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Senate Bill Provides Added Federal Medicaid Assistance Tied to State Economic Conditions

By Paul N. Van de Water

Senator Robert Casey and colleagues have introduced a bill that would provide an increase in the federal government's share of Medicaid costs (the federal medical assistance percentage, or FMAP) tied to each state's unemployment rate.[1] Federal assistance would kick in automatically when a state moved into recession and phase down automatically as a state returned to full employment, without requiring future congressional action. The Casey bill is similar to legislation previously introduced by the House Democratic leadership and by Rep. Susie Lee.[2] It is also similar to a Hamilton Project-Washington Center for Equitable Growth proposal, which a bipartisan Aspen Institute task force recently endorsed.[3]

This triggered increase in federal Medicaid assistance would go a long way toward closing the large recession-related gaps emerging in state budgets and reduce the need for harmful program cuts and tax increases. It would also protect health coverage by preventing damaging cuts in Medicaid eligibility and benefits, which have marked previous recessions. Finally, triggered state fiscal relief would reduce states' uncertainty in budgeting and the risk of mid-year budget shortfalls.

States Need More Fiscal Relief to Offset Pandemic-Induced Shortfalls

The recession set off by the COVID-19 pandemic has opened up huge holes in state budgets. With businesses shuttered or restricted and tens of millions out of work, states' income and sales tax

[1] S. 4108, the Coronavirus Medicaid Response Act. https://www.congress.gov/bill/116th-congress/senate-bill/4108?s=1&r=2.

[2] Section 70101 of H.R. 6379, the Take Responsibility for Workers and Families Act, and H.R. 6539, the Coronavirus Medicaid Response Act.

[3] Matthew Fiedler, Jason Furman, and Wilson Powell III, "Increasing Federal Support for State Medicaid and CHIP Programs in Response to Economic Downturns," in *Recession Ready: Fiscal Policies to Stabilize the American Economy*, Hamilton Project, May 2019, https://www.hamiltonproject.org/assets/files/FFP_web_20190506.pdf?_ga=2.29512831.1171223303.1588766496-2062496384.1584041035; Jason Furman, Timothy Geithner, Glenn Hubbard, and Melissa S. Kearney, *Promoting Economic Recovery After COVID-19*, Aspen Institute, June 16, 2020, https://economicstrategygroup.org/resource/promoting-economic-recovery-after-covid-19/.

revenues have plummeted, while their costs for Medicaid and some other health programs are rising. State budget shortfalls could total $615 billion over the next three years, CBