

Medicaid Fiscal Relief – An Effective Prescription for an Ailing Economy

Executive Summary

Enhanced Medicaid funding for states has been an extremely important part of the American Recovery and Reinvestment Act (ARRA) for Wisconsin. It allowed the state to protect Medicaid and BadgerCare Plus benefits during a period when the recession drove rapid enrollment growth, and it helped the state avoid much deeper cuts in Medicaid and other parts of the budget.

Wisconsin experienced a net loss of 141,100 jobs between October 1, 2008 and May 2010. That change, coupled with many other people moving into part-time or low-wage jobs without insurance, has fueled a sharp increase in the need for subsidized health insurance.

BadgerCare Plus (BC+) has provided the dependability families needed during the recession to keep them healthy. DHS data show the following trends in BC+ enrollment since September 2008:

- Total enrollment (including children, parents and pregnant women) increased by 141,000 (25%).
- Most of the enrollment increase has been among children (+80,000), but the fastest growth has been in parent coverage (+32%).

Nearly all of the BC+ growth since October 1, 2008 has been among very low income families:

- More than two-thirds of the increased enrollment since that date is among parents and children below the poverty level.
- Only 2% of the enrollment increase is among children and parents above 200 percent of the poverty level.

This BC+ growth began during a period of rapidly falling state tax collections, not only in Wisconsin but across the nation. As Wisconsin lawmakers

began working on the 2009-11 biennial budget bill, they had to contend with a deficit expected to be well over \$6 billion. A key part of balancing the budget without making even deeper spending cuts has been the \$1.4 billion that the state is expected to receive from the funding in the Recovery Act to increase the federal share of Medicaid spending, known as the Federal Medical Assistance Percentage (FMAP).

The enhanced Medicaid funding has made it possible for states to absorb the substantial increase in enrollment, while also protecting the more expensive Medicaid coverage for the elderly and people with disabilities.

Providing access to health insurance to people who no longer have employer-sponsored coverage is important for a number of reasons. It enables the children in those families to do better in school and eventually become productive members of our communities, and it allows parents to be healthy and ready to resume their employment. In addition, helping people get preventive care is much more cost-effective than treating them later and potentially relying on emergency rooms, and it reduces cost shifting to people with private insurance.

Wisconsin currently anticipates a deficit of about \$300 million in the state share of Medicaid financing for the current biennium. Much of that hole could be filled by legislation in Congress that would extend Medicaid relief for another six months. Without extended relief, Wisconsin and most other states will have to either significantly reduce access to health care or make broad cuts in other areas, and either of those options can be expected to dampen the fragile economic recovery.

Medicaid Fiscal Relief: An Effective Prescription for an Ailing Economy

The American Recovery and Reinvestment Act (ARRA) provided several sources of fiscal relief to states who were trying to cope with sharp drops in revenue and unprecedented deficits, at the same time that they were facing skyrocketing demand for programs like Medicaid that help low-income and unemployed families. One of the largest sources of relief for states and for struggling families was an increase in the federal share of Medicaid.

This issue paper examines the impact in Wisconsin of the nearly \$1.1 billion the state has gotten over the last 21 months from the boost in the federal share of Medicaid. It also examines the proposals to extend that fiscal relief beyond its scheduled expiration date at the end of 2010.

Background

Economic downturns increase the number of unemployed and low-income families and the cost to states of serving those families, at the same time that state revenues are falling sharply. That has been especially true during the current recession, with a national unemployment rate of still nearly 10 percent. The unemployment rate in Wisconsin began rising sharply in October 2008 when the financial crisis began to significantly affect the labor market, and from that month through May 2010 Wisconsin experienced a net loss of about 141,100 jobs (measured on a seasonally adjusted basis). That picture has improved a little in the first half of 2010, because employment in Wisconsin fell by nearly 175,000 jobs from October 1, 2008 to December 2009.¹

A critical element of the federal Recovery Act that was enacted early in 2009 has been an appropriation of \$87 billion that has significantly increased the federal share of Medicaid spending, which is referred to as the Federal Medical Assistance Percentage (FMAP). Each state benefits from an FMAP increase based on a formula that takes into account the increase in the state's unemployment rate.

