States Face Medicaid Match Loss After Recovery Act Expires

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Medicaid matching rates to states before, during and after Recovery Act funding are analyzed. For every dollar a state spends for Medicaid, the average state gained $1.07 additional match for each state dollar spent under the Recovery Act enhanced rates.

Summary

Medicaid, the largest health insurance program in the nation, is jointly financed by state and federal governments. The federal government establishes matching rates for each state each year, setting the percentage of overall costs paid by the federal government--between 50 and 83 percent--based on a state’s per capita income compared to the nation’s per capita income. The American Reinvestment and Recovery Act provided all states with enhanced matching rates for their Medicaid programs in recognition of the fiscal issues states faced in the Great Recession.

In this report, CSG analyzes the value of the Medicaid matching rate to states before, during and after Recovery Act funding. CSG interprets Medicaid matching rates in a straightforward way: For every dollar a state spends for Medicaid, we calculate how many federal dollars flow to the state through the federal match. On average, states gained $1.07 additional match for each state dollar spent under the Recovery Act enhanced rates, as the average federal return on a state dollar rose from $1.61 in 2008 to $2.68 in late 2010. The additional match for states ranged from 56 cents in Alaska to $2.39 in Mississippi.

States will lose any additional federal stimulus match June 30, 2011, and revert back to the pre-recession calculation of Medicaid matching rates. For 20 states, the Medicaid match rate in the 2012 fiscal year will be lower than the pre-recession rate in the 2008 fiscal year, ranging from 52 cents less per state dollar expended in North Dakota to 2 cents in Rhode Island. The rate will increase for 17 states, ranging from 57 cents more per state dollar expended in Michigan to 4 cents in Idaho, and remain the same for 13 states and the District of Columbia.

Medicaid Match Basics

Introduction

The Medicaid program is the biggest health insurance program in the country. As of December 2009, the program covered nearly 49 million low-income adults and children. The federal and state governments jointly administer the program. In many states, Medicaid spending exceeds elementary and secondary education as the largest state government expenditure.
The Medicaid program is important not only to the millions of low-income Americans who receive benefits, but also to the economy of each state. Medicaid funds support thousands of health-related jobs and facilities, as well as medical education and work force development programs.

**Medicaid Match Calculation**

Since the beginning of the Medicaid program in the 1960s, the federal and state governments have shared the program costs. Each state’s share of costs is set by a formula that compares a state’s per capita income to the U.S. per capita income. This calculation is called the federal medical assistance percentage, commonly referred to as either FMAP or simply Medicaid match. Poorer states receive a higher match, but no more than the statutory maximum of 83 percent, and relatively wealthier states receive a lower match, but no less than 50 percent.

The U.S. Department of Health and Human Services publishes the FMAPs for states in the Federal Register, generally in November for the federal fiscal year beginning the following October so states can use the rates in their budget deliberations. The formula uses three years of data, for instance, the FMAPs set in November 2010 for the year October 2011 to September 2012 used per capita income data for 2007, 2008 and 2009.

**American Reinvestment and Recovery Act Enhanced Match**

When Congress passed the American Reinvestment and Recovery Act, it provided financial relief for the states during the recession through an enhanced matching rate for Medicaid. The Recovery Act provided nine quarters of increased federal funding with the assumption that enrollments in Medicaid would increase given the unemployment increases during the recession, and that states’ revenues would decrease as incomes fell. The calculation of states’ enhanced FMAP included an across-the-board increase as well as an adjustment based on the state’s unemployment increase. The Congressional Budget Office originally estimated the value of the enhanced match to states at $91 billion and later reduced it to $89 billion.

The original enhanced match was slated to expire Dec. 31, 2010, yet CSG found in a survey of states’ 2011 fiscal year budgets that 24 states had assumed the enhanced FMAPs would be extended by Congress until at least June 30, 2011.

In response to states’ pressure for continued relief in the face of extended unemployment, Congress did extend the enhanced matching provisions for Medicaid in late 2010, albeit at a lesser level than the original stimulus provisions. CSG calculated the additional aid to states is an estimated $1.74 billion short of the amount the 24 states included in their official 2011 fiscal year budgets. After the two step phase-down, Medicaid match rates will return to pre-recession-calculation rates on July 1, 2011. The 2012 fiscal year rates will begin Oct. 1, 2011.

**CSG Analysis of States’ Medicaid Match, 2008-2012**

For the purposes of this analysis of states’ Medicaid matching rates from 2008 to 2012, CSG has calculated matching rates in a straightforward way: For every state dollar a state spends for Medicaid, we determine how many federal dollars are provided through federal match. This investment calculation is familiar to state policymakers who, for instance, ask about the dollar-for-dollar return on state economic development incentive programs. When Congress passed the Recovery Act in 2009, all states received a jump in their Medicaid matching rates. The increased match was made retroactive to the first two quarters of 2009, but only reflected the across-the-board increase. In the third quarter of 2009—April, May and June—the enhanced match rate calculations also factored in state unemployment rates, so states’ rates of increase differed accordingly. Chart 1 shows the trend in state rates beginning in 2008 and ending in 2012. After the first quarter of 2011—October, November and December 2010—matching funds decline in accordance with the phase out of the enhanced match and then level out as the regularly calculated 2011 and 2012 fiscal year match rates
take effect.

