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RECOVERY ACT PROVIDES MUCH-NEEDED, TARGETED MEDICAID ASSISTANCE TO STATES

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The American Recovery and Reinvestment Act 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). It would provide three elements of Medicaid fiscal relief assistance to states, as outlined below. Approximately 35 percent of the assistance would be targeted to states with the greatest economic problems.

The targeting in this legislation is particularly important. 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 legislation uses to target the assistance — are a reliable way to measure the level of need for this type of assistance.

The Medicaid Provisions in the Economic Recovery Legislation

The legislation contains three provisions relating to increased 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

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[1] Elizabeth McNichol and Iris J. Lav, "State Budget Troubles Worsen," Center on Budget and Policy Priorities, *updated* February 10, 2009, available at http://www.cbpp.org/9-8-08sfp.htm. These are the deficits that would be expected in the absence of the fiscal relief provisions and stimulative effect of the Recovery Act.

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

previous years, there is a substantial lag.) This "hold harmless" feature of the bill would prevent states from losing federal funding simply because economic conditions in the states were much stronger several years ago.

- All states would receive a "base" 6.2 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 56.2 percent. In Mississippi, where the federal government usually pays about 76 percent of Medicaid costs, the base federal share would be 82.2 percent.

- 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 5.5 percent, 8.5 percent, or 11.5 percent reduction in the share of Medicaid costs the state pays. This reduction would apply to the state's share of Medicaid costs after taking into account the hold harmless provision and half of the 6.2 percentage point base increase.[3] (See the explanation below for further details of this computation.)

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.

Assistance Is Well-Targeted

The targeting in this legislation will increase the extent to which states are able to 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.

Without this assistance, states would be forced to enact larger budget cuts and/or more tax increases to meet their balanced budget requirements. This would create a greater drag on the economy and counteract part of the intended federal economic stimulus.

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[3] These FMAP increases would apply to the costs of Medicaid benefits and to Title IV-E foster care and adoption assistance (but the increase related to unemployment would not apply to Title IV-E spending). The FMAP increases would not apply to Medicaid Disproportionate Share Hospital (DSH) payments, and to SCHIP and other Title IV programs that have federal matching rates based on the FMAP.

State-by-State Estimates by GAO

The tables below, based on tables prepared for the Senate Finance Committee by the Government Accountability Office, show illustrative estimates of the amount of assistance each state would potentially receive under the new legislation, 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. 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.

TABLE 1: GAO ESTIMATES OF FEDERAL FUNDING FOR STATE MEDICAID COSTS UNDER ECONOMIC RECOVERY BILL, TOTAL OVER NINE QUARTERS (in $ millions)	
STATE	**ESTIMATED ASSISTANCE**
Alabama	$850
Alaska	$220
Arizona	$1,980
Arkansas	$730
California	$11,230
Colorado	$880
Connecticut	$1,320
Delaware	$320
District of Columbia	$300
Florida	$4,390
Georgia	$1,730
Hawaii	$360
Idaho	$300
Illinois	$2,900
Indiana	$1,440
Iowa	$550
Kansas	$450
Kentucky	$1,030
Louisiana	$1,660
Maine	$470
Maryland	$1,630
Massachusetts	$3,090
Michigan	$2,270
Minnesota	$2,030
Mississippi	$790
Missouri	$1,600
Montana	$180
Nebraska	$310
Nevada	$450
New Hampshire	$250
New Jersey	$2,220
New Mexico	$630
New York	$12,650
North Carolina	$2,350
North Dakota	$110
Ohio	$3,010
Oklahoma	$960
Oregon	$830
Pennsylvania	$4,070
Rhode Island	$470
South Carolina	$860
South Dakota	$120
Tennessee	$1,620
Texas	$5,450
Utah	$320
Vermont	$280
Virginia	$1,470
Washington	$2,060
West Virginia	$450
Wisconsin	$1,240
Wyoming	$110
American Samoa*	$3
Guam*	$4
N. Mariana Islands*	$2
Puerto Rico*	$142
Virgin Islands*	$3
Total	$87,144

Source: For 50 states and D.C., Government Accountability Office estimates. *For territories, CBPP estimates based on CMS-37 Medicaid spending projections and projected annual federal funding caps for territories.

