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January 22, 2009

PRELIMINARY ANALYSIS OF MEDICAID ASSISTANCE FOR STATES IN THE HOUSE ECONOMIC RECOVERY PACKAGE

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The economic recovery package under consideration by the House of Representatives includes an approximately $88 billion temporary increase in the share of the Medicaid program paid by the federal government over nine calendar quarters (October 1, 2008 through December 31, 2010). The states urgently need this type of assistance; states on their own are not able to provide critically needed health insurance under Medicaid as need swells in a recession and in its immediate aftermath.

- Medicaid rolls are soaring, as they have in previous recessions. As people lose their jobs and their incomes, they often also lose their health insurance and qualify for Medicaid. As employers try to cut costs, they drop health coverage. And people who are still working but with reduced hours or income and who lack health insurance may newly qualify for Medicaid. All of these factors drive up enrollment.

- State revenues are dropping. As unemployment rises and consumption declines, state income and sales taxes dwindle. States are projected to face deficits of $350 billion over the next 30 months.[1] Since almost all states have to balance their budgets, most cannot afford to maintain their existing Medicaid programs, and certainly cannot afford to accommodate a large influx of new enrollees resulting from the recession.

- The gap between the need for Medicaid and states' ability to meet that need is large. In a recent Kaiser Foundation report, the Urban Institute estimates that the gap over the next two and a half years between Medicaid costs and states' ability to meet those costs — considering both enrollment increases and revenue losses — would be approximately $100 billion if unemployment averages 9 percent.[2] However, that was calculated as the estimated sum of the "exact" amount each state would need to meet its Medicaid costs. Since it is not practically possible to craft legislation that would give each state exactly what it needs, total federal assistance would need to be significantly more than $100 billion to keep the program whole.

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[1] McNichol and Lav, *State Budget Troubles Worsen*, January 14, 2009. http://www.cbpp.org/9-8-08sfp.htm

[2] Holahan and Garrett, *Rising Unemployment, Medicaid, and the Uninsured*, January, 2009. http://www.kff.org/uninsured/upload/7850.pdf

The House proposal would provide three elements of Medicaid fiscal relief assistance to states:

- First, all states would be "held harmless" for drops in the federal share of Medicaid — known as FMAP — that states would otherwise automatically experience this year (federal fiscal year 2009) and into federal fiscal year 2011. This is necessary to prevent states from losing federal funding as a result of much stronger economic conditions that may have prevailed in a state three years ago, since FMAP is calculated based on a state's per capita income and with a substantial lag.

- Second, all states would receive a "base"4.9 percentage point increase in the share of the Medicaid program the federal government pays. Thus in a state like New York in which the federal government usually pays 50 percent of the program, the base federal share for the period of assistance would equal 54.9 percent. In a state like Mississippi in which the federal government usually pays approximately 76 percent of the program, the base federal share for the period of assistance would be 80.9 percent.[3]

- Third, states that are experiencing particularly poor economic conditions, as indicated by a significant increase in unemployment, would receive additional assistance. Depending on the extent of the percentage point increase in the state's unemployment rate, a state could receive an 8 percent, 12 percent, or 14 percent reduction in the share of Medicaid that the state pays. (See technical note for further explanation of these provisions.)

This fiscal assistance for states would be effective for the period October 1, 2008, through December 31, 2010. The qualification of each state for a higher level of assistance because of unemployment rate increases would be evaluated each quarter, and states would receive the additional assistance if their economic situation worsens. While a state's additional assistance could be increased, no state's additional assistance would be reduced as a result of dropping unemployment before July 1, 2010.

To receive any increased FMAP, a state must not have Medicaid eligibility levels that are more restrictive than were in effect on July 1, 2008. Restrictions on eligibility include changes that make it more difficult for recipients to meet procedural requirements for enrollment or periodic renewal of their coverage. States that restrict eligibility would be allowed to reverse their actions and still qualify for an increased FMAP in the first calendar quarter they have restored their Medicaid eligibility.

The tables below show illustrative estimates of the amount of assistance each state would potentially receive, based on projections of future economic conditions. Of course, those projections are highly uncertain; the uncertainty is greater than usual because no one knows how successful efforts to stimulate the economy through this economic recovery legislation and other means will be. (The projections used here do incorporate some economic improvement as a result of the recovery legislation.) As a result of these uncertainties, readers should be aware that the amount of assistance any state would receive under this legislation could differ substantially from the estimates shown here.

[3] The higher FMAP increase would apply to the costs of Medicaid benefits and Title IV-E foster care and adoption assistance, but not to CHIP and other Title IV programs that have federal matching rates based on the FMAP.

