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Health Policy Brief

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Extra Federal Medicaid Support Ends. A temporary increase during 2009–11 in federal Medicaid funding to the states has expired. A crunch looms.

WHAT'S THE ISSUE?

Medicaid is the joint federal and state health insurance program for low-income Americans. To help states through the recession and weak recovery, federal stimulus legislation enacted in 2009 included a temporary increase in the dollars that the federal government sent to states for the program.

Originally due to expire at the end of 2010, some additional funding was extended through June 30, 2011. Now that extra assistance has expired. Despite the stalled economy and states' ongoing fiscal pressures, no additional federal Medicaid money is being considered at this time. This brief describes what has happened, as well as the options for states.

WHAT'S THE BACKGROUND?

Medicaid, the nation's largest public health insurance program, is a critically important part of the social safety net, serving more than 60 million individuals. According to the Kaiser Family Foundation, Medicaid finances more than 40 percent of births in the United States and is the primary payer for two-thirds of the nation's nursing home residents.

In economic downturns, Medicaid rolls expand as income levels drop and people lose jobs and the accompanying employer-sponsored insurance. Enrollment in Medicaid and the Children's Health Insurance Program is estimated to increase by one million for every 1 percent increase in the unemployment rate. From December 2007 through June 2010, Medicaid enrollment nationwide increased by almost 18 percent, according to the Kaiser Family Foundation. In 2010, monthly Medicaid enrollment averaged 57.7 million, according to the Congressional Budget Office.

JOINT FINANCING: Medicaid is jointly funded by the federal and state governments. On average, federal funding accounts for 57 percent of total costs, but the actual amount varies by state, depending on per capita income. The federal contribution, called the federal medical assistance percentage (FMAP), ranges between 50 percent and 76 percent per state, with the federal government paying a larger portion of the costs in states with lower incomes. State and some local governments pay the remainder.

Medicaid spending is a significant portion of state budgets, with combined state and federal contributions accounting for 22 percent of state budgets in 2010, according to the National Association of State Budget Officers.

Expanding Medicaid rolls have increased Medicaid spending, which is estimated to grow by 11.2 percent in 2011. This increased demand for Medicaid coverage comes at the same time the recession and subsequent period of slow economic growth have dramati-

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cally reduced state tax revenues. In 2011, these revenues remain below 2008 levels.

Unlike the federal government, state governments cannot generally plan to run a deficit and must balance their budgets, including by drawing down reserve funds. As these reserves have been drained, states have had to make difficult decisions to cut programs and services or to increase taxes.

TEMPORARY RELIEF: To provide relief to the states and support Medicaid beneficiaries and providers, Congress temporarily increased the portion of costs paid by the federal government, as it had done in previous recessions. The American Recovery and Reinvestment Act of 2009 (PL 111-5), the so-called stimulus law, prevented reductions in the federal match that would otherwise have occurred under the formula for calculating FMAPs. What's more, it provided all states with a 6.2 percentage point increase in the FMAP. States with significant increases in unemployment received additional increases in their FMAPs.

The expanded FMAPs were initially in effect for the 27-month period between October 2008 and December 2010. In August 2010, Congress voted to extend this assistance through the first six months of calendar 2011, although at lower levels. The FMAP extension was phased down from 6.2 percentage points in 2010 to 3.2 percentage points in the first quarter of calendar 2011 and 1.2 percentage points in the second quarter. Under the enhanced FMAP, the federal government's share of Medicaid spending increased to an average of about 64 percent in fiscal year 2011, according to the Congressional Budget Office.

An analysis by the Center on Budget and Policy Priorities shows that two-thirds of states would have had to cut jobs or services in fiscal year 2011 if the additional increased federal funding had not materialized. Some cuts would have affected Medicaid payments and services, but spending in other areas would also have been affected. Instead, with the renewed FMAP assistance, states have been able to avoid cuts in Medicaid benefits or provider reimbursement rates, to help pay for increases in Medicaid enrollment, and to make up shortfalls in general fund revenues.

