



Extra COVID-19 Medicaid funds come at a high cost to states

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KEY FINDINGS

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INCREASED FEDERAL MEDICAID FUNDING AS A RESULT OF THE COVID-19 OUTBREAK HAS MASSIVE STRINGS ATTACHED.

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STATES WILL ONLY BE ABLE TO RECEIVE THE FUNDING IF THEY AGREE NOT TO REMOVE ANY ENROLLEES, INCLUDING INELIGIBLE ENROLLEES, OR MAKE OTHER PROGRAM CHANGES.

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THIS INCREASED FUNDING IS LIKELY TO WORSEN THE FINANCIAL OUTLOOK FOR STATES THAT ARE ALREADY STRUGGLING DUE TO THE COVID-19 PANDEMIC.

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THE INCREASED FUNDING IS ALSO UNLIKELY TO OFFSET NEW MEDICAID COSTS AS A RESULT OF THE STRINGS ATTACHED.

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MEDICAID HAS ALSO BEEN EXPANDED DUE TO A NEW INCOME EXEMPTION, WHICH COULD ALLOW SOME ABLE-BODIED ADULTS EARNING NEARLY THREE TIMES THE POVERTY LIMIT TO ENROLL.

BOTTOM LINE:

CONGRESS SHOULD GIVE STATES MORE FLEXIBILITY TO DEAL WITH THE COVID-19 CRISIS.

Overview

In March 2020, Congress passed a series of bills to respond to the COVID-19 public health emergency, including the Families First Coronavirus Response Act (FFCRA) and the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).¹⁻²

In FFCRA, Congress increased the federal share of Medicaid costs by crafting a temporary increase in the federal medical assistance percentage (FMAP).³ Under the new law, states will receive a 6.2 percentage point bump to their FMAP rate through the end of the quarter in which the COVID-19 public health emergency ends.⁴ This FMAP bump applies only to traditional Medicaid enrollees and excludes Medicaid expansion costs.⁵

Federal taxpayers typically pay between 50 percent and 77 percent of traditional Medicaid costs, depending on the state, and pay roughly 90 percent of expansion costs.⁶⁻⁷ The FMAP bump in FFCRA is expected to provide states with an additional \$9 billion to \$10 billion per quarter.⁸⁻⁹

But this federal funding bump comes with massive strings attached. In order to receive it, states cannot remove even ineligible enrollees unless those enrollees request a voluntary termination.¹⁰ States are also blocked from strengthening eligibility standards, methodologies, or procedures and cannot increase premiums beyond those in effect in January 2020.¹¹ FFCRA also blocks states from requiring local governments to increase contributions to Medicaid.¹²

These provisions are far more restrictive than any other previous FMAP bump, including the 2009 stimulus bump, precisely because they require states to cover individuals who are not even eligible for Medicaid.

Ultimately, these restrictions will prevent some states from receiving COVID-19 aid, exacerbate state budget crises stemming from the pandemic, strip states of needed tools to manage Medicaid, rob resources from the truly needy, and bind states' hands for decades to come.



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FFCRA restrictions will prevent states from receiving COVID-19 aid

The harsh strings attached to the enhanced Medicaid funding will result in some states missing out on much-needed COVID-19 aid altogether.

Governor Cuomo, for example, recently explained that New York was not eligible for the FMAP bump as a result of these restrictions.¹³ New York was already experiencing a \$4 billion Medicaid budget shortfall, even before the COVID-19 public health emergency.¹⁴

Other states, including at least Kentucky, Mississippi, Missouri, North Carolina, Ohio, Oklahoma, Tennessee, West Virginia, and Wyoming, have statutory requirements that their Medicaid agencies quickly remove ineligible enrollees.¹⁵⁻²³ These states are faced with an impossible choice: ignore state laws and allow individuals who are not eligible for the program to siphon away limited resources from the truly needy while putting all other state budget priorities at risk in order to receive the FMAP bump, or forgo the COVID-19 aid altogether.

FFCRA's increased funding will be insufficient to cover new Medicaid costs

Even worse, it is likely that the additional cost of leaving ineligible enrollees on the program would not be fully offset by the increased funding, which would leave states in an even worse position than where they stand today. Unsurprisingly, some governors have indicated the attached strings may push them to reject the funding altogether.²⁴

The small 6.2 percentage point bump in the traditional FMAP rate—which also does not apply to costs associated with able-bodied adults enrolled through ObamaCare expansion—is unlikely to cover a significant portion of the massive new costs states will face because of the restrictions, particularly the inability to remove ineligible enrollees. Instead, states will be trading a slight bump in federal funding for open-ended fraud and Medicaid for all.



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State budgets are already collapsing

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.²⁵ New Mexico could be facing a \$1.5 billion shortfall.²⁶ Michigan's revenues could fall by as much as \$3 billion.²⁷

In Colorado, officials are anticipating a revenue drop of nearly a billion dollars, while Missouri and Arkansas are scrambling to address shortfalls of nearly half a billion dollars each.²⁸⁻³⁰ Moody's Analytics projects state general fund revenues will fall by at least 10 percent, with many states facing even deeper losses.³¹

As a result, accepting the enhanced FMAP will be tempting for many states, but a closer look at the attached strings reveals it could actually worsen their financial outlook.



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FFCRA restrictions will further destroy state budgets

Even without the COVID-19 aid restrictions, states are likely to see skyrocketing Medicaid costs as a result of the pandemic. Requiring states to cover ineligible individuals and preventing them from making any material changes to their Medicaid programs will make this problem even worse.

Medicaid costs have been rising for years, even before states expanded the program to a new class of able-bodied adults through ObamaCare and well before the COVID-19 pandemic.³² As businesses close and workers lose their jobs or have hours cut back in response to the public health emergency, states should expect these costs to accelerate.