TABLE 2: FEDERAL FUNDING FOR STATE MEDICAID COSTS UNDER THE HOUSE STIMLUS BILL, BY STATE FISCAL YEAR (in $ thousands)				
STATE	SFY09	SFY10	SFY11	TOTAL
Alabama (a)	$304,121	$378,779	$100,365	$783,265
Alaska	$58,612	$120,176	$67,534	$246,321
Arizona	$574,437	$851,879	$453,475	$1,879,792
Arkansas	$135,625	$304,248	$174,989	$614,862
California	$3,612,818	$4,911,064	$2,545,330	$11,069,212
Colorado	$227,926	$413,516	$214,193	$855,635
Connecticut	$331,769	$569,075	$306,343	$1,207,187
Delaware	$79,417	$151,013	$83,715	$314,145
District of Columbia (a)	$114,100	$137,174	$36,960	$288,235
Florida	$1,397,307	$1,883,953	$973,819	$4,255,079
Georgia	$495,803	$750,027	$391,598	$1,637,428
Hawaii	$94,592	$160,729	$84,860	$340,182
Idaho	$81,105	$127,836	$67,918	$276,859
Illinois	$881,106	$1,311,197	$686,745	$2,879,048
Indiana	$323,329	$578,157	$300,123	$1,201,609
Iowa	$108,062	$219,255	$114,213	$441,529
Kansas	$83,746	$192,180	$112,597	$388,522
Kentucky	$250,803	$438,715	$232,633	$922,150
Louisiana	$339,286	$774,318	$438,514	$1,552,118
Maine	$116,056	$209,458	$108,901	$434,414
Maryland	$371,181	$664,190	$371,118	$1,406,488
Massachusetts	$554,879	$1,361,344	$720,329	$2,636,552
Michigan (a)	$964,393	$1,002,009	$262,860	$2,229,262
Minnesota	$490,780	$919,917	$481,477	$1,892,174
Mississippi	$164,959	$347,217	$185,294	$697,470
Missouri	$402,175	$713,927	$378,536	$1,494,639
Montana	$44,706	$84,344	$45,029	$174,078
Nebraska	$59,193	$121,558	$63,032	$243,783
Nevada	$140,589	$197,135	$103,187	$440,910
New Hampshire	$49,659	$113,188	$68,816	$231,664
New Jersey	$554,530	$1,029,288	$551,329	$2,135,147
New Mexico	$133,951	$250,001	$144,534	$528,486
New York (b)	$1,940,569	$5,848,185	$4,663,241	$12,451,995
North Carolina	$702,147	$1,028,683	$536,209	$2,267,040
North Dakota (c)	$22,981	$43,131	$24,357	$90,469
Ohio	$780,600	$1,341,859	$704,414	$2,826,874
Oklahoma	$191,907	$429,750	$238,373	$860,029
Oregon (c)	$249,599	$364,575	$188,397	$802,571
Pennsylvania	$1,062,155	$1,902,492	$1,010,246	$3,974,892
Rhode Island	$148,809	$201,224	$104,096	$454,129
South Carolina	$211,876	$342,265	$178,337	$732,477
South Dakota	$24,463	$47,654	$24,544	$96,661
Tennessee	$408,664	$707,616	$364,259	$1,480,539
Texas (d)	$1,491,757	$2,658,083	$965,358	$5,115,199
Utah	$76,326	$138,968	$78,163	$293,457
Vermont	$61,955	$124,180	$68,012	$254,147
Virginia	$339,795	$705,969	$377,455	$1,423,220
Washington (c)	$504,133	$960,921	$520,531	$1,985,585
West Virginia	$95,649	$182,762	$103,888	$382,299
Wisconsin	$241,882	$538,209	$313,342	$1,093,433
Wyoming (c)	$18,479	$51,996	$31,802	$102,277

Note: Unless otherwise indicated, states operate on July-to-June fiscal years. Fiscal years are referred to by the year in which they end. Thus, in most states, FY2010 covers July 1, 2009 through June 30, 2010. (a) The fiscal years of Alabama, the District of Columbia, and Michigan end September 30. (b) New York's fiscal year ends March 31. (c) North Dakota, Oregon, Washington, and Wyoming operate on biennial budgets ending in June. For those states, aid estimates are for half a budget cycle. (d) Texas's fiscal year ends August 31.

DETAILED TECHNICAL EXPLANATION OF THE HOUSE FMAP PROVISION

Under Section 5001 of the House economic recovery package, states would receive a temporary increase in the federal Medicaid matching rate (known as the "FMAP") for the period October 1, 2008 through December 31, 2010.

The FMAP increase primarily consists of three components:

1. "Hold Harmless": A state whose FMAP rate in fiscal year 2009 is scheduled to be lower than the FMAP in FY 2008 would be able to remain at the higher FY 2008 rate for 2009. States whose fiscal year 2010 rate would otherwise be lower than its fiscal year 2009 and/or fiscal year 2008 rate would be able to remain at the prior year rate, whichever is highest. Finally, states whose fiscal year 2011 rate would otherwise be lower than its fiscal year 2008, fiscal year 2009 and/or fiscal year 2010 rates would be able to remain at the highest rate for those three fiscal years during the first quarter of fiscal year 2011.

