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# Risk not worth the reward for expanding federal Medicaid eligibility in Wisconsin

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The Republican North Carolina legislature recently voted to expand its Medicaid program in line with provisions of the 2010 Affordable Care Act. Yet Wisconsin, which also has a Democratic governor and a Republican-controlled legislature, is not pursuing expansion. Does Wisconsin have something to learn from North Carolina or is the Badger State on the right path?

After years of resistance, North Carolina legislators accepted Medicaid expansion because they had an offer which they thought was too good to refuse. Many states have already accepted Medicaid expansion because the federal government covers 90% of the costs for providing care to the expansion population, which mainly consists of single adults whose income is below 138% of the federal poverty line. The federal share (or Federal Medical Assistance Percentage – FMAP) varies for the classic Medicaid population based on state per capita personal income (with poorer states receiving more), but is well below 90% everywhere, making Medicaid expansion look relatively attractive.

Although the outsized FMAP was not enough on its own to induce North Carolina to take the expansion, two other factors changed the calculus. First, the American Rescue Plan Act of 2021, adopted by the then-Democratic-controlled Congress, provided a powerful incentive. For any state accepting Medicaid expansion, the federal government would increase the FMAP for its classic population by 5% during the first two years after expansion. This increased federal support roughly offsets the budgetary cost for a state accepting expansion during that two-year period.

North Carolina hospitals then agreed to pay an additional state assessment, which will offset the state's budgetary cost of expansion beyond the two-year threshold. The assessment makes financial sense for hospitals because legislators also voted to implement a Healthcare Access and Stabilization Program (HASP), which increases Medicaid reimbursement rates to hospitals, mostly with federal funds.

So, even from the perspective of fiscally conservative North Carolina legislators, taking the expansion now looked good: they could provide a constituent benefit with no apparent budgetary cost.

But this calculation rests on a crucial assumption: that the federal government will not eventually reduce the expansion FMAP to the standard rate applied to other beneficiaries.

This fear was expressed by the Wisconsin Manufacturers & Commerce (WMC), which came out against Medicaid expansion because "federal Medicaid dollars will decline over time, leaving state taxpayers responsible to pay for a large unfunded entitlement."

That is a reasonable worry. While it is true that under current federal law, the enhanced FMAP of 90% for the expansion population is permanent, it is also true that laws are subject to change. And, in an environment of high projected federal deficits over the long-term, the enhanced FMAP is an obvious target. As the controversy over the Affordable Care Act—which set the 90% rate—fades from memory, many will wonder why this inconsistent matching percentage was established and will question whether it makes any fiscal sense.

The enhanced FMAP was in Republican crosshairs when they narrowly controlled the federal government in 2017. The Better Care Reconciliation Act (BCRA) considered by the Senate that year would have phased out the Enhanced FMAP between 2020 and 2024.

In 2018, the Congressional Budget Office estimated that a standalone bill eliminating the enhanced FMAP and providing federal matching grants for all Medicaid beneficiaries at the standard FMAP would have saved $345 billion over ten years. If the CBO scores this measure again, the savings will likely be much higher given the growth in Medicaid enrollment during the Covid-19 pandemic and medical cost inflation. And about 2% of these federal savings would have to be absorbed by Wisconsin's state budget.

While the enhanced FMAP seems safe under the Biden Administration, it could end up on the chopping block in 2025, should Republicans take the White House and Senate. The recent debt ceiling deal shows that there remains a strong desire to find spending cuts, while protecting defense, Social Security, and Medicare.

So, for Wisconsin, continuing to resist expansion appears to be the best choice from a long-term budgeting perspective. In the future, the free lunch may well get very expensive.

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