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SENATE'S MEDICAID ASSISTANCE FOR STATES LESS TARGETED THAN IN HOUSE RECOVERY BILL

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The Senate's emerging economic recovery package includes an $87 billion temporary increase in the share of Medicaid that the federal government would pay over nine calendar quarters (October 1, 2008 through December 31, 2010). Like a comparable provision in the House-passed recovery package, the Senate proposal would provide three elements of Medicaid fiscal relief assistance to states, as outlined below. But the Senate version is significantly less targeted on states in fiscal distress. The House provision targets about half of the assistance to states with the greatest economic problems, while the Senate targets only about *20 percent* that way.

Targeting is a particularly important issue. At the most recent count, 46 states face budget deficits, with combined deficits of $350 billion over the next 30 months.[1] But the problems are far worse in some states than others. While ten states are projected to have unemployment in the 4.89 percent to 6.41 percent range in the fourth quarter of 2009, ten others are projected to have unemployment rates twice that high, in the 9.6 percent to 12.7 percent range, according to the recent National Governors Association economic report.[2] (Other states are in between.)

The higher a state's unemployment, the more people qualify for Medicaid and the less revenue a state has to pay for increases in its Medicaid rolls. Therefore, increases in unemployment — the measure that the House and Senate bills use to target the assistance — is a reliable way to measure the level of need for this type of assistance.

The Importance of Targeting

A recent letter from the Government Accountability Office to members of Congress implies that it is more efficient to target funding to states with greater need, and that larger amounts of funding

[1] Elizabeth McNichol and Iris J. Lav, "State Budget Troubles Worsen," Center on Budget and Policy Priorities, updated January 29, 2009, available at http://www.cbpp.org/9-8-08sfp.htm.

[2] National Governors Association, "State Economic Review," January 2009, available at http://www.nga.org/Files/pdf/NGAECONREVIEW.PDF

are needed to get the same stimulative effect if an across-the-board approach is used.[3] With less targeting, more funding goes to states with less need — and less funding goes to those states that need it the most.

Of the six states forecast to suffer the largest increases in their unemployment rates between 2006 and 2010, five would receive less assistance under the Senate's less-targeted version than under a more targeted approach.[4] This includes California, Florida, Rhode Island, Nevada, and New York. (The sixth state, Michigan, would get about the same amount either way.) Other states with substantial rises in unemployment also would do worse under the less-targeted method.

Targeting also is likely to increase the extent to which the funds help states maintain their Medicaid programs in the face of rising enrollment and dropping revenues. Sending more funds to states with greater need provides greater assurances that states will spend the funding on the health care needs of low-income households and the newly unemployed, since such states have the greater need within their Medicaid programs. Moreover, states with greater unemployment increases and higher levels of need are also likely to spend available funding *sooner*, providing a more immediate stimulus to the economy.

Finally, if states with higher levels of need get a smaller portion of their need filled by federal funding because the funding is less targeted, they would be forced to make larger budget cuts and/or more tax increases to meet their balanced budget requirements. This would create a greater drag on the economy and threaten to counteract part of the intended federal economic stimulus.

The Medicaid Provisions in the Senate Bill

The Senate bill contains three provisions relating to Medicaid funding for states:

- It would suspend through fiscal year 2011 the reductions that some states would otherwise experience in the percentage of their Medicaid costs paid by the federal government. (The percentage of a given state's Medicaid costs the federal government pays, known as the state's FMAP, is adjusted each year, but because the adjustment is based on economic data from previous years, there is a substantial lag.) This feature of the bill would prevent states from losing federal funding simply because economic conditions in the states were much stronger several years ago. The House bill contains an identical provision.

- All states would receive a "base" 7.6 percentage point increase in their FMAP rate. Thus in New York, where the federal government usually pays 50 percent of Medicaid costs, the base federal share for the period of assistance would be 57.6 percent. In Mississippi, where the federal government usually pays about 76 percent of Medicaid costs, the base federal share

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[3] Government Accountability Office, Letter to the Honorable Max Baucus and the Honorable Charles Grassley, "Update of State and Local Fiscal Pressures," January 26, 2009

[4] Compared, for example, to the original Chairman's Mark issued before the Senate Finance Committee markup. An amendment was adopted in the markup to reduce the targeting and to increase the proportion of assistance provided through the across-the-board percentage increase to 80 percent.

would be 83.6 percent.[5]

The base increase in the House bill is smaller — 4.9 percentage points — because the House concentrates more of its funding based on the depth of the recession in each state.

- States experiencing poor economic conditions as indicated by a significant rise in unemployment — as most states are — would receive additional assistance. Depending on the extent of the state's rise in unemployment, a state could receive a 2.5 percent, 4.5 percent, or 6.5 percent reduction in the share of Medicaid costs the state pays. This reduction would apply to the state's share of Medicaid costs after the 7.6 percentage point base increase.

  By contrast, the House bill's reductions in the state share of costs for states based on increases in unemployment are 6 percent, 12 percent, and 14 percent. These reductions would apply to the state share *before* the base increase. (See the Appendix for further explanation of these provisions.)

