced federal Medicaid matching funds to support the program. This represents an alternate option for a "full expansion" of Medicaid coverage in Wisconsin under provisions of the Patient Protection and Affordable Care Act (ACA).

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 FPL, beginning January 1, 2014. [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.]

The ACA also provides enhanced federal matching funds for 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 current percentage of most Medicaid benefit costs paid by the federal government (the federal medical assistance percentage, or FMAP) is approximately 58%.

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.

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 (hereafter, "parents") with household income under 200% of the FPL qualified for full BadgerCare Plus coverage, while adults without dependent children (hereafter, "childless adults") were not eligible for Medicaid coverage unless they had enrolled in the BadgerCare Plus Core Plan for childless adults with income under 200% of the FPL prior to enrollment in that program being capped in September, 2009. For that reason, under a full Medicaid expansion, services provided to parents in Wisconsin would be funded with the standard FMAP of approximately 58%, 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. (Adults with income between 100% and 400% of the FPL meet the income eligibility criteria for subsidized private insurance coverage purchased through the federal health insurance marketplace.) 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 of the cost of most services provided to childless adults enrolled in BadgerCare Plus.

Alternate Options for Full Medicaid Expansion. To date, 23 states and the District of Columbia have implemented a full expansion by adjusting the income eligibility limits for traditional Medicaid coverage for adults to conform with the ACA provisions. Five other states (Arkansas, Indiana, Iowa, Michigan, and Pennsylvania) have received federal approval to implement the expansion while making other changes not normally allowed under federal Medicaid law through a "waiver" of federal law. Other states are currently pursuing similar alternatives. These changes include charging premiums to enrollees, imposing cost-sharing requirements, requiring contributions to accounts that resemble health savings accounts, or using Medicaid funds to purchase private insurance coverage through a health benefits exchange established by the ACA.

Summary of LRB Draft 1238/2

The bill would require the Department of Health Services (DHS) to establish a premium assistance program to pay premiums (and any cost-sharing amounts) from moneys allocated for the Medicaid program for any eligible childless adult, parent, or caretaker relative to purchase coverage under a qualified health plan (QHP). The bill would define the following terms: (a) "eligible childless adult" as an individual who would qualify for current Medicaid coverage for childless adults, except his or her family income exceeds 100% of the FPL (but does not exceed

133% of the FPL); (b) "eligible parent or caretaker" as an individual who would qualify for Medicaid coverage for parents or caretakers, except his or her family income exceeds 100% of the FPL (but does not exceed 133% of the FPL); and (c) "qualified health plan" as a plan defined as such in the ACA that is offered through any American health benefits exchange that is operating in the state.

DHS, and the Office of the Commissioner of Insurance if necessary, would be required to ensure the following: (a) that an individual who becomes eligible for the existing Medicaid coverage program for parents and childless adults with income under 100% of the FPL, and who is enrolled in a QHP offered by an insurer that also offers a Medicaid managed care plan, may transition from the QHP to that managed care plan; and (b) that individuals eligible for the premium assistance program may enroll in QHPs throughout the year, and not solely during an open enrollment period determined by the federal government.

The bill would require DHS to submit any state Medicaid plan amendment, request for a waiver of federal law, or other request for approval required by the federal government to implement the premium assistance program, and to qualify for the highest available enhanced FMAP for individuals in the premium assistance program, and for any individuals currently covered in BadgerCare Plus. The bill would define "enhanced FMAP" as the FMAP for newly eligible individuals under the ACA (or under other ACA provisions related to enhanced FMAPs for non-newly eligible individuals) that was in effect on January 1, 2015. If DHS does not receive federal approval for a premium assistance program substantially similar to the program described in the bill, or does not qualify or ceases to qualify for an enhanced FMAP, the Department would be required to submit a fiscal analysis to the Joint Committee on Finance that compares the cost of the premium assistance program to the cost of only providing benefits under the current coverage for adults with income under 100% of the FPL. If JFC approves eliminating the premium assistance program, DHS would not be required to implement such program.