   Example: State X has a 60 percent FMAP in fiscal year 2008 and is scheduled to have its FMAP in fiscal year 2009 reduced to 59.5 percent. Under the hold harmless provision, the state's FMAP would remain at 60 percent in fiscal year 2009. If the FMAP for State X for fiscal years 2010 and 2011 is otherwise scheduled to be less than 60 percent, the state would have a 60 percent FMAP for 2010 and the first quarter of 2011 as well.

2. Base Increase: Each state's FMAP, after application of the hold harmless provision, would be further increased by 4.9 percentage points.

   Example: After application of the hold harmless provision, State X's FMAP would be increased from 60 percent in to 64.9 percent for fiscal years 2009 and 2010 and the first quarter of fiscal year 2011.

3. Additional Increase for States with Unemployment Rate Increases: A state qualifying as a "high unemployment" state would be eligible for an additional increase of their FMAP, after application of the hold harmless provision and the base increase. A state qualifies as a high unemployment state if its average unemployment rate for the most recent three month period for which unemployment data is available exceeds by at least 1.5 percentage points the lowest average monthly unemployment rate for any three-month period after January 1, 2006 (the base period).[4] The additional FMAP increase a high unemployment rate state receives is determined by the number of percentage points by which the unemployment rate exceeds the lowest rate in that state, measured as described above:

   - If the state's unemployment rate exceeds the lowest rate by 1.5 to 2.5 percentage points, the state's FMAP would be increased by the number of percentage points equal to the amount necessary to reduce the state's share of the cost of Medicaid by 6 percent. This calculation is made after application of the hold harmless provision but *before* application of the base increase.

[4] Under the House provision, first two quarters of assistance would be based the increase in the unemployment rate between the base period and the fourth quarter of calendar year 2008.

- If the state's rate exceeds the lowest rate by 2.5 to 3.5 percentage points, the state's FMAP would be increased to reduce the share of the cost of Medicaid by 12 percent.

- If the state's share exceeds the lowest rate by at least 3.5 percentage points, the state's FMAP would be increased to reduce the share of the cost of Medicaid by 14 percent.

If a state during any quarter becomes a high unemployment state, or if a high unemployment state experiences an unemployment rate increase that qualifies the state for even greater assistance, the state would become eligible for the larger FMAP increase in the next calendar quarter. No state would have its additional assistance reduced from the levels provided in the previous calendar quarter based on changes to its unemployment rate at least through July 1, 2010.

Example: State X has already experienced a 2.6 percentage point increase in its unemployment rate based on the most recent data compared to its lowest unemployment rate since January 1, 2006. After application of the hold harmless provision, State X's FMAP is 60 percent. This means that the state's share of thee cost prior to application of the base increase equals 40 percent. This share of the cost would be reduced by 12 percent, or 4.8 percentage points, because the state qualifies for the second level of additional assistance. State X's FMAP would thus be further increased by 4.8 percentage points, which translates into a FMAP of 69.7 percent. If State X subsequently sees its unemployment rate increase exceed 3.5 percentage points, it will qualify for the highest level of additional assistance in the next calendar quarter. Its share of the cost would then be reduced by 14 percent, or 5.6 percentage points. State X's FMAP would then be 70.5 at least through July 1, 2010.

The FMAP increase would generally apply to all Medicaid costs. (As of this writing, it is still unclear whether Disproportionate Share Hospital (DSH) payments made to hospitals that serve low-income patients and Medicaid beneficiaries are included. The tables do not apply the FMAP increases to DSH payments.) The increase would not apply to non-Medicaid program costs like SCHIP whose matching rates are based on the FMAP, with the exception of title IV-E costs. (Only the increase in the matching rate due to the hold harmless provision and the base increase, however, would apply to title IV-E.)

The territories — Puerto Rico, American Samoa, Guam, the Northern Marianas Islands, and the Virgin Islands — would generally receive a temporary increase in their federal funding cap. While the FMAP for each of the territories is set at 50 percent and total federal funding for each of the territories is capped. The cap would be increased by 20 percent for the period October 1, 2008 through December 31, 2010. (A territory, however, may elect instead to have its cap increased 10 percent and its FMAP increased 4.9 percentage points to 54.9 percent.)

States would generally only be eligible for the FMAP increase if they ensure that their Medicaid eligibility criteria and enrollment/renewal procedures are no more restrictive than those in place on July 1, 2009. States that restrict their eligibility during the duration of the FMAP become eligible again for the FMAP increase in the first calendar quarter in which they reinstate their eligibility to July 1, 2008 levels. States who have restricted eligibility after July 1, 2008 but before enactment of this provision would be eligible for the FMAP increase starting with the first calendar quarter of fiscal year 2009 if they reinstate their eligibility no later than July 1, 2009.

States that require local governments to finance a portion of the state's share of the cost of Medicaid would be prohibited from raising the effective proportion paid by local governments compared to the levels prior to any temporary FMAP increase. In addition, states would not be permitted to deposit any federal funds provided through the temporary FMAP increase into their rainy day funds.