This fiscal assistance for states would be effective for the period October 1, 2008 through December 31, 2010. A state's qualification for a higher level of assistance due to rising unemployment 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 due to falling unemployment before July 1, 2010.

To receive any increased FMAP, however, a state's Medicaid eligibility levels must not be more restrictive than they were 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 have restricted eligibility would be allowed to reverse their actions and qualify for an increased FMAP in the first calendar quarter in which they have restored their Medicaid eligibility.

State-by-State Data

The tables below show illustrative estimates of the amount of assistance each state would potentially receive under the Senate bill, 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 state-by-state unemployment rate projections used here, from Moody's Economy.com, do incorporate some economic improvement as a result of enactment 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.

[5] The higher FMAP would apply to the costs of Medicaid benefits and Title IV-E foster care and adoption assistance, but not to Medicaid Disproportionate Share Hospital (DSH) payments and to CHIP and other Title IV programs that have federal matching rates based on the FMAP.

TABLE 1: FEDERAL FUNDING FOR STATE MEDICAID COSTS UNDER THE SENATE STIMULUS BILL, TOTAL OVER NINE QUARTERS (in $ thousands)	
STATE	**ESTIMATED ASSISTANCE**
Alabama	$807,014
Alaska	$246,609
Arizona	$1,829,000
Arkansas	$713,202
California	$9,633,005
Colorado	$775,284
Connecticut	$1,116,822
Delaware	$284,346
District of Columbia	$299,734
Florida	$3,906,830
Georgia	$1,570,553
Hawaii	$328,731
Idaho	$276,680
Illinois	$2,513,908
Indiana	$1,211,003
Iowa	$563,066
Kansas	$433,163
Kentucky	$980,952
Louisiana	$1,611,576
Maine	$441,666
Maryland	$1,337,685
Massachusetts	$2,627,382
Michigan	$2,083,083
Minnesota	$1,743,873
Mississippi	$799,417
Missouri	$1,476,246
Montana	$181,088
Nebraska	$304,615
Nevada	$398,755
New Hampshire	$236,087
New Jersey	$1,933,186
New Mexico	$621,912
New York	$11,277,580
North Carolina	$2,172,748
North Dakota	$115,014
Ohio	$2,774,121
Oklahoma	$913,281
Oregon	$757,726
Pennsylvania	$3,700,399
Rhode Island	$401,031
South Carolina	$770,335
South Dakota	$122,301
Tennessee	$1,492,672
Texas	$5,322,031
Utah	$330,102
Vermont	$249,531
Virginia	$1,315,656
Washington	$1,829,185
West Virginia	$464,560
Wisconsin	$1,136,221
Wyoming	$106,487
American Samoa	$3,079
Guam	$4,528
N. Mariana Islands	$1,689
Puerto Rico	$91,227
Virgin Islands	$4,037
Total	$78,642,015

* See technical explanation below.

Note: Excludes increases in IV-E reimbursements. CBO has a higher estimate of total assistance of $86.6 billion, likely due to including IV-E and differing assumptions about unemployment rate changes and Medicaid spending.