The boost to the federal share was made retroactive to October 1, 2008, which was the start of federal fiscal year 2009 and also the time when the effects of the recession started to become far more apparent. As Table 1 shows, the federal share rose in Wisconsin from 57.6 percent of costs in September 2008 to 65.6 percent of costs in October of that year, and has since risen to 70.6 percent.² The FMAP will fall to 60.2 percent once the boost from the Recovery Act ends.

Table 1: Federal Share of Medicaid Spending in Wisconsin (2008 – 2011)

Date	Federal share	State share
September 2008	57.6%	42.4%
October 2008	65.6%	34.4%
July 2010	70.6%	29.4%
January (or June) 2011	60.2%	39.8%

According to recent federal figures, from October 1, 2008, through June 30, 2010, Wisconsin has received nearly \$1.1 billion as a result of the FMAP increase. The state is expected to

receive about \$329 million more between July 1 and the end of 2010, when the FMAP increase from ARRA is scheduled to expire, for a total of about \$1.43 billion.

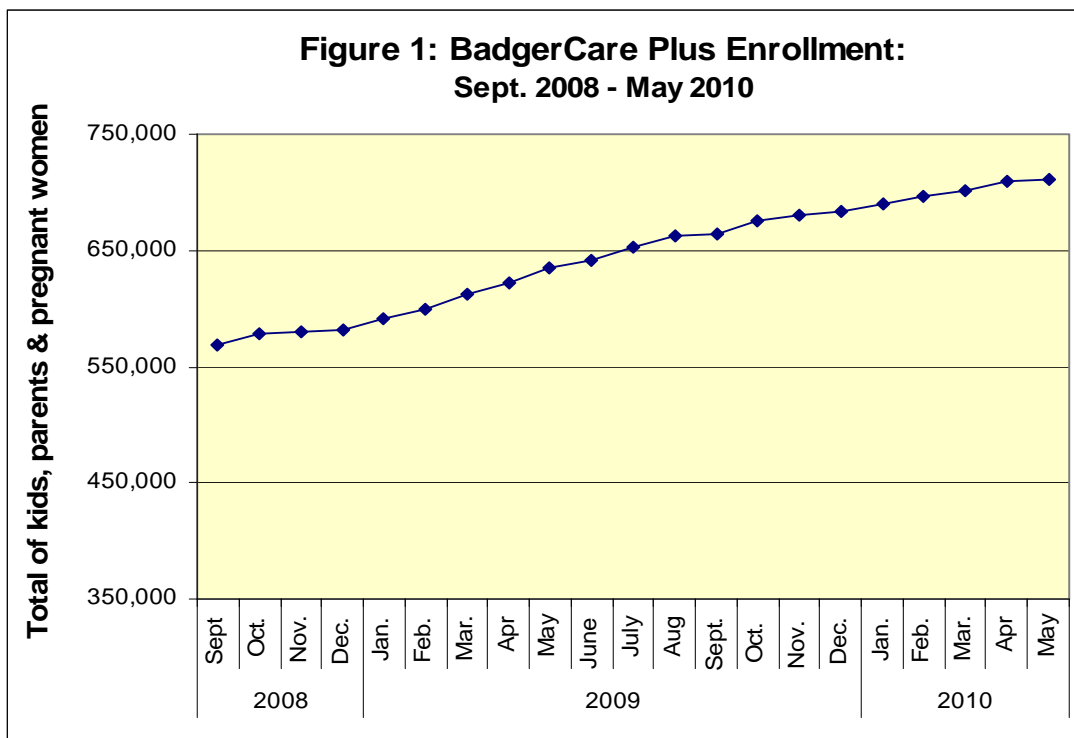
Health care coverage in Wisconsin

Medicaid and BadgerCare Plus (BC+) provide an essential health care safety net for more than 1.1 million Wisconsinites, or roughly one-fifth of all state residents:

- More than 760,000 children, parents and pregnant women receive primary and preventive care services through BC+ that would otherwise be unaffordable for them.
- About 56,000 low-income adults who don't have dependent children receive a modest package of health insurance coverage through the BadgerCare Plus Core Plan.
- Nearly 190,000 elderly Wisconsinites and people with disabilities receive Medicaid services such as long-term care, and another 89,000 receive the SeniorCare prescription drug benefit.