Preliminary Fiscal Estimate of LRB Draft 1238/2

The bill leaves considerable flexibility for DHS to determine the specific provisions of the program, which then would be subject to negotiations with the federal government. You requested a fiscal estimate of the proposal under the following assumptions of a hypothetical approved waiver: (a) the proposal would qualify as a "full expansion" of Medicaid under the ACA, and the state would receive the enhanced FMAP for all childless adults with income under 133% of the FPL; (b) participants would not be required to pay premiums to enroll in coverage; (c) participants would be subject to the same cost-sharing requirements that they would have been subject to had they enrolled in a silver plan on the exchange and received cost-sharing subsidies (that is, for a group of enrollees, the plan would on average cover 94% of benefits, and the enrollees would on average cover 6% through deductibles, copayments and coinsurance); and (d) the benefit package provided to enrollees is not supplemented to include certain services covered under traditional Medicaid but not normally covered by private insurance, such as non-emergency medical transportation. Table 1 provides a preliminary estimate of the fiscal effect and enrollment projections in each year of the 2015-17 biennium under these assumptions, if the proposal went into effect on January 1, 2016.

TABLE 1

Comparison of Current Law and Proposal, 2015-17 Biennium
Non-pregnant, Non-disabled Adults Benefit Costs
($ in Millions)

	2015-16	2016-17	Biennial Total
GPR			
Current Law	$550.9	$570.5	$1,121.4
Full Expansion	468.7	411.3	880.0
Difference	-$82.2	-$159.2	-$241.4
FED			
Current Law	$768.5	$793.6	$1,562.1
Full Expansion	1,093.2	1,647.1	2,740.3
Difference	$324.7	$853.5	$1,178.2
All Funds			
Current Law	$1,319.4	$1,364.1	$2,683.5
Full Expansion	1,561.9	2,058.4	3,620.3
Difference	$242.5	$694.3	$936.8

Average Monthly Enrollment,
Non-pregnant, Non-disabled Adults

	2015-16	2016-17
Current Law	324,000	325,000
Full Expansion	360,000	406,000
Difference	36,000	81,000

This estimate follows much of the methodology used for this office's previous estimates of a full Medicaid expansion under the ACA. The following information has been included in this projection: (a) updated BadgerCare Plus per-member per-month (PMPM) costs; (b) updated actual and projected BadgerCare Plus enrollment of adults with household income under 100% of the FPL; (c) updated projections of the standard FMAP in the 2015-17 biennium; and (d) an adjustment to the estimate of newly enrolled adults with income between 100% and 133% of the FPL.

Assuming that the state applies for and receives approval for the program with the enhanced FMAP for childless adults, this proposal would result in GPR savings by substituting federal for state expenditures for currently-enrolled childless adults (the state pays for 42% of that group's benefit costs under current law, but would receive the enhanced ACA FMAP under a full expansion). These savings would be partially offset by the increased cost of purchasing private coverage for parents at the standard FMAP, and for childless adults when the enhanced ACA

FMAP decreases to 95% in calendar year 2017. (The attachment to this memorandum provides a chart comparing the FMAPs and state costs under current law and the proposal.) The proposal, under your assumptions, would result in an estimated GPR expenditure decrease of $82.2 million in 2015-16 and $159.2 million in 2016-17, and a corresponding increase in federal spending of $324.7 million in 2015-16 and $853.5 million in 2016-17.

The major difference between a full Medicaid expansion that enrolls individuals in BadgerCare Plus (such as that analyzed by this office in August, 2014, and referred to hereafter as a "standard Medicaid expansion") and the proposal under the bill is in the manner of covering individuals with income over 100% of the FPL. In both scenarios, adults with income under 100% of the FPL would be covered under BadgerCare Plus, as would adults with income between 100% and 133% of the FPL under a standard Medicaid expansion. By contrast, for adults with income between 100% and 133% of the FPL, the bill would require DHS to use Medicaid funds to purchase a qualified health plan offered on the federal marketplace by a private insurer.