On average, the increased match for states amounted to an additional $1.07 in federal funds for every state dollar when the 2008 fiscal year FMAP is compared to the enhanced match provided in the first quarter of 2011—October, November and December 2010. The federal match, although continued for two more quarters in 2011, decreases in value to states, before it reverts to the pre-recession calculation methodology.

One state dollar invested in Medicaid in the 2008 fiscal year yielded, on average, $1.61 in federal funding. Under the Recovery Act provisions, that same dollar yielded $2.68 on average in the first quarter of the 2011 fiscal year, yielding an additional $1.07. The average state spending one dollar of its general fund for Medicaid purchased $2.61 worth of Medicaid services in 2008. With the enhanced match, one state dollar bought $3.68 worth of Medicaid services, a 41 percent increase in the average state’s purchasing power.

At the low end of additional match for states was Alaska at 56 cents, North Dakota at 57 cents, and California, Colorado, Connecticut, Maryland, Massachusetts, Minnesota, New Hampshire, New Jersey, New York, Virginia and Wyoming at 60 cents. The largest gains were $1.85 for Kentucky, $2.02 for West Virginia and $2.39 for Mississippi.

**FMAP Declines in 2012 Compared to 2008 for 20 States**

Twenty states—shown in Chart 2—will experience a decline in FMAP rates in 2012 compared to the prerecession calculation in 2008. These are the states whose per capita income is relatively better than the national average both in the three years used in the 2012 calculation (2007, 2008, 2009 data) and compared to the earlier calculation for the 2008 FMAP.

The loss of federal matching funds ranges 52 cents less per state dollar expended in North Dakota to 22 cents less in Rhode Island. For instance, Mississippi received $3.22 in federal funds for each $1 it spent in 2008, but will receive just $2.87 in the 2012 fiscal year, a difference of 35 cents. That difference alone presents obvious budget issues for Mississippi, but the dilemma is likely to be compounded by the fact that during 2010, one Mississippi dollar generated $5.61 in federal matching funds.

Another 17 states will receive a larger FMAP in 2012 than they did in 2008, although their 2012 rates are below the enhanced rates provided by federal stimulus funds. (See Chart 3) The range for the 17 states is from 57 cents more per state dollar expended in Michigan to 4 cents more in Idaho. For instance, in Michigan one state dollar will be matched with $1.95 in federal funds in the 2012 fiscal year, compared to $1.39 in the 2008 fiscal year, an increase of 57 cents, without rounding, each significantly below the highest Recovery Act match of $3.09. These states’ recovery from the recession—relative to the nation—is slower, as the FMAP calculation is based on state per capita income relative to national per capita income. These states likely are experiencing higher unemployment and increased Medicaid enrollment.

The remaining 13 states and the District of Columbia have the same match rates in 2012 as they did in 2008. (See Chart 4) Except for the District of Columbia and Maine, the remaining states are those that receive one federal dollar for each state dollar spent, doubling their state investment. Even these states, whose per capita income is relatively better than other states, benefited from the Recovery Act match bump. Rather than matching a state dollar with one additional federal dollar, these states received anywhere from $1.60 to $1.81 under the Recovery Act.

**Recovery Act Regional Analysis**

All states received significantly more FMAP funding under the Recovery Act. However, the value of the
increased match does differ by region. When the pre-recession 2008 match is compared to the
highest Recovery Act match, the Southern states saw their state dollar yield a larger amount of
federal funding. On average, at the height of the Recovery Act funding, the average state in the South
collected an additional $1.42 for each state dollar spent on Medicaid. Western states collected $1
more, Midwestern states 99 cents more, and Eastern states 73 cents more.

The differences in the overall economic conditions of the four regions are reflected in the matching
amounts in the regions. In the South, states’ dollar-for-dollar investment in Medicaid yields ranged
from $1 to almost $3 in federal funding. During the Recovery Act, the poorest states in the South had
federal returns of $4 to $5 for each dollar invested by the state. By contrast, in the East and Midwest
where states are relatively better off, the enhanced match did not return as much per state dollar.
Even under the Recovery Act, only Indiana and Michigan dollar investments yielded more than $3 in
federal return. In the West, several states’ investment yielded $3, but only two states (Utah and New
Mexico ) exceeded $4.

Conclusion
All states’ return on Medicaid funding drops severely beginning July 1, 2011, even while the effects of
the Great Recession continue for states. The dramatic enrollment increases that occurred in 2009
may have moderated for many states, but very few, if any, are experiencing declines in Medicaid
enrollment. While state revenues are beginning to grow again year-over-year, many states’ revenues
are not back to their prerecession levels. All these factors will complicate Medicaid budgeting during
the 2011 legislative sessions.

as federal dollars returned for each state dollar [3]"

percentage [4]"

Chart Sources:

- FY 2008 FMAP rates [5], Nov. 30, 2006
- FY 2012, Disaster Recovery State Adjustment for Louisiana [7], December 22, 2010
  Quarter ARRA FMAPs
- FY 2011 FMAP rates [8], Nov. 27, 2009
- Calculations by The Council of State Governments
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