

Medicaid Spending: States Face Budget Dilemma After ARRA Bailout

By Debra Miller

Medicaid is the stuff of nightmares for state budgeters. With the Great Recession, Medicaid enrollment expanded as unemployment increased. Overall health care costs also continued to swell, although recent data indicate that the health spending growth rate may have slowed somewhat. The American Recovery and Reinvestment Act of 2009 provided an enhanced federal matching rate for state Medicaid programs in recognition of the counter-cyclical nature of the program—just when state revenues contract, the demand for more spending in Medicaid increases. The enhanced Medicaid matching rates ended during the 2011 fiscal year and states face difficult budget decisions that pit Medicaid against other state policy priorities.

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 Recovery and Reinvestment Act provided all states with enhanced matching rates for their Medicaid programs in recognition of the fiscal issues states faced in the Great Recession.

A 2011 Council of State Governments' report analyzed the value of the Medicaid matching rate to states before, during and after Recovery Act funding. The report interpreted Medicaid matching rates in a straightforward way: For every dollar a state spends for Medicaid, it calculated how many federal dollars flowed 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 2010.¹ The additional match for states ranged from 56 cents in Alaska to \$2.39 in Mississippi.

But states lost the last of the enhanced federal match on June 30, 2011, and reverted back to the pre-recession calculation of Medicaid matching rates. When CSG reviewed Medicaid match rates for 2012, it found that for 20 states, the rate was lower than the pre-recession rate in the 2008 fiscal year. The rate increased for 17 states and remained the same for 13 states and the District of Columbia. Regardless of whether states were winners or losers in the comparison of 2008 and 2012 match

rates, all had to cope with the loss of the enhanced matching rates available from the Recovery Act.

Medicaid State Spending Increases 2007–11

All states except Maine, Nebraska and North Carolina experienced growth in Medicaid expenditures during the Great Recession years. Using Medicaid expenditure data collected each year by the National Association of State Budget Officers, Figure A compares 2007 Medicaid expenditures to estimated expenditures for 2011, the most recent data available.² Expenditures for 2007 were adjusted to 2011 dollars using Consumer Price Index data from the U.S. Bureau of Labor Statistics. Expenditure data displayed in Figure A include all sources—federal, state general fund and other state funds.

Colorado led the states with growth of 94 percent over the four-year period, meaning the Medicaid budget in that state nearly doubled. Funding for the expansion was provided by a new provider tax on Colorado hospitals. Medicaid budgets in Idaho, California and Hawaii grew by about 50 percent. The national average increase for the 2007 to 2011 period was 20.4 percent. Twenty states exceeded the national average growth.

Medicaid Expenditures Grow, 2007–11, Despite Decreased State General Funds

Just how much the enhanced federal Medicaid match under the Recovery Act benefited states is apparent in Figure B. Only 10 states allocated more state general funds to Medicaid from 2007 to 2011, even while overall Medicaid expenditures grew for all but three states. In other words, states' Medicaid expenditures continued to grow in all