To estimate the average monthly cost of covering adults with income between 100% and 133% of the FPL under the assumptions you specified, this memorandum uses a weighted average PMPM cost, based on the age and geographic distribution of current BadgerCare Plus enrollees and marketplace premium data. The unweighted base cost uses an inflated platinum-level premium for each age range and geographic area to reflect the assumption that the plan would pay for 94% of medical costs once an individual is enrolled. This estimated weighted monthly cost equals $596.62 for parents, and $735.65 for childless adults.

These PMPM costs for the expansion population under the bill would exceed the PMPM cost of covering the same individuals under traditional Medicaid, due mainly to the difference between provider reimbursement rates under commercial insurance and public coverage. The updated BadgerCare Plus PMPM cost, provided by the Department of Health Services, is $273.67 for parents and $382.61 for childless adults. As a result, when compared to a standard Medicaid expansion, the proposal in the bill would result in a greater federal and all funds expenditures than a standard Medicaid expansion, and would generate smaller GPR savings.

There are multiple issues to consider in relation to your proposal, including the following:

- As the bill proposes to allocate Medicaid funding for purposes not generally allowed under federal law (that is, purchasing private insurance coverage for enrollees), the proposal would need to be approved by the federal Centers for Medicare and Medicaid Services (CMS) through a waiver of federal Medicaid law. The bill is generally silent on the features of the premium assistance program, providing considerable flexibility to DHS when applying for and negotiating with the federal government for approval of a waiver. The features of the program, and whether the federal government would approve of the waiver, depend on the outcome of these negotiations. If this bill is enacted, and the federal government approves a waiver with substantially different parameters than described above, the fiscal effect would likely change.

- The bill would not prohibit DHS from requiring enrollees with income above 100% of the FPL to pay some level of premium to enroll in the coverage. If the program contains premium requirements for the expansion population, this would reduce the estimated enrollment in the

program, since some percentage of the potential expansion population would decide not pay the premium. This would increase the state savings of the proposal, as the state would incur lower total costs of covering individuals with income above 100% of the FPL while still generating state savings by receiving the enhanced FMAP for childless adults with income under 100% of the FPL. Under your assumptions, since there is no financial barrier to entering or remaining in the program, total enrollment is assumed to equal that under a standard Medicaid expansion.

- Under the assumptions you provided for this fiscal estimate, enrollees would be subject to higher cost sharing requirements (deductibles, copayments, and coinsurance) than what they would be subject to under an standard Medicaid expansion. Enrollees would be responsible for paying a larger share of medical services under the proposal, which would affect enrollee service utilization.

- This fiscal estimate only addresses the effect of your proposal on Medicaid benefit costs. Under an expansion, county income maintenance costs to process applications and manage ongoing enrollment would increase due to higher Medicaid caseload. To the extent that this proposal introduces additional complexity in the enrollment and monitoring of the expansion population, it could result in additional administrative costs compared to a standard Medicaid expansion.

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

SA/lb
Attachment

ATTACHMENT

Comparison of 2016 and 2017 Medicaid Coverage, Federal Matching Rates under Current Law and a Full Medicaid Expansion

Parents		
	Current Law	**Expansion Scenario**
Under 100% FPL	Covered at standard matching rate*	Covered at standard matching rate* *No change to state or federal cost*
100% FPL to 133% FPL	Not covered	Covered at standard matching rate * *Increased state and federal cost*

Childless Adults		
	Current Law	**Expansion Scenario**
Under 100% FPL	Covered at standard matching rate*	Covered at enhanced matching rate** *Reduced state cost* *Increased federal cost*
100% FPL to 133% FPL	Not covered	Covered at enhanced federal matching rate** *No state cost in 2016; increased state cost in later years* *Increased federal cost*

*Under the standard matching rate, federal funds cover approximately 58% of benefit costs in 2016 and 2017.
**Under the enhanced matching rate, federal funds cover 100% of benefit costs in 2016, and 95% in 2017.