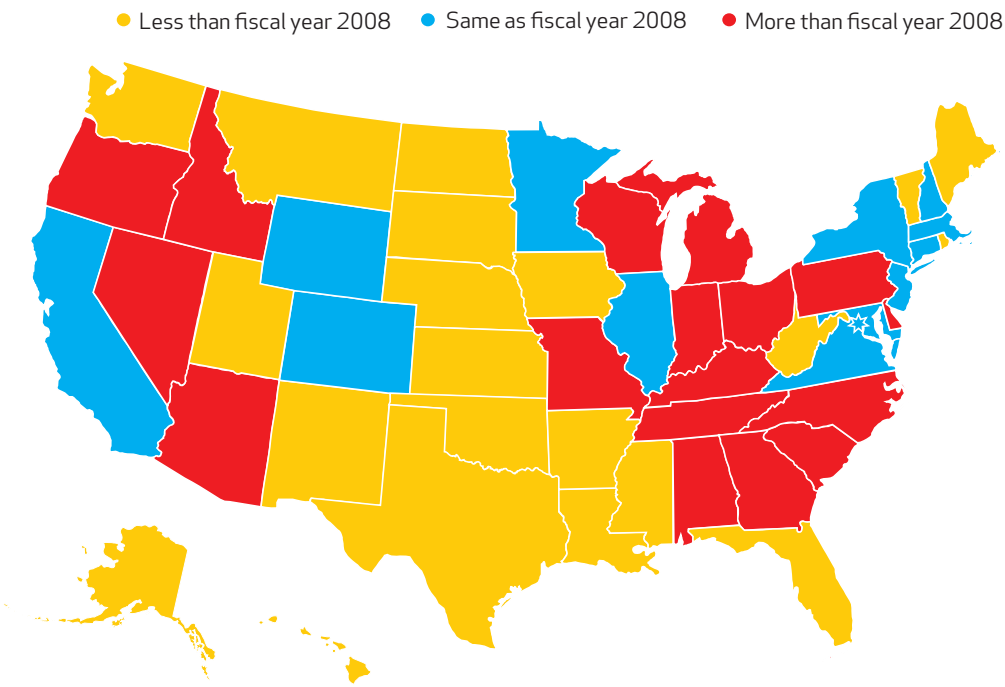
Effective July 1, 2011, the FMAP calculation reverted to its pre-stimulus status. All states will now see their FMAPs decline from the levels of the first half of calendar 2011. As Exhibit 1 illustrates, 21 states will have lower FMAPs than in 2008, while 17 states will show increases, although at rates less than what

57.7 million

Medicaid enrollment in 2010
Average monthly enrollment in Medicaid reached 57.7 million in 2010, according to the Congressional Budget Office.

EXHIBIT 1

Change in Federal Medicaid Assistance Percentage (FMAP) to States, Fiscal 2008 vs. Fiscal 2012



SOURCE Council of State Governments.

they had received with stimulus funding. The remaining 12 states plus the District of Columbia will return to the same federal match that they had received in 2008.

WHAT'S NEXT?

States continue to experience significant gaps between revenue collections and spending. According to the National Association of State Budget Officers, at least 33 states are predicting budget shortfalls in fiscal year 2012, which for most states began July 1, 2011. As a result, with no additional federal assistance for Medicaid, almost all states are planning changes to their Medicaid program aimed at containing costs, including freezing or reducing payments to providers and physicians, eliminating or limiting specific benefits, or implementing strategies to control prescription drug use.

One option that most states don't have at the moment is making changes in their determinations of who is eligible for Medicaid. So-called maintenance-of-effort requirements imposed by the Affordable Care Act of 2010 prevent states from enacting any restrictions on eligibility for Medicaid beyond those that were in place at the time the health reform law was enacted in March 2010.

Some states have requested a waiver of these requirements, and Republican governors have written to the Obama administration requesting general relief from maintenance-of-effort restrictions, arguing that states need additional flexibility to address their ongoing fiscal problems. Legislation has been introduced in both houses of Congress that would repeal the maintenance-of-effort provisions, although odds of passage are slim, especially in the Democratic-controlled Senate.

As of the date this brief is published, there is no active plan to provide additional relief to the states in the form of increased federal support for Medicaid. Instead, Congress and the Obama administration continue to engage in contentious debates over cutbacks in federal spending.

Amid negotiations between the Obama administration and Congress to raise the nation's federal debt ceiling, there are ongoing discussions about restructuring Medicaid to save money over the long haul, including changes to the FMAP that could further reduce the federal share of spending on programs such as Medicaid and the Children's Health Insurance Program. Should these result in major changes to Medicaid, they will be detailed in a future Health Policy Brief.■

22%

Medicaid portion of state budgets
Combined state and federal contributions for Medicaid accounted for 22 percent of state spending in 2010.

About Health Policy Briefs

Written by
Amanda Cassidy
Principal
Meitheal Health Policy
(Cassidy previously worked for the Centers for Medicare and Medicaid Services, in the Office of Legislation and the Center for Medicare Management.)

Editorial review by
John Holahan
Director
Health Policy Research Center, Urban Institute

Alan Weil
Executive Director
National Academy for State Health Policy

Ted Agres
Senior Editor for Special Content
Health Affairs

Susan Dentzer
Editor-in-Chief
Health Affairs

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