BadgerCare Plus eligibility changes and enrollment trends

Wisconsin's BadgerCare Plus program provides subsidized health insurance coverage for children and pregnant women in families with household income up to 300 percent of the federal poverty level (FPL) and for parents with income below 200 percent of the FPL.³ It is financed with a combination of federal and state funds for Medicaid and the Children's Health Insurance Program (CHIP). Eligibility for children and pregnant women was expanded to current levels in February 2008, and a number of other changes were made at that time to remove barriers to the enrollment of eligible families. The improvements allowed the state to use a simple message that all kids are eligible, and that seems to have been a significant factor in the increased enrollment.



(Source: WCCF analysis of DHS enrollment data)

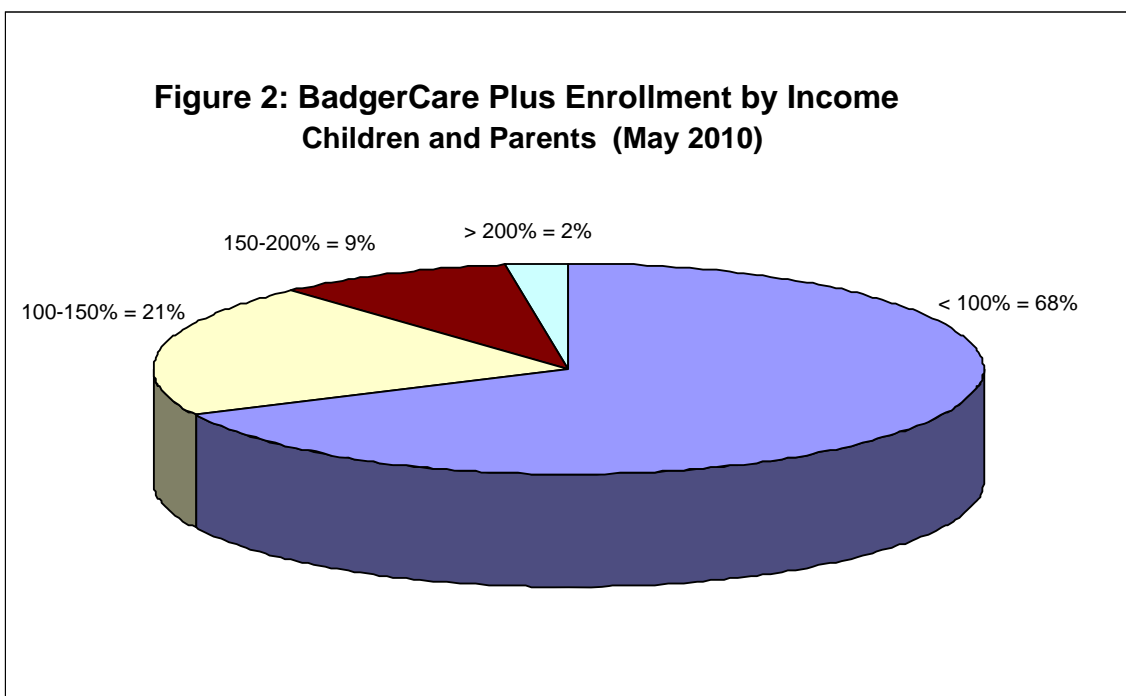
Figure 1 shows the growth in BadgerCare Plus enrollment of children, parents and pregnant women from September 30, 2008 through May 31, 2010. We chose that period of time both

because October 1, 2008 was the beginning of the FMAP boost and because that was when it first appeared that the Great Recession was significantly affecting enrollment.⁴

As Figure 1 illustrates, the state is now serving a total of more than 710,000 children, parents and pregnant women in BadgerCare Plus. Since September 30, 2008:

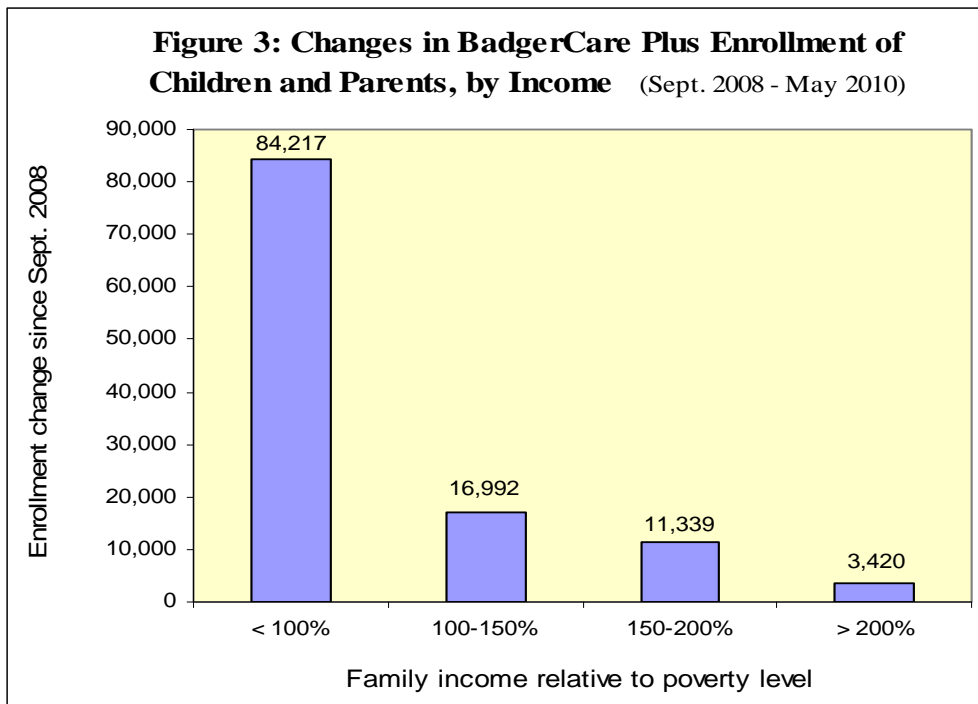
- total BC+ enrollment has increased by more than 141,000, or almost 25 percent;
- enrollment of children has grown by more than 80,000, or almost 22 percent; and
- the number of enrolled parents has climbed by nearly 60,000, or more than 32 percent.

In 2009 Wisconsin also began to cover childless adults with income below 200 percent of FPL, through a slimmed-down Medicaid plan, known as the BadgerCare Plus Core Plan.⁵ We excluded that part of BadgerCare Plus from our analysis of enrollment trends because it's a new area of coverage and is not eligible for the Recovery Act's higher match rate.



(Source: WCCF analysis of DHS enrollment data)

The pie chart (Figure 2) shows the income level of participants in BadgerCare Plus on May 31, 2010. It illustrates that only 2 percent of current program participants are above 200 percent of FPL. Some people had feared that increasing BadgerCare Plus eligibility standards would result in a surge in enrollment among moderate or middle income families who have access to employer sponsored insurance; however, the data show that expanding eligibility to children and pregnant women over 200 percent of poverty, which took effect in February 2008, has not resulted in much enrollment among people over that income level. However, it appears to have been a significant factor in the overall enrollment increase, because lifting the income ceiling for children sends a very clear signal to lower income families that they are eligible, and it reduces the stigma that may still surround participation in a public program.



(Source: WCCF analysis of DHS enrollment data)

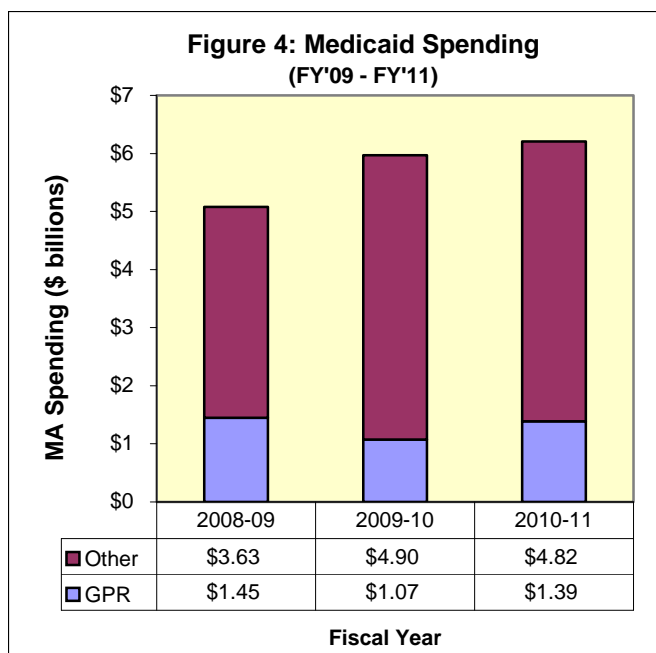
The conclusion that enrollment growth is primarily among very low income families and is being driven by the recession is reinforced by Figure 3, which examines the changes in BadgerCare Plus enrollment of children and parents within each income group since September 30, 2008. It shows that only 3 percent of the enrollment increase since that date is among people with income above 200 percent of FPL, whereas almost 73 percent has been among people with income below the poverty level.⁶ (If Figure 3 included enrollment of childless adults in the BC+ Core Plan, the bar graph would look much the same, but the percentage of the increased enrollment above 200 percent of the poverty level would be even lower.)