**Figure A: Medicaid Expenditure Change, Total Funds, 2007 to 2011
(In 2011 Dollars)**

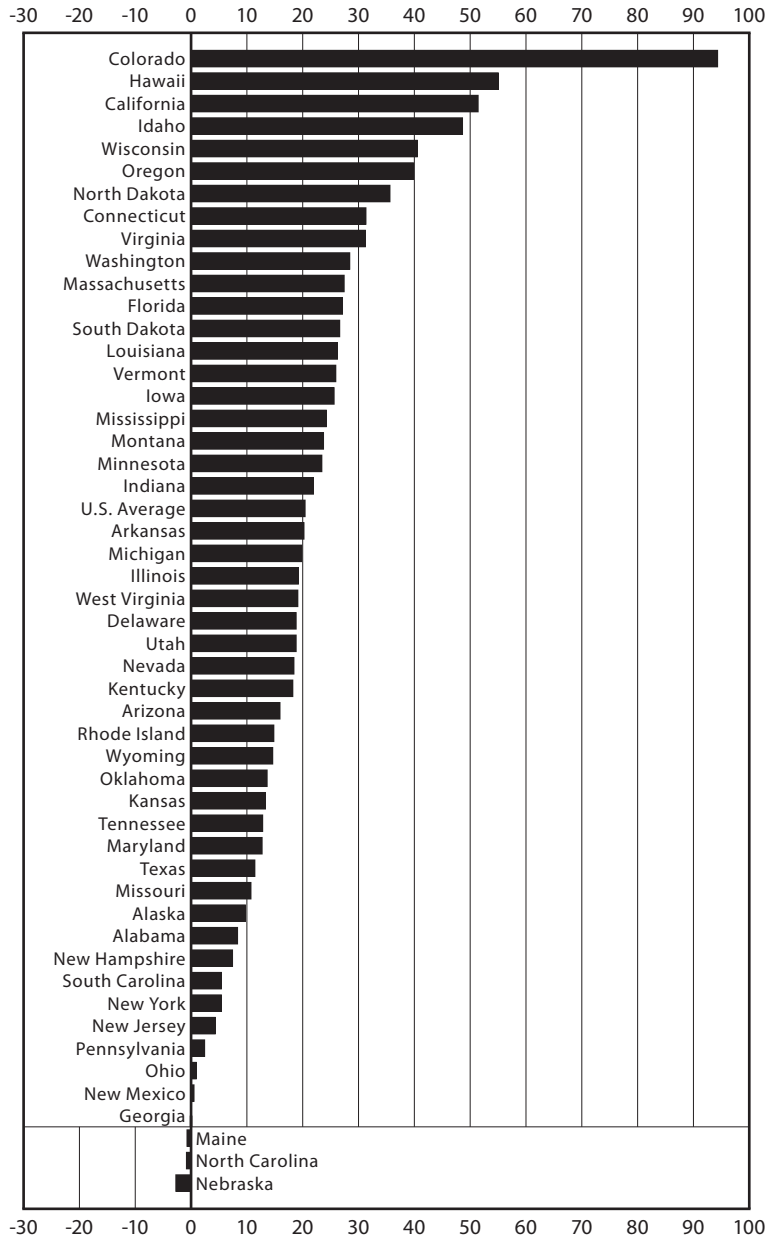
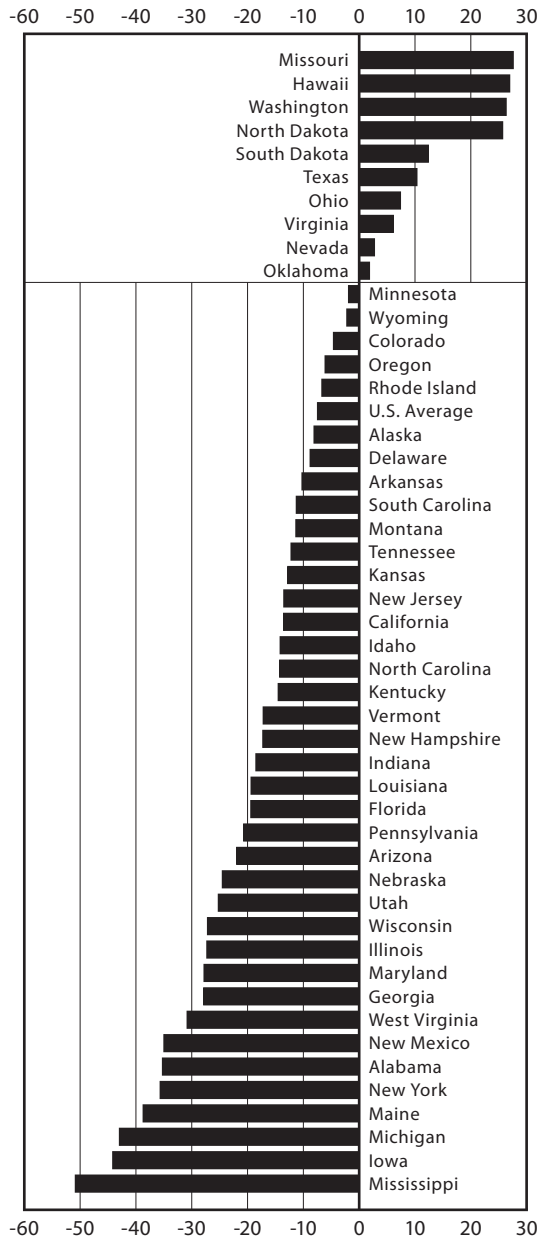


Figure B: Medicaid Expenditure Change, State General Funds, 2007 to 2011 (In 2011 Dollars)



Note: Connecticut and Massachusetts are not included. Federal funds are deposited directly into state treasuries, resulting in a co-mingling of federal and state funds.

