MEMO

Wisconsin Should Not Take the Bait from Congress on Medicaid Expansion

To: Speaker Vos and Senate President Kapenga

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Overview

In early 2021, the Democrat-controlled Congress and President Biden pushed through a new incentive for states to expand Medicaid. New expansion states would receive a 5-percentage-point increase in their Federal Medical Assistance Percentage (FMAP) for their traditional Medicaid population for eight quarters if they implement Expansion.[1]

However, this new incentive is entirely misleading to states. Not only does the incentive have a built-in expiration date, but the temporary increased funds do not offset the cost of Medicaid Expansion.

Additionally, for the first time ever, a crucial portion of the potential Medicaid Expansion population will qualify for entirely free private insurance on the Exchange—further eliminating the need to kick these individuals off of private insurance and onto Medicaid.

Wisconsin lawmakers should reject the latest federal efforts to pressure states into an unwise and unsustainable expansion of welfare.

Congress's Medicaid Expansion Incentive is Temporary

If Wisconsin implemented Medicaid Expansion, it would cost the state alone nearly $2.2 billion over the next decade to move 327,000 able-bodied, working age Wisconsinites onto welfare—not counting the additional federal cost that would be partially borne by Wisconsin taxpayers.[2-3]

The nature of Medicaid Expansion is permanent—once a state expands, the newly-eligible individuals become a mandatory coverage population.[4] There is no opportunity to un-expand. But while Expansion is permanent, **the new federal FMAP incentive will disappear after just two years.**

Any attempt to extend this incentive when its expiration draws near will be fought vigorously by states that already expanded Medicaid without this funding boost. Further, the Biden Administration will have no reason or obligation whatsoever to extend it.

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Temporary Increased Funding Does Not Outweigh the Cost of Expansion

If the temporary nature of the incentive isn't reason enough to reject Expansion, then its poor fiscal impact is. Indeed, the cost of Medicaid Expansion entirely outweighs any benefits from the new federal incentive.

Over the next ten years, **the state-only cost of Medicaid Expansion in Wisconsin would offset the temporary federal incentive by more than $1 billion.**[5] In fact, the incentive would become entirely cost-ineffective by midway through year six of Expansion in Wisconsin.[6] At that point, new costs would accumulate beyond the value of the incentive—which will have already expired. For example, by the end of year six of Expansion, state-only costs will exceed extra federal funding by $156 million.[7]

It's also critical to note that Wisconsin is already benefiting from a 6.2 percent bump to its traditional FMAP through at least March of 2022 due to federal legislation enacted in 2020.[8] This FMAP is entirely independent of a state's decision to expand Medicaid—all states will continue to receive this boost.

Put simply, the costs of Medicaid Expansion far outweigh any temporary benefit created by the new federal FMAP boost.

Congress Is Now Offering Private Insurance to Potential Wisconsin Expansion Enrollees

Recently-enacted federal legislation will provide, for the first time ever, free private insurance on the Exchange for those individuals earning between 100 and 150 percent of the federal poverty level (FPL).[9] This includes the 100 to 138 percent FPL category that Medicaid Expansion would otherwise cover. This new provision takes the form of enhanced premium tax credits, which will reduce these Americans' premium liability to $0. [While the enhanced tax credits are scheduled to last for at least two years, Congress would be hard-pressed to roll back these subsidies, as it would considerably increase the price tag of insurance for millions of Americans.]

Currently, **36,146 Wisconsinites** between 100 and 138 percent of the poverty level are on the Exchange and **qualify for this free private care—which will be entirely paid for by the federal government**.[10] Another **30,000 uninsured Wisconsinites who have incomes between 100 and 138 percent FPL also qualify for this new federal provision**.[11]

Notably, by receiving private insurance through the Exchange as opposed to moving onto Medicaid, these individuals are paying providers at far higher reimbursement rates than they otherwise would be in the event of Medicaid Expansion. And since individuals who become eligible for Medicaid automatically lose their eligibility for premium tax credits, a decision to implement Medicaid Expansion in Wisconsin would move the roughly 36,000 on-Exchange Wisconsinites between 100 and 138 percent FPL from private insurance to Medicaid.[12]

This leaves Wisconsin lawmakers with a simple choice. Option one is to permit the federal government to pay for the full cost of private premiums for those between 100 and 138 percent FPL —at higher reimbursement rates than Medicaid—without any direct costs to the state. Option two is to expand Medicaid, kick many of these individuals off of their private insurance, move them onto Medicaid at lower reimbursement rates, and have the state start paying hundreds of millions each year for Expansion. The choice is clear.

Conclusion

Wisconsin lawmakers have wisely resisted the federal government's broken promises of Medicaid Expansion up until this point. They have seen the skyrocketing enrollment, bursting budgets, hospital shortfalls, and harm to the truly needy caused by Expansion in other states. This latest temporary federal incentive to Expand will do nothing to prevent those dire consequences from occurring in Wisconsin if lawmakers were to implement Medicaid Expansion.

Wisconsin lawmakers should continue to stand strong for their taxpayers and the most vulnerable by rejecting the false promises of Medicaid Expansion.

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[1] Public Law 117-2 (2021), https://www.congress.gov/117/bills/hr1319/BILLS-117hr1319enr.pdf.
[2] Nicholas Horton and Jonathan Ingram, "A Budget Crisis in Three Parts: How ObamaCare is Bankrupting Taxpayers," Foundation for Government Accountability (2018), https://thefga.org/paper/budget-crisis-three-parts-obamacare-bankrupting-taxpayers/.
[3] Nicholas Horton and Jonathan Ingram, "How the ObamaCare dependency crisis could get even worse — and how to stop it," Foundation for Government Accountability (2018), https://thefga.org/paper/obamacare-dependency-crisis-get-even-worse-stop/.
[4] 42 U.S.C. §§ 1396a(a)(10)(A)(i)(VIII), 1396a(e)(14) (2010), https://www.govinfo.gov/app/details/USCODE-2010-title42/USCODE-2010-title42-chap7-subchapXIX-sec1396a.
[5] Author's calculations based on Medicaid Expansion cost estimates and estimated fiscal impact from the new federal incentive. See, e.g., Nicholas Horton and Jonathan Ingram, "How the ObamaCare dependency crisis could get even worse — and how to stop it," Foundation for Government Accountability (2018), https://thefga.org/paper/obamacare-dependency-crisis-get-even-worse-stop/; Rudowitz et al, "New Incentive for States to Adopt the ACA Medicaid Expansion: Implications for State Spending," Kaiser Family Foundation (2021), https://www.kff.org/medicaid/issue-brief/new-incentive-for-states-to-adopt-the-aca-medicaid-expansion-implications-for-state-spending/.
[6] Ibid.
[7] Ibid.
[8] Jonathan Ingram et al, "Extra COVID-19 Medicaid Funds Come At A High Cost to States," Foundation for Government Accountability (2020), https://thefga.org/paper/covid-19-medicaid-funds/.
[9] Public Law 117-2 (2021), https://www.congress.gov/117/bills/hr1319/BILLS-117hr1319enr.pdf.
[10] Ingram et al, "Forced Into Welfare: How Medicaid Expansion Will Kick Millions of Americans Off Of Private Insurance," Foundation for Government Accountability (2019), https://thefga.org/paper/medicaid-expansion-private-insurance/.
[11] Kaiser Family Foundation, "Health Insurance Coverage of the Total Population," Kaiser Family Foundation (2019), https://www.kff.org/other/state-indicator/total-population/.
[12] Ibid.