Balancing Wisconsin's 2009-11 budget

As lawmakers began the 2009-10 legislative session, they faced a budget deficit of well over \$6 billion. Despite that tremendous challenge, policymakers were able to protect Medicaid and BadgerCare Plus eligibility levels and benefits because of a large infusion of federal aid in the federal stimulus bill. That assistance came in the form of a temporary increase in the federal share of Medicaid spending, known as the Federal Medical Assistance Percentage (FMAP). Wisconsin expects to get nearly \$1.4 billion from the FMAP increase, which will end on December 31, 2010.

Balancing the Medicaid budget and protecting existing programs was also aided by increased federal funding from the bill reauthorizing and increasing spending for the Children's Health Insurance Program (CHIP), and from a new hospital assessment that was initiated by the state budget repair bill enacted in February 2009. That assessment, which was endorsed by the Wisconsin Hospital Association, is being used both to increase hospitals' Medicaid reimbursement rates and to fund the childless adult coverage.

Figure 4 shows the trends for combined Medicaid and Badger Care spending. Total spending for those two programs (excluding SeniorCare) grows from a little less than \$5.1 billion in 2008-09 to almost \$6 billion (estimated) in 2009-10 and to slightly over \$6.2 billion in 2010-11 – a 22 percent increase over 2 years. Yet, as the table illustrates, the state share dropped significantly in 2009-10 and to a lesser extent in 2010-11. That drop can be attributed in large part to the temporary increase in the federal share of Medicaid (FMAP) from the federal stimulus bill, which reduces the state share of Medicaid spending by about \$606 million in 2009-10 and nearly \$317 million in 2010-11.



Continuing Medicaid and BadgerCare Plus Fiscal Challenges

Although the boost in the federal matching rate for Medicaid enabled the state to get through the biennial budget without reducing eligibility or the scope of coverage, it wasn't enough to keep Wisconsin and numerous other states from needing to make cuts in Medicaid spending. The 2009-11 budget bill directed the Department of Health Services (DHS) to find about \$625 million of Medicaid cost savings, including about \$205 million of state General Fund spending. DHS is currently implementing its plan for those savings, which it refers to as the ForwardHealth Rate Reform Project.

Notwithstanding the rate cuts or reforms and the FMAP boost, updated DHS projections indicate that the Medicaid and BadgerCare Plus budget is again in the red for the 2009-11 biennium. Because of a combination of continued rapid growth in BadgerCare Plus enrollment, driven by the recession, and higher-than-anticipated costs for long-term care, DHS recently estimated that there is likely to be a General Fund shortfall of roughly \$300 million in the department's health care budget.⁷

Early in 2010, even before the new Medicaid deficit estimate, DHS began to solicit suggestions for a second round of "rate reforms." However, the department has yet to unveil any new recommendations for cost savings, and it is unclear whether the first round will achieve the initial \$600 million savings target. Achieving significant additional saving beyond that level is likely to require rate cuts that go well beyond "reform." Such cuts have the potential to cause further reductions in the number of health care providers willing to serve Medicaid patients.

A July 20, 2010 Wisconsin Supreme Court ruling adds substantially to the state's budget challenges. The court ordered the state to repay (with interest) \$200 million transferred from the medical malpractice fund to help pay for Medicaid in the 2007-09 budget.