Table A: Medicaid Expenditures by State and Region (In Millions of Dollars)

State	Actual expenditures 2007 (adjusted to 2011 dollars)				Estimated expenditures 2011				Expenditure change 2007 to 2011				Medicaid expenditures as percent of total expenditures 2011
	General fund	Federal funds	Other state funds	Total	General fund	Federal funds	Other state funds	Total	General fund	Federal funds	Other state funds	Total	
U.S. totals	\$119,586	\$182,187	\$29,255	\$331,029	\$110,672	\$249,807	\$38,092	\$398,571	-7.5%	37.1%	30.2%	20.4%	23.6%
Eastern Region													
Connecticut (a).....	\$3,420	\$0	\$841	\$4,260	\$4,466	\$0	\$1,127	\$5,593	30.6	n.a.	34.0	31.3	27.2
Delaware	527	532	0	1,059	481	777	0	1,258	-8.8	46.2	n.a.	18.8	16.2
Maine	716	1,456	183	2,355	439	1,694	205	2,338	-38.7	16.4	11.8	-0.7	28.6
Maryland	2,776	3,011	125	5,912	2,005	4,098	558	6,661	-27.8	36.1	347.2	12.7	21.6
Massachusetts (a).....	8,192	0	0	8,192	10,440	0	0	10,440	27.4	n.a.	n.a.	27.4	20.2
New Hampshire	477	629	170	1,277	395	831	145	1,371	-17.3	32.1	-14.9	7.4	25.2
New Jersey	4,752	4,941	140	9,832	4,111	6,007	136	10,254	-13.5	21.6	-2.8	4.3	21.9
New York.....	9,783	21,554	3,801	35,138	6,296	26,060	4,669	37,025	-35.6	20.9	22.8	5.4	29.1
Pennsylvania.....	6,963	10,243	1,773	18,978	5,523	12,188	1,716	19,427	-20.7	19.0	-3.2	2.4	31.1
Rhode Island.....	864	920	0	1,784	806	1,234	7	2,047	-6.7	34.1	n.a.	14.8	24.7
Vermont.....	214	603	204	1,021	177	855	253	1,285	-17.2	41.7	24.0	25.9	26.6
Regional totals	35,907	40,877	7,113	83,896	35,139	53,744	8,816	97,699	-2.1	31.5	23.9	16.5	n.a.
Midwestern Region													
Illinois.....	4,595	6,484	2,534	13,613	3,341	9,560	3,320	16,221	-27.3	47.4	31.0	19.2	28.9
Indiana.....	1,585	3,382	450	5,417	1,292	4,879	432	6,603	-18.5	44.3	-4.0	21.9	24.4
Iowa.....	721	1,595	532	2,848	403	2,331	843	3,577	-44.1	46.2	58.6	25.6	19.3
Kansas	906	1,421	93	2,420	790	1,828	125	2,743	-12.8	28.6	34.0	13.3	18.6
Michigan.....	2,523	5,671	1,825	10,019	1,440	8,743	1,821	12,004	-42.9	54.2	-0.2	19.8	24.0
Minnesota.....	3,217	3,320	0	6,537	3,156	4,848	61	8,065	-1.9	46.0	n.a.	23.4	25.1
Nebraska.....	672	964	22	1,658	507	1,085	21	1,613	-24.5	12.5	-3.2	-2.7	16.5
North Dakota	179	354	4	537	225	501	2	728	25.7	41.7	-53.9	35.6	14.6
Ohio.....	10,036	2,555	1,248	13,839	10,777	2,590	598	13,965	7.4	1.4	-52.1	0.9	23.2
South Dakota.....	238	456	0	693	267	611	0	878	12.4	34.1	n.a.	26.6	23.2
Wisconsin.....	1,940	3,076	159	5,175	1,413	5,071	787	7,271	-27.2	64.9	393.5	40.5	17.0
Regional totals	26,612	29,277	6,867	62,756	23,611	42,047	8,010	73,668	-11.3	43.6	16.6	17.4	n.a.
Southern Region													
