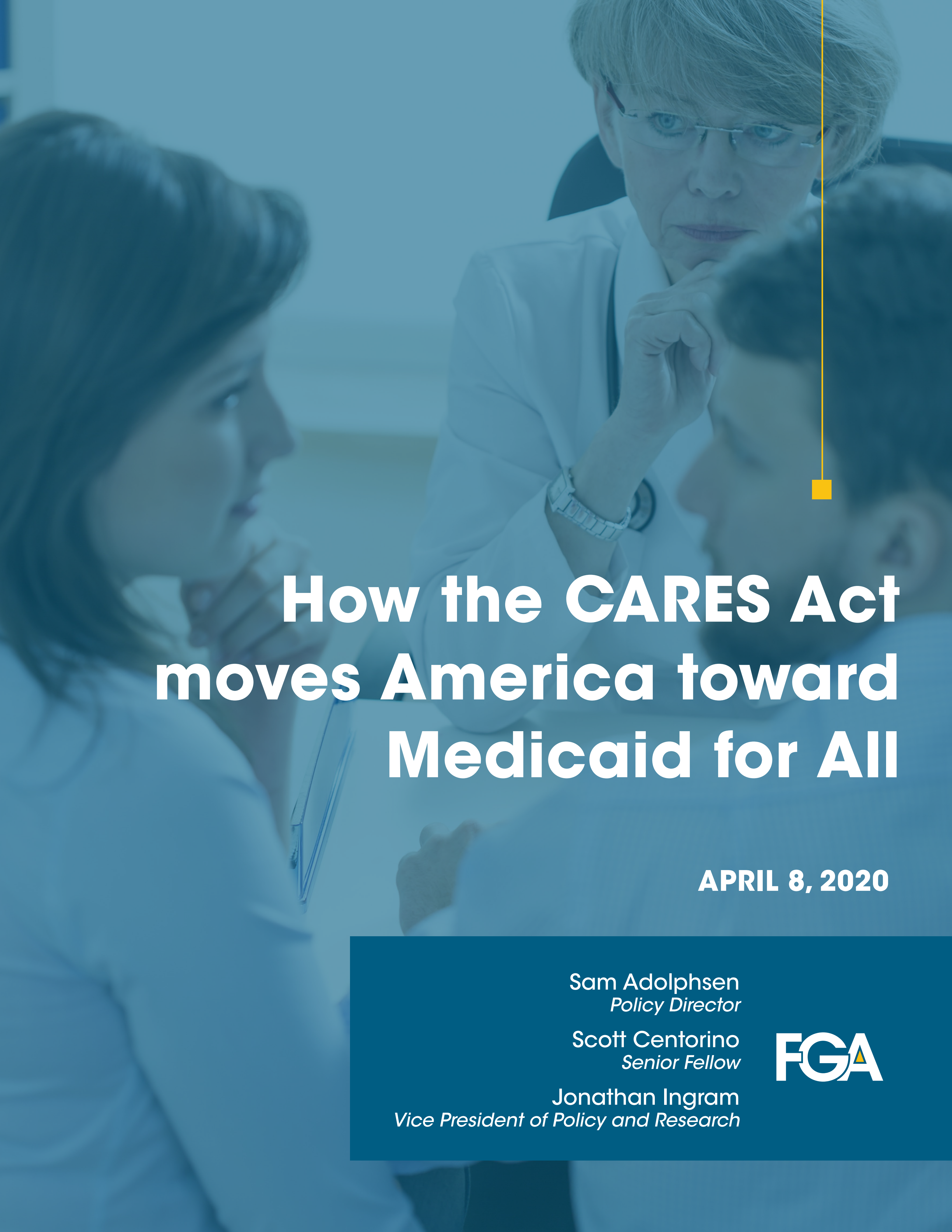


How the CARES Act moves America toward Medicaid for All

APRIL 8, 2020

Sam Adolphsen
Policy Director

Scott Centorino
Senior Fellow

Jonathan Ingram
Vice President of Policy and Research

KEY FINDINGS

1. THE CARES ACT CHANGES HOW MEDICAID TREATS UNEMPLOYMENT INSURANCE (UI) INCOME.

2. BY NOT COUNTING $600 PER WEEK IN UI AS INCOME, THE CARES ACT DRAMATICALLY EXPANDS MEDICAID ELIGIBILITY.

3. MEDICAID BUDGETS STRAINED HEAVILY BY ENROLLMENT INCREASES WILL NOW BE COVERING PEOPLE WITH INCOME UP TO THREE TIMES THE FEDERAL POVERTY LINE.