TABLE 2: FEDERAL FUNDING FOR STATE MEDICAID COSTS UNDER ECONOMIC RECOVERY BILL, BY STATE FISCAL YEAR (in $ millions)				
STATE	**SFY09**	**SFY10**	**SFY11**	**TOTAL**
Alabama (a)	$370	$400	$100	$850
Alaska	$60	$120	$60	$220
Arizona	$620	$910	$460	$1,980
Arkansas	$190	$350	$180	$730
California	$3,690	$5,010	$2,520	$11,230
Colorado	$250	$430	$220	$880
Connecticut	$390	$600	$300	$1,320
Delaware	$90	$150	$80	$320
District of Columbia (a)	$120	$120	$30	$300
Florida	$1,440	$1,950	$980	$4,390
Georgia	$530	$790	$400	$1,730
Hawaii	$120	$160	$80	$360
Idaho	$90	$150	$80	$300
Illinois	$880	$1,340	$680	$2,900
Indiana	$440	$670	$340	$1,440
Iowa	$150	$260	$160	$550
Kansas	$130	$230	$120	$450
Kentucky	$310	$470	$240	$1,030
Louisiana	$400	$830	$460	$1,660
Maine	$150	$230	$120	$470
Maryland	$470	$750	$400	$1,630
Massachusetts	$920	$1,460	$720	$3,090
Michigan (a)	$980	$1,040	$260	$2,270
Minnesota	$620	$940	$480	$2,030
Mississippi	$220	$390	$200	$790
Missouri	$440	$750	$380	$1,600
Montana	$60	$80	$40	$180
Nebraska	$90	$150	$80	$310
Nevada	$150	$200	$100	$450
New Hampshire	$70	$120	$60	$250
New Jersey	$600	$1,060	$540	$2,220
New Mexico	$160	$300	$160	$630
New York (b)	$2,220	$5,830	$4,620	$12,650
North Carolina	$720	$1,070	$540	$2,350
North Dakota (c)	$30	$60	$40	$110
Ohio	$870	$1,430	$720	$3,010
Oklahoma	$230	$460	$240	$960
Oregon (c)	$250	$390	$200	$830
Pennsylvania	$1,160	$1,920	$1,000	$4,070
Rhode Island	$150	$200	$100	$470
South Carolina	$280	$400	$200	$860
South Dakota	$30	$50	$40	$120
Tennessee	$500	$750	$380	$1,620
Texas (d)	$1,958	$2,617	$875	$5,450
Utah	$100	$160	$80	$320
Vermont	$70	$120	$60	$280
Virginia	$410	$690	$380	$1,470
Washington (c)	$540	$1,010	$520	$2,060
West Virginia	$120	$210	$120	$450
Wisconsin	$300	$620	$320	$1,240
Wyoming (c)	$30	$60	$40	$110

Note: Values for fiscal years may not sum to state totals due to rounding of underlying figures. 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 cycles ending in June of alternate years. For those states, aid estimates are for half a budget cycle. (d) Texas's fiscal year ends August 31.
Source: CBPP calculations based on Government Accountability Office estimates.

Detailed Explanation Of The Recovery Act FMAP Provision

Under Section 5001 of the 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.

Formula

The FMAP increase consists of three components:

1. **"Hold Harmless"**: A state whose FMAP rate in federal fiscal year 2009 is scheduled to be lower than the FMAP in fiscal year 2008 would be able to remain at the higher fiscal year 2008 rate for 2009. States whose fiscal year 2010 rate would otherwise be lower than their 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 their 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 6.2 percentage points.

   Example: After application of the hold harmless provision, State X's FMAP would be increased from 60 percent to 66.2 percent for federal fiscal years 2009 and 2010 and the first quarter of fiscal year 2011.

3. **Additional Increase for States with Large Unemployment Rate Increases**: States that experience large increases in their unemployment rates qualify for an additional increase of their FMAP. 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 its 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.

   For the purpose of the calculation of all the unemployment-related increases in FMAP, the calculation begins with the FMAP after application of the hold harmless provision and half of the base increase. The remaining state share is then reduced by the applicable percentage specified for the unemployment rate.

   - 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 5.5 percent.

- 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 state share of Medicaid costs by 8.5 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 state share of Medicaid costs by 11.5 percent.

Example: State X's FMAP is 60 percent after application of the hold harmless provision. After application of the base increase, state X's FMAP stands at 66.2 percent. The state has also 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, thus qualifying for the second level of additional assistance based on unemployment rate increases. State X's FMAP after application of ***half*** *of the base increase is 63.1 percent, leaving the state share at 36.9 percent. An 8.5 percent reduction in the state share would equal 3.14 percentage points. The state's FMAP would thus be 66.2 percent (after application of the hold harmless and the base increase) plus the additional 3.14 percentage point increase due to its increased unemployment rate, for a total FMAP of 69.34 percent.*

Changes in Unemployment and Duration of Assistance

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 at least 60 days' notice to the state. 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 (or if it produces a higher level of assistance, the three months from January 2010 to March 2010).

If State X from the previous example 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 Medicaid costs (after application of the hold harmless and half the base increase) would then be reduced by 11.5 percent, or 4.24 percentage points. State X's FMAP would then be 70.44 percent, at least through July 1, 2010.

Scope of Application

The FMAP increase would generally apply to all Medicaid costs, except for Disproportionate Share Hospital (DSH) payments made to hospitals that disproportionately 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. Only the hold harmless and the base increase would apply to Title IV-E costs; the increase related to unemployment would not apply to such costs.

Territories

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 generally be increased by 30 percent for the period October 1, 2008, through December 31, 2010, although territories also have an option to have their cap increased by 15 percent while also receiving the base increase of 6.2 percentage points.

Maintenance of Effort

States would 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 assistance period become eligible again for the FMAP increase in the first calendar quarter in which they reinstate their eligibility to July 1, 2008 levels. States that 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.

Prompt Payment Requirements

In addition, on a quarterly basis, states must report that they have promptly paid certain provider claims for Medicaid reimbursement for each month of the preceding calendar quarter. Under current law, states must ensure that they are paying 90 percent of "clean" claims that do not require additional information or documentation within 30 days, and 99 percent of such claims within 90 days. This legislation extends the types of providers to which these requirements apply, but just for purposes of determining state eligibility for FMAP increases. Under current law, this prompt pay requirement only applies to health care practitioners like physicians, and does not apply to payments to hospitals and nursing homes. Under the new legislation, states would also have to show they are similarly paying hospitals and nursing homes on a timely basis during the duration of the FMAP increases. States that cannot demonstrate prompt payment would not be eligible for the FMAP increases for payments related to any claim filed by these providers during any month they are out of compliance.

Local Contributions

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.