Alabama.....	533	3,371	974	4,878	345	3,851	1,086	5,282	-35.2	14.2	11.5	8.3	25.3
Arkansas.....	707	2,492	277	3,476	635	3,424	119	4,178	-10.2	37.4	-57.0	20.2	20.5
Florida	4,935	8,995	1,627	15,557	3,978	12,081	3,721	19,780	-19.4	34.3	128.7	27.1	28.0
Georgia.....	2,399	4,852	792	8,042	1,731	5,793	520	8,044	-27.8	19.4	-34.3	0.0	20.5
Kentucky.....	1,065	3,371	480	4,916	911	4,537	360	5,808	-14.5	34.6	-24.9	18.2	22.8
Louisiana.....	816	4,359	448	5,623	658	5,353	1,088	7,099	-19.3	22.8	142.8	26.2	23.5
Mississippi.....	342	2,796	458	3,595	168	3,395	901	4,464	-50.8	21.4	96.8	24.2	22.6
Missouri.....	1,200	4,342	2,560	8,102	1,531	6,389	1,050	8,970	27.6	47.2	-59.0	10.7	36.3
North Carolina.....	2,875	6,674	1,836	11,385	2,466	7,660	1,172	11,298	-14.2	14.8	-36.2	-0.8	22.1
Oklahoma.....	943	2,325	335	3,603	960	2,675	457	4,092	1.8	15.1	36.3	13.6	18.5
South Carolina.....	818	3,322	715	4,855	726	3,870	522	5,118	-11.2	16.5	-27.0	5.4	19.9
Tennessee.....	2,451	4,955	290	7,695	2,152	6,252	275	8,679	-12.2	26.2	-5.1	12.8	28.1
Texas.....	7,148	13,423	1,773	22,345	7,887	16,936	58	24,881	10.3	26.2	-96.7	11.4	26.3
Virginia.....	2,806	2,665	0	5,470	2,977	4,197	0	7,174	6.1	57.5	n.a.	31.2	16.9
West Virginia.....	444	1,678	218	2,340	307	2,239	240	2,786	-30.8	33.4	10.1	19.1	13.0
Regional totals	32,257	72,630	12,907	117,794	27,432	88,652	11,569	127,653	-15.0	22.1	-10.4	8.4	n.a.
Western Region													
Alaska.....	406	712	29	1,147	373	871	14	1,258	-8.1	22.4	-52.2	9.7	9.0
Arizona.....	1,652	4,813	596	7,061	1,290	5,848	1,044	8,182	-21.9	21.5	75.3	15.9	28.0
California.....	14,541	21,067	698	36,305	12,573	36,814	5,573	54,960	-13.5	74.8	698.9	51.4	24.2
Colorado.....	1,330	1,406	101	2,837	1,269	2,807	1,435	5,511	-4.6	99.6	1,322.3	94.3	19.4
Hawaii.....	477	668	7	1,152	606	1,180	0	1,786	26.9	76.6	-100.0	55.0	15.9
Idaho.....	348	774	92	1,214	299	1,311	194	1,804	-14.1	69.5	110.4	48.6	25.6
Montana.....	171	553	55	780	152	741	72	965	-11.3	33.9	30.1	23.7	15.7
Nevada.....	474	759	115	1,349	487	974	135	1,596	2.7	28.3	17.4	18.4	18.7
New Mexico.....	829	2,106	48	2,982	539	2,342	115	2,996	-35.0	11.2	140.9	0.5	20.2
Oregon.....	977	2,087	429	3,493	918	3,408	557	4,883	-6.1	63.3	30.0	39.8	14.6
Utah.....	345	1,068	200	1,612	258	1,419	238	1,915	-25.2	32.9	19.2	18.8	14.3
Washington.....	3,028	3,132	0	6,160	3,825	3,943	141	7,909	26.3	25.9	n.a.	28.4	24.4
Wyoming.....	231	259	0	490	226	336	0	562	-2.2	29.6	n.a.	14.6	7.0
Regional totals	24,811	39,404	2,368	66,582	22,815	61,994	9,518	94,327	-8.0	57.3	301.9	41.7	n.a.
Regional totals w/o California.....	10,270	18,337	1,671	30,277	10,242	25,180	3,945	39,367	-0.3	37.3	136.1	30.0	n.a.