4. UNEMPLOYED WORKERS WILL LOSE FEDERAL SUBSIDIES FOR PRIVATE INSURANCE AND BE FORCED ON TO MEDICAID.

5. SHIFTING MILLIONS ONTO MEDICAID MEANS CASH-STRAPPED HOSPITALS WILL RECEIVE LOWER REIMBURSEMENT RATES.

BOTTOM LINE:

CONGRESS MUST PROTECT THE MEDICAID SAFETY NET FOR THE TRULY NEEDY AND TREAT PANDEMIC UI BENEFITS LIKE ALL OTHER UI BENEFITS.

Overview

In March 2020, Congress passed a series of bills to respond to the COVID-19 public health emergency, including the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).[1] Included in the $2 trillion-dollar spending package were sweeping changes made to the Unemployment Insurance (UI) program.[2-3] To get dollars into the hands of Americans who are suddenly out of work, the law massively expanded the program's eligibility and increased the amount and duration of benefits.[4] But a hidden provision buried in the new law will lead to a massive expansion of the welfare state as Medicaid forces its way into the middle class.

A HIDDEN PROVISION IN THE CARES ACT WILL LEAD TO A MASSIVE EXPANSION OF MEDICAID

The CARES Act expanded unemployment insurance

UI benefits are generally designed to provide temporary assistance to covered workers who become unemployed through no fault of their own.[5] The average UI benefit in January 2020 was $370 per week, reflecting the program's intent to partially replace previous wages.[6] This amounts to more than $1,600 per month, or an annualized benefit of more than $19,000, enough to raise a family of two out of poverty.[7-8]

But the CARES Act expanded eligibility for UI benefits, extended benefit duration, and authorized a "pandemic" add on.[9] Self-employed individuals and independent contractors are now eligible for UI benefits and benefit duration was extended by 13 additional weeks.[10] Further, benefits were boosted by a staggering $600 per week.[11]

As a result, many individuals will now receive UI benefits far exceeding their previous earnings and are likely to be worse off financially if they return to work before their benefits expire.

To put it another way: **unemployment benefits now pay better than work for many Americans**.

This is the largest UI benefit boost in history. For context, the American Recovery and Reinvestment Act (ARRA), the stimulus bill enacted in 2009, boosted UI benefits by just $25 per week, compared to the $600 per week authorized in the CARES Act.[12]

A buried provision in the CARES Act massively expanded Medicaid

The CARES Act did much more than just give out extra cash: the law also mandated that states disregard the entire pandemic-related UI benefits bump when determining eligibility for Medicaid, even though regular unemployment benefits are countable income and are normally considered income under Medicaid rules.[13-14]

Under the new system, the average unemployed person is likely to receive nearly $1,000 per week—the equivalent of more than $50,000 annually.[15] This would put a family of two's income at nearly three times the federal poverty line.[16]

For context, the Office of Tax Analysis estimated in 2019 that roughly 55 percent of Americans have income below three times the federal poverty line.[17] But under the CARES Act, these individuals will now qualify for Medicaid, rather than exchange subsidies, because more than 60 percent of their income is completely disregarded.[18] No major welfare program has ever disregarded this much income. Even during the Great Recession, states only temporarily disregarded an additional $25 per week in UI benefits.[19] The result will be a massive increase in Medicaid enrollment, driving state budgets even further into crisis as single-payer Medicaid invades the middle class.