Congressional proposals to extend relief

Until recently, Wisconsin was expecting to have a very slim balance at the end of the current biennium,⁸ but that budget projection didn't take into account the court ruling referenced above or the possibility of a \$300 million shortfall in state funding for Medicaid and BadgerCare Plus. That potential Medicaid deficit might have induced the Governor and Legislature to take up a budget-cutting bill before the close of the 2009-10 session; however, like most other states, Wisconsin was expecting Congress to pass legislation extending the FMAP increase. Among the states that have passed or are still considering budget bills this year, 27 have 2010-11 budgets that assume the FMAP boost will be extended until the end of the current state fiscal year (June 30, 2011).⁹

Both houses of Congress approved bills early this fiscal year that would continue the FMAP boost for 6 months, until June 30, 2011, as well as continuing a number of other Recovery Act provisions, but they have not agreed on the same bill. The task of reaching agreement on a bill containing the FMAP extension has been getting more difficult as legislators have gotten increasingly concerned about the federal deficit.

One of the bills to extend some of the Recovery Act measures is H.R. 4213. Initially, that bill would have extended the current FMAP provisions for 6 months, which was expected to save Wisconsin close to \$300 million in General Purpose Revenue (GPR). In order to try to attract a few Republican votes and end a Senate filibuster of the bill, the FMAP boost was pared back (from \$24 billion to \$16 billion) and phased out more slowly, which trimmed the estimated Wisconsin savings to about \$185 million. Nevertheless, the compromise version of HR 4213 failed to attract any GOP support, and the motion to end the filibuster fell a couple of votes short of the 60 needed to advance the measure in the Senate.

On August 5, 2010, the Senate voted on a different bill that provides \$16 billion for an FMAP extension and \$10 billion for an Education Jobs Fund. That bill, H.R. 1586, contains a number of "offsets" – i.e. spending cuts and revenue from closing tax loopholes – that make it deficit neutral. It was approved by a vote of 61-39. DHS estimates that the bill will reduce the state share of Medicaid spending in Wisconsin by \$185 million. The House is expected to return briefly from its August recess to debate H.R. 1586 during the week of August 9.

Effect of Medicaid spending on the economy

During recessions, Congress typically provides a temporary boost to the federal share of Medicaid costs because the short-term spending achieves a number of significant objectives:

- Allowing states to absorb the increased Medicaid enrollment without having to cut benefits.
- Helping states protect Medicaid without cuts elsewhere that would tend to depress economic activity.
- Giving families more security in their ability to access health care during a time of great economic turmoil.
- Holding down the potential increase in cost-shifting to insured patients, if job losses increased the number of uninsured people who had to rely on uncompensated care.
- Ensuring that people have access to preventive care, rather than having to fall back on less cost effective reliance on emergency rooms.
- Avoiding cuts to the health care sector of the economy, which would have significant ripple effects in other parts of the economy.

The Recovery Act's increase in the FMAP enabled Wisconsin to protect BadgerCare Plus from significant cuts, and that has generally achieved the objectives cited above.

Relating to the last of those objectives – the ripple effects throughout the economy – WCCF worked with UW Professor Steven Deller in 2003 on a paper that examined the very positive economic effects of Medicaid spending in the Wisconsin.¹⁰ Using a computerized economic input-output model, Professor Deller analyzed the effect of a 10 percent cut in Medicaid and BadgerCare, which at that time would have reduced total expenditures by \$367 million per year, including roughly \$148 million of state GPR funds.

Professor Deller's analysis of the data found that a 10 percent cut in Medicaid and BadgerCare would directly cause 5,700 lost jobs, with an accompanying loss of \$240 million in wages, salaries and other types of income. After this initial direct impact, Wisconsin would experience additional losses in jobs and income – bringing the total to 9,100 jobs and \$394 million in lost income. The lost economic activity would also result in a \$30 million decline in total state and local government revenues due to lower income, sales and other taxes.

In short, for each dollar of state GPR spending that was cut, the Wisconsin economy would lose \$2.66 in income and 20 cents in state and local taxes.

If one were to redo that analysis now, the return on state Medicaid spending would be even higher because of the increased federal match rate. In 2003, the ratio of federal to state Medicaid spending was 1.48 in Wisconsin. In fiscal year 2010-11 that ratio will average about 1.89, assuming the FMAP increase ends on Dec. 31, 2010. With that increase in mind, and assuming that the general multiplier effect for health care spending remains the same as in 2003, the income generated from each dollar of GPR Medicaid spending would be about \$3.10 in the current state fiscal year.