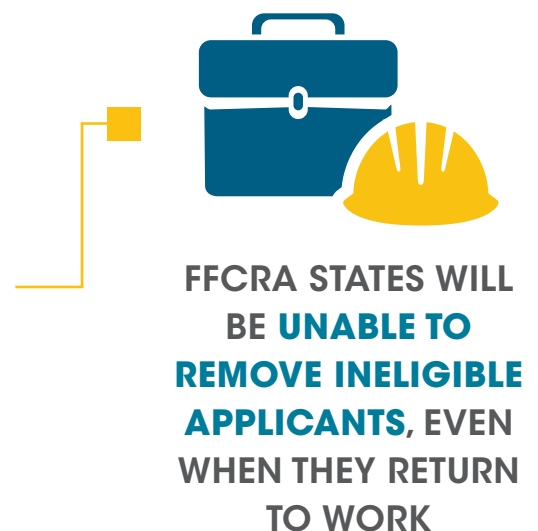
During the Great Recession, states saw Medicaid costs soar as enrollment grew. Between 2008 and 2013, Medicaid costs grew by nearly 30 percent—and that was before ObamaCare created a new eligibility group for able-bodied adults.³³ If the economic fallout from the COVID-19 public health emergency is worse 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.³⁴ The following week, another 6.6 million people filed initial claims.³⁵ Before March 2020, no more than 695,000 people had ever filed initial claims in a single week in the entire history of the unemployment insurance (UI) program.³⁶ Many of these individuals will soon be walking through the front door of state Medicaid programs.

The FFCRA exacerbates this situation. **Not only will millions of new applicants be coming through Medicaid's front door, but states who take the deal will be unable to remove any ineligible applicants, even when they return to work.**

This should be a major concern for states because Medicaid enrollees' financial situations are frequently changing. States frequently report more than 30 percent of cases reviewed at redetermination are cancelled.³⁷ Among able-bodied adults, nearly 40 percent of enrollees no longer meet eligibility rules six months after becoming eligible.³⁸

Ultimately, states that accept the enhanced funding will spend billions of dollars on individuals who are no longer eligible, on top of the massive amounts of funding needed to cover individuals who become eligible as a result of the pandemic. It is a double whammy for taxpayers and the truly needy who rely on this critical program.



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The CARES Act also expands Medicaid eligibility

States are also likely to see a spike in enrollment among those who would not traditionally qualify, because the CARES Act newly exempts certain income from Medicaid's income calculation. Effectively, this means an expansion in those who qualify for Medicaid, which will further strain state budgets.

Under the CARES Act, individuals filing for unemployment can receive an additional \$600 per week on top of their normal unemployment compensation.³⁹ Although unemployment benefits are typically considered income for Medicaid eligibility, the CARES Act exempted this extra \$600 per week from those rules.⁴⁰

With this bump, the average unemployed worker is likely to receive nearly \$1,000 per week—the equivalent of more than \$50,000 annually.⁴¹ For a family of two, this would put their income at nearly three times of the federal poverty line.⁴²

Nonetheless, under the CARES Act, they will qualify for Medicaid rather than exchange subsidies, meaning millions more individuals could soon overrun state programs.⁴³

FFCRA restrictions will take away important tools to manage Medicaid

In addition to being unable to remove ineligible enrollees, FFCRA prohibits states from making any changes to eligibility standards, methodologies, or procedures.⁴⁴

A similar provision was included in the American Recovery and Reinvestment Act (ARRA), the stimulus bill enacted in 2009.⁴⁵ In 2011, facing more than \$175 billion in collective budget shortfalls, state Medicaid directors asked the U.S. Department of Health and Human Services (HHS) for flexibility from these requirements.⁴⁶ Without these tools, states were forced to issue across-the-board cuts to nursing homes, hospitals, physicians, and other providers.⁴⁷⁻⁴⁹

The FFCRA restrictions are even more burdensome than those enacted in ARRA because they apply to millions of expansion enrollees for whom states will receive no FMAP bump. This will leave states with even fewer options, forcing deeper cuts to providers to make ends meet. Ultimately, those Medicaid was originally intended to serve—seniors, low-income children, and individuals with disabilities—will pay the price.



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FFCRA restrictions could extend well after the FMAP bump ends

Under FFCRA, these restrictions are supposed to sunset when the FMAP bump ends.⁵⁰ However, based on past experience, it is possible that these restrictions could extend well beyond that date.

Similar restrictions under ARRA were also scheduled to sunset when the FMAP bump expired.⁵¹ But in 2010, Congress retroactively changed the terms of the deal and extended those restrictions long after states stopped receiving the FMAP bump.⁵² As a result, states were operating under some of these restrictions until 2019.⁵³⁻⁵⁴

There is significant concern at the state level that Congress could again change the terms of the deal after states accept the money. Previous legal challenges to changing terms have failed, even when the U.S. Department of Health and Human Services threatened to withhold all of a state's Medicaid funding.⁵⁵

Congress should provide states with more flexibility to deal with the COVID-19 crisis

States are already facing major budget crises that are likely to worsen in the coming weeks and months. Unfortunately, Congress's attempt to help states weather the storm with enhanced funding comes with harsh restrictions and misguided requirements. This will force states into making impossible choices of accepting COVID-19 aid and putting their Medicaid programs at immediate risk of insolvency or attempting to make their way through the crisis without any of the additional federal funds.

Congress should immediately act to give states the flexibility to remove ineligible enrollees and properly manage their Medicaid programs, especially for expansion enrollees for whom states will receive no FMAP bump.



**CONGRESS SHOULD
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