NO MAJOR WELFARE PROGRAM HAS EVER DISREGARDED THIS MUCH INCOME FOR MEDICAID ELIGIBILITY

State budgets are already on the brink of collapse

To make matters worse, many state budgets are already hemorrhaging cash as a result of the pandemic. New York, for example, projects its revenues will fall by up to $15 billion as a result of the COVID-19 public health emergency.[20] New Mexico could be facing a $1.5 billion shortfall.[21] Michigan's revenues could fall as much as $3 billion.[22]

In Colorado, officials are anticipating a revenue drop of nearly a billion dollars for the next fiscal year, while Missouri and Arkansas are scrambling to address shortfalls of nearly half a billion dollars each.[23-25] Moody's Analytics projects state general fund revenues will fall by at least 10 percent, with many states facing even deeper losses.[26]

State Medicaid costs are set to explode

Even without the COVID-19 aid restrictions, states are likely to see skyrocketing Medicaid costs, as businesses close and workers lose their jobs or have hours cut back. During the Great Recession, states saw Medicaid costs soar as enrollment grew. Between 2008 and 2013, Medicaid costs grew by nearly 30 percent—and that was before ObamaCare created a new eligibility group for able-bodied adults.[27] If the economic fallout from the COVID-19 public health emergency is worse than the Great Recession—as initial unemployment claims seem to indicate—state Medicaid programs could be facing an even bigger crisis.

Indeed, over the week ending March 21, more than 3.3 million people filed initial unemployment claims.[28] The following week, another 6.6 million people filed initial claims.[29] Before March 2020, no more than 695,000 people had ever filed initial claims in a single week in the entire history of the UI program.[30] The Federal Reserve Bank of St. Louis estimates as many as 50 million Americans could soon become unemployed.[31] Many of these individuals will soon be walking through the front door of state Medicaid programs and the CARES Act will make millions of them eligible, even if they have income three times the poverty line.

> "Many of these individuals will soon be walking through the front door of state Medicaid programs and the CARES Act will make millions of them eligible, even if they have income three times the poverty line."

States are trapped

A separate provision in the Families First Coronavirus Response Act (FFCRA) will make the situation even worse for state budgets. Under FFCRA, states seeking COVID-19 aid cannot remove anyone enrolled in Medicaid, even when those individuals go back to work or otherwise become ineligible.[32] These restrictions are supposed to sunset when the COVID-19 aid ends, but based on past experience, it is possible that these restrictions could extend well beyond that date.[33]

At the same time state revenues are plummeting and Medicaid costs are soaring from the downturn, Congress is forcing states to add millions of people with incomes far above Medicaid eligibility limits and prohibiting them from removing ineligible enrollees. Unable to make meaningful changes to Medicaid eligibility standards, methodologies, or procedures, states will be forced into other ways to control costs, such as slashing reimbursement rates to hospitals, nursing homes, and other providers.[34]

STATES MAY BE FORCED TO SLASH REIMBURSEMENT RATES TO HOSPITALS, NURSING HOMES, AND OTHER PROVIDERS

Millions of Americans will lose private coverage

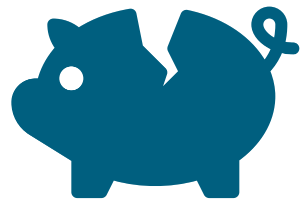
Workers losing their employer-sponsored health insurance as businesses close and they are laid off would usually qualify for a special enrollment period to buy coverage in the individual market. With the average unemployed worker collecting nearly $1,000 per week in benefits, these individuals would usually qualify for federal subsidies to buy private coverage.[35] But individuals are only eligible for premium subsidies if they are "not eligible for minimum essential coverage," including government programs such as Medicaid.[36] In fact, federal law requires HealthCare.gov to assess individuals' eligibility for Medicaid and submit Medicaid applications on their behalf if it determines them eligible.[37]

Because the CARES Act specifically exempted the additional UI benefit for Medicaid eligibility purposes, millions of people who would otherwise be eligible for exchange subsidies will instead be forced out of private insurance and into state Medicaid programs.

Hospitals will face massive losses from the Medicaid cost shift

Shifting millions of Americans out of private insurance and into Medicaid will mean massive losses for hospitals almost immediately. Medicaid reimburses hospitals at far lower rates than private insurers, paying roughly 60 percent of what private insurance pays, even after accounting for supplemental payments.[38] This means that hospitals will lose an average of 40 percent of the revenues they would otherwise earn for these new Medicaid enrollees who would otherwise have private coverage.

Worse yet, hospitals report that those reimbursement rates are below the actual cost to treat Medicaid patients.[39] When states expanded Medicaid to able-bodied adults under ObamaCare, they experienced massive payment shortfalls associated with Medicaid.[40] The Medicaid provisions in the FFCRA and the CARES Act will supersize these shortfalls and put hospitals on even weaker financial footing.