If Congress does not extend the FMAP increase, it is very difficult to assess how Wisconsin will fill the estimated \$300 million GPR Medicaid deficit. If all of the GPR savings had to be found within the Medicaid budget, Wisconsin would lose roughly \$550 million in federal matching funds. However, DHS cannot act unilaterally to fill much of that hole, and the Legislature probably wouldn't reconvene to address a budget deficit until January 2011. At that point, it would be virtually impossible to produce big savings within the Medicaid and BadgerCare Plus budgets.

Thus, without an extension of Medicaid relief for states, it appears that the Wisconsin Legislature would have to meet early next year to approve a budget "repair" bill that makes deep cuts across various areas of the budget or approves accounting gimmicks that delay the fiscal pain and add to the \$2.5 billion deficit the state is already facing in the 2011-13 biennium.

Conclusion

The increase in the federal share of Medicaid expenditures has helped Wisconsin and many other states to meet the sharply increased need for subsidized health insurance when the Wisconsin economy shed 141,100 jobs, and many other workers took part-time or lower paid jobs that don't offer insurance. Between the end of September 2008 and May 2010, BadgerCare Plus enrollment of children and parents fueled by the recession has grown by more than 141,000 or 25 percent. And although the increased Medicaid funding from the Recovery and Reinvestment Act is not directly financing the new coverage of more than 50,000 childless adults, the FMAP increase made it more practical for Wisconsin policymakers to address that important area of need.

During a time of tremendous economic insecurity, BadgerCare Plus has given parents and children a little peace of mind by giving them access to quality, affordable health insurance. Making health insurance accessible to people who no longer have employer-sponsored coverage ensures that the children in those families do better in school and eventually become productive members of our communities, and it allows parents to be healthy and ready to resume their employment.

Enabling BadgerCare Plus to meet the increased demand is also important because helping people to get early diagnosis and preventive care is much more cost-effective than treating them later and potentially relying on emergency rooms. In addition, treating people who are uninsured often results in uncompensated care that translates into cost shifting to people with private insurance.

Equally important is that the \$1.1 billion Wisconsin has received over the last 21 months from the FMAP increase (with at least \$300 million more still expected) enabled lawmakers to limit the depth of the still-very-substantial cuts made in the 2009-11 budget bill. Without that fiscal relief, cuts in state spending and local aid would have had a very damaging effect on the economy.

Jon Peacock, research director
Wisconsin Council on Children and Families
August 5, 2010

¹ The jobs numbers we used are seasonally adjusted figures from the Bureau of Labor Statistics.

² Without the FMAP increase, Wisconsin's current FMAP (for FFY 2010) would be 60.2%. The increase since FFY 2008 is based on the normal FMAP formula, which adjusts the FMAP based on changes in state income levels.

³ Children above 300% of the poverty level can be covered in BadgerCare Plus at cost.

⁴ BadgerCare Plus grew very rapidly from its inception in February 2008 through August of that year. Growth leveled off very briefly in September 2008, before resuming in October. It is difficult to say how much of the growth at any point in 2008 was a result of program changes made in February and how much was the result of the recession, but the income levels of program participants took a sharp turn downward in the fall of 2008, as the recession became the dominant factor in BC+ growth.

⁵ The Core Plan is financed at the state level from Wisconsin's relatively new hospital assessment, and the federal share comes from a reallocation of Disproportionate Share Hospital (DSH) funding.

⁶ Our analysis uses the publicly accessible data on the DHS website, which doesn't indicate the income level of all participants. That data excludes income information for people who are in waiver categories that provide a period of continuous eligibility (regardless of income fluctuations).

⁷ If those cuts were made just in Medicaid and BadgerCare Plus, which is highly unlikely, a total of roughly \$850 million in state and federal spending would need to be cut.

⁸ According to a July 9, 2010 Legislative Fiscal Bureau memo, the state is expected to have a \$45 million balance at the end of the 2009-11 biennium, which is \$20 million less than the minimum reserve set by state statute.

⁹ Three of the 27 states are still working on budget bills that assume an FMAP extension. There are 15 states that enacted budgets that do not assume the extension, and 8 states (including Wisconsin) that wrote their budgets in 2009 and haven't changed them this year.

¹⁰ Economic Impact of Reduced Medicaid And BadgerCare Expenditures, Feb. 2003, Professor Steven C. Deller, Linda Hall, and Jon Peacock.. <http://www.wccf.org/pdf/econimpact.pdf>