Source: Medicaid expenditures as percent of total expenditures: Numbers are percents for FY 2010 actual expenditures (including all state and federal funds) from National Association of State Budget Officers. "State Expenditure Report: Examining Fiscal 2009–2011 State Spending." <http://www.nasbo.org/LinkClick.aspx?fileticket=C3LJISFxbdo%3d&tabid=38>.

Key:
 (a) Medicaid appropriations are "gross funded"—federal funds are deposited directly to the state treasuries.
 (b) Inflation adjustment (1.0849) from Consumer Price Index, U.S. Bureau of Labor Statistics.

but three states between 2007 and 2011 without increased investment from states' general funds. In the three states where overall Medicaid expenditures fell—Maine, Nebraska and North Carolina—so did state general funds.

While the average drop in state general fund expenditures in the four-year period was 7.5 percent, Mississippi dropped its state general fund expenditures for Medicaid by 50 percent over the four-year period. Thirteen states' general fund expenditure for Medicaid dropped by 25 percent or more as the enhanced federal Medicaid match backfilled the decreased state funding.

Medicaid Pressure on State Budgets, 2012 and Beyond

The old conventional wisdom among state budget experts was that expenditures for primary and secondary—or K–12—education required the biggest piece of a state's budget pie. According to NASBO data, Medicaid expenditures as a percent of state budgets increased from 22.3 percent of actual expenditures in 2010 to 23.6 percent of estimated expenditures in 2011, and on average, surpassed K–12 education spending, which averaged 20.1 percent of state expenditures.³

Twenty states' Medicaid budget share in 2011 exceeded the national average of 23.6 percent. Missouri was the highest at 36.3 percent, followed by Pennsylvania at 31.1 percent. Alaska and Wyoming spent less than 10 percent of their expenditures on Medicaid in 2011—Wyoming spent just 7 percent, and Alaska 9 percent.

This analysis brings into sharp focus the dilemma of state decision-makers following the loss of the enhanced federal Medicaid match. In order for states to maintain current expenditure levels of Medicaid in the future, given the decreased share of federal funding, they must increase state match from state general funds or develop other state funding mechanisms. States also are searching for a way to institute Medicaid cost-containment, even as they anticipate the possible added expenses of Medicaid expansion called for under federal health care reform if the U.S. Supreme Court does not overturn it.

Conclusion

The growth of state Medicaid funding during the recession is not surprising, given the constant pressure of increasing health care costs coupled with rising Medicaid enrollment that was the direct result of the unprecedented rise in unemployment.

The enhanced federal Medicaid match provided states a lifeline, just as Congress intended. A state that continued to allocate the same state dollars in Medicaid match was able to grow its Medicaid budget painlessly given that the enhanced federal match provided more funding than before, leading to an increase in overall state Medicaid expenditures. Other states were able to meet Medicaid budgets with reduced state funding, allowing investment in other policy priorities. Now states are faced with backfilling the temporary Recovery Act funds even as slow economic recovery provides few new dollars to address other state policy priorities.

Notes

¹Debra Miller, "States Face Medicaid Match Loss After Recovery Act Expires." *CSG Capitol Research*, March 2011. http://knowledgecenter.csg.org/drupal/system/files/States_Face_Medicaid_Match_Loss_After_Recovery_Act_Expires_0.pdf.

²The Council of State Governments. *The Book of the States: 2010 and 2011*. Table 7.8.

³National Association of State Budget Officers. *State Expenditure Report 2010 (Fiscal 2009–2011 Data)*. <http://www.nasbo.org/publications-data/state-expenditure-report/state-expenditure-report-2010-fiscal-2009-2011-data>.

About the Author

Debra Miller is director of health policy at the national headquarters of The Council of State Governments. She staffs the Health Policy Task Force, coordinates CSG's health policy academies and regularly writes for CSG publications. She has over 30 years of experience in health and human services and has served on a number of gubernatorial and legislative task forces on issues related to health, children and poverty, including the CHIP Advisory Council in Kentucky.