THE MEDICAID PROVISIONS IN THESE ACTS WILL SUPERSIZE SHORTFALLS AND WEAKEN HOSPITALS FINANCIALLY

Bottom line: Congress should fix this massive welfare expansion

A hidden provision in the CARES Act expanded Medicaid welfare eligibility to the middle class, forcing states to ignore roughly $2,600 per month in UI benefits that would otherwise be countable. This expansion will lead to millions of new Medicaid enrollees and financial calamity for states at a time when they can least afford it, siphoning away resources from the truly needy. Worse yet, the CARES Act will force millions of individuals out of private coverage and into Medicaid, pushing massive financial losses onto hospitals. Congress should immediately fix the problem and treat the additional UI benefit the same as all other UI benefits.

REFERENCES

1. Public Law 116-136 (2020), https://www.congress.gov/116/bills/hr748/BILLS-116hr748enr.pdf.
2. Ibid.
3. Elaine Pofeldt, "The historic $2 trillion CARES Act will be an economic lifeline for gig workers and freelancers," CNBC (2020), https://www.cnbc.com/2020/03/30/cares-act-will-be-an-economic-lifeline-for-gig-workers-freelancers.html.
4. Public Law 116-136 (2020), https://www.congress.gov/116/bills/hr748/BILLS-116hr748enr.pdf.
5. Employment and Training Administration, "Unemployment Insurance overview," U.S. Department of Labor (2019), https://oui.doleta.gov/unemploy/docs/factsheet/UI_Program_FactSheet.pdf.
6. Employment and Training Administration, "Unemployment insurance monthly program and financial data," U.S. Department of Labor (2020), https://oui.doleta.gov/unemploy/claimssum.asp.
7. Authors' calculations based upon data provided by the U.S. Department of Labor on average weekly benefits, multiplied by 52 weeks for an annualized value, divided by 12 months for a monthly value.
8. Office of the Secretary, "Annual update of the HHS poverty guidelines," U.S. Department of Health and Human Services (2020), https://www.govinfo.gov/content/pkg/FR-2020-01-17/pdf/2020-00858.pdf.
9. Public Law 116-136 (2020), https://www.congress.gov/116/bills/hr748/BILLS-116hr748enr.pdf.
10. Ibid.
11. Ibid.
12. Public Law 111-5 (2009), https://www.congress.gov/111/plaws/publ5/PLAW-111publ5.pdf.
13. Public Law 116-136 (2020), https://www.congress.gov/116/bills/hr748/BILLS-116hr748enr.pdf.
14. Centers for Medicare and Medicaid Services, "MAGI 2.0: Building MAGI knowledge," U.S. Department of Health and Human Services (2016), https://www.medicaid.gov/state-resource-center/mac-learning-collaboratives/downloads/part-2-income.pdf.
15. Authors' calculations based upon data provided by the U.S. Department of Labor on average unemployment compensation benefits and the additional $600 per week authorized in the CARES Act. See, e.g., Employment and Training Administration, "Monthly program and financial data," U.S. Department of Labor (2020), https://oui.doleta.gov/unemploy/claimssum.asp.
16. Authors' calculations based upon federal poverty levels in calendar year 2020. See, e.g., Office of the Secretary, "Annual update of the HHS poverty guidelines," U.S. Department of Health and Human Services (2020), https://www.govinfo.gov/content/pkg/FR-2020-01-17/pdf/2020-00858.pdf.
17. Authors' calculations based upon data provided by the U.S. Department of the Treasury. See, e.g., Office of Tax Analysis, "2019 budget midsession review estimates: Types of coverage, ESI, and PTC," U.S. Department of the Treasury (2019), https://home.treasury.gov/system/files/131/Treasurys-Baseline-Estimates-of-Health-Coverage-FY-2020.pdf.
18. Public Law 116-136 (2020), https://www.congress.gov/116/bills/hr748/BILLS-116hr748enr.pdf.
19. Public Law 111-5 (2009), https://www.congress.gov/111/plaws/publ5/PLAW-111publ5.pdf.
20. Jimmy Vielkind, "Coronavirus could cut New York state revenue by up to $15 billion, Cuomo aide warns," Wall Street Journal (2020), https://www.wsj.com/articles/coronavirus-crisis-could-cut-new-york-state-revenue-by-up-to-15-billion-cuomo-aide-warns-11585056388.
21. Patrick Hayes, "New Mexico expected to face budget shortfall amid COVID-19 outbreak, falling oil prices," KOB-4 (2020), https://www.kob.com/new-mexico-news/new-mexico-expected-to-face-budget-shortfall-amid-covid-19-outbreak-falling-oil-prices/5688978.
22. Amanda Albright et al., "Billion-dollar blows to U.S. states crater spending plans," Bloomberg (2020), https://www.bloomberg.com/news/articles/2020-04-01/billion-dollar-blows-to-u-s-states-crater-spending-plans.
23. Sophie Quinton, "'We have no money:' Coronavirus slams state taxes," Stateline (2020), https://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2020/04/02/we-have-no-money-coronavirus-slams-state-taxes.
24. Summer Ballentine, "Missouri governor cuts spending as virus hits economy," KMOV (2020), https://www.kmov.com/news/missouri-governor-cuts-spending-as-virus-hits-economy/article_f667da94-b728-5a15-ad97-7077fa49a819.html.
25. Daniel Breen, "Arkansas faces $353 million budget shortfall as COVID-19 cases rise to 174," KUAR (2020), https://www.ualrpublicradio.org/post/arkansas-faces-353-million-budget-shortfall-covid-19-cases-rise-174.
26. Amanda Albright et al., "Billion-dollar blows to U.S. states crater spending plans," Bloomberg (2020), https://www.bloomberg.com/news/articles/2020-04-01/billion-dollar-blows-to-u-s-states-crater-spending-plans.
27. Authors' calculations based upon data provided the U.S. Department of Health and Human Services on total Medicaid expenditures between fiscal years 2008 and 2013. See, e.g., Centers for Medicare and Medicaid Services, "2017 actuarial report on the financial outlook for Medicaid," U.S. Department of Health and Human Services (2019), https://www.cms.gov/Research-Statistics-Data-and-Systems/Research/ActuarialStudies/Downloads/MedicaidReport2017.pdf.
28. Employment and Training Administration, "Unemployment insurance weekly claims," U.S. Department of Labor (2020), https://oui.doleta.gov/press/2020/040220.pdf.
29. Ibid.
30. Employment and Training Administration, "Unemployment insurance weekly claims data," U.S. Department of Labor (2020), https://oui.doleta.gov/unemploy/claims.asp.
31. Miguel Faria-e-Castro, "Back-of-the-envelope estimates of next quarter's unemployment rate," Federal Reserve Bank of St. Louis (2020), https://www.stlouisfed.org/on-the-economy/2020/march/back-envelope-estimates-next-quarters-unemployment-rate.