TABLE 2: FEDERAL FUNDING FOR STATE MEDICAID COSTS UNDER THE SENATE STIMULUS BILL, BY STATE FISCAL YEAR (in $ thousands)				
STATE	**SFY09**	**SFY10**	**SFY11**	**TOTAL**
Alabama (a)	$337,785	$370,932	$98,297	$807,014
Alaska	$74,258	$112,095	$60,257	$246,609
Arizona	$563,605	$826,718	$438,677	$1,829,000
Arkansas	$208,426	$326,297	$178,479	$713,202
California	$3,144,062	$4,273,864	$2,215,079	$9,633,005
Colorado	$229,018	$359,863	$186,402	$775,284
Connecticut	$354,433	$495,793	$266,596	$1,116,822
Delaware	$79,798	$131,611	$72,937	$284,346
District of Columbia (a)	$125,870	$137,082	$36,782	$299,734
Florida	$1,280,797	$1,730,747	$895,286	$3,906,830
Georgia	$479,283	$716,139	$375,131	$1,570,553
Hawaii	$102,681	$147,956	$78,094	$328,731
Idaho	$82,029	$127,113	$67,537	$276,680
Illinois	$769,428	$1,144,686	$599,795	$2,513,908
Indiana	$369,462	$552,258	$289,283	$1,211,003
Iowa	$167,607	$256,595	$138,864	$563,066
Kansas	$129,891	$197,831	$105,442	$433,163
Kentucky	$305,689	$441,904	$233,360	$980,952
Louisiana	$385,635	$782,877	$443,064	$1,611,576
Maine	$136,912	$200,517	$104,237	$441,666
Maryland	$406,889	$607,072	$323,724	$1,337,685
Massachusetts	$814,449	$1,186,064	$626,868	$2,627,382
Michigan (a)	$897,537	$937,190	$248,355	$2,083,083
Minnesota	$524,308	$800,560	$419,006	$1,743,873
Mississippi	$239,408	$365,748	$194,261	$799,417
Missouri	$437,046	$678,145	$361,054	$1,476,246
Montana	$53,358	$83,368	$44,362	$181,088
Nebraska	$91,810	$139,975	$72,831	$304,615
Nevada	$127,235	$178,247	$93,273	$398,755
New Hampshire	$66,942	$109,117	$60,028	$236,087
New Jersey	$557,188	$896,202	$479,796	$1,933,186
New Mexico	$188,556	$277,897	$155,459	$621,912
New York (b)	$2,127,257	$5,092,128	$4,058,195	$11,277,580
North Carolina	$676,134	$982,839	$513,775	$2,172,748
North Dakota (c)	$34,263	$52,526	$28,225	$115,014
Ohio	$842,568	$1,264,920	$666,632	$2,774,121
Oklahoma	$255,881	$424,147	$233,254	$913,281
Oregon (c)	$237,439	$342,849	$177,438	$757,726
Pennsylvania	$1,094,639	$1,701,991	$903,769	$3,700,399
Rhode Island	$131,400	$177,692	$91,939	$401,031
South Carolina	$249,939	$342,453	$177,943	$770,335
South Dakota	$37,943	$55,669	$28,688	$122,301
Tennessee	$467,022	$675,491	$350,160	$1,492,672
Texas (d)	$1,909,312	$2,506,916	$905,802	$5,322,031
Utah	$103,877	$147,339	$78,886	$330,102
Vermont	$71,171	$115,377	$62,983	$249,531
Virginia	$372,484	$614,690	$328,481	$1,315,656
Washington (c)	$510,389	$855,142	$463,654	$1,829,185
West Virginia	$143,298	$207,369	$113,893	$464,560
Wisconsin	$333,460	$522,622	$280,139	$1,136,221
Wyoming (c)	$28,662	$50,085	$27,741	$106,487

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.

APPENDIX: TECHNICAL EXPLANATION OF THE SENATE FMAP PROVISION

Under Section 5001 of the Senate 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. <u>"Hold Harmless":</u> 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. <u>Base Increase:</u> Each state's FMAP, after application of the hold harmless provision, would be further increased by 7.6 percentage points.

   Example: After application of the hold harmless provision, State X's FMAP would be increased from 60 percent in to 67.6 percent for fiscal years 2009 and 2010 and the first quarter of fiscal year 2011.

3. <u>Additional Increase for States with Unemployment Rate Increases:</u> A state may qualify for an additional increase of their FMAP, after application of the hold harmless provision and the base increase. A state qualifies for this increase 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). The additional FMAP increase a qualifying 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 2.5 percent. This calculation is made after application of the hold harmless provision and the base increase.

   - 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 4.5 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 6.5 percent.

If a state during any quarter becomes a qualifying state, or if a qualifying state experiences an unemployment rate increase that makes the state eligible 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. The level of assistance could decline for the last two quarters of assistance (July through December of 2010), but only with three months' notice to the state. This is slightly different from how the House provision works. Under the House provision, assistance during the final two quarters is based on the unemployment increase from the base period through the three months from December 2009 to February 2010, i.e., the same period that is used to determine assistance for March through June of 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 and the base, State X's FMAP is 67.6 percent. This means that the state's share of the cost equals 32.4 percent. This share of the cost would be reduced by 4.5 percent, or 1.46 percentage points, because the state qualifies for the second level of additional assistance. State X's FMAP would thus be further increased by 1.46 percentage points, which translates into a FMAP of 69.06 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 6.5 percent, or 2.11 percentage points. State X's FMAP would then be 69.71 percent, at least through July 1, 2010.

The FMAP increase would generally apply to all Medicaid costs, except for Disproportionate Share Hospital (DSH) payments made to hospitals that serve low-income patients and Medicaid beneficiaries, and payments attributable to individuals newly covered by income eligibility expansions that were not already in place on July 1, 2008. The increase would also 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.

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, total federal funding for each of the territories is capped. The cap would be increased by 11.2 percent for the period October 1, 2008 through December 31, 2010.[6] The House provision would similarly increase the cap for the territories by 20 percent but also includes an explicit option for the territories to instead have their cap increased by 10 percent while also receiving the base increase of 4.9 percentage points.

[6] An increase in the federal funding cap alone is unlikely to provide any benefit to the Virgin Islands, because unlike Puerto Rico and the other territories, it is not currently exceeding its cap. In implementing a very similar increase in the funding cap for the territories as part of the FMAP increase enacted in 2003 (and that involved similar legislative language), however, the Centers for Medicare and Medicaid Services (CMS) assumed that the territories were eligible for both the funding cap increase and the base increase. If CMS implements the funding cap increase in a similar fashion, the Virgin Islands are estimated to receive federal assistance equal to $4.0 million during the duration of the temporary FMAP increase. See Centers for Medicare and Medicaid Services, State Medicaid Director Letter SMD #03-005, June 13, 2003.

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, 2008. 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.