32. Public Law 116-127 (2020), https://www.congress.gov/116/bills/hr6201/BILLS-116hr6201enr.pdf.
33. Jonathan Ingram et al., "Extra COVID-19 Medicaid funds come at a high cost to states," Foundation for Government Accountability (2020), https://thefga.org/research/covid-19-medicaid-funds.
34. Ibid.
35. 26 C.F.R. § 1.36B-2 (2018), https://www.govinfo.gov/content/pkg/CFR-2018-title26-vol1/pdf/CFR-2018-title26-vol1-sec1-36B-2.pdf.
36. Ibid.
37. 42 C.F.R. § 435.1200 (2018), https://www.govinfo.gov/content/pkg/CFR-2018-title42-vol4/pdf/CFR-2018-title42-vol4-sec435-1200.pdf.
38. John D. Shatto & M. Kent Clemens, "Projected Medicare expenditures under an illustrative scenario with alternative payment updates to Medicare providers," U.S. Department of Health and Human Services (2018), https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/2018TRAlternativeScenario.pdf.
39. American Hospital Association, "TrendWatch chartbook: Trends affecting hospitals and health systems," American Hospital Association (2018), https://www.aha.org/system/files/2018-07/2018-aha-chartbook.pdf.
40. Jordan Roberts and Nicholas Horton, "Five key signs ObamaCare expansion is not a silver bullet for hospitals," Foundation for Government Accountability (2020), https://thefga.org/research/obamacare-expansion-hospital-jobs.

15275 Collier Boulevard | Suite 201-279
Naples, Florida 34119
(239) 244-8808
TheFGA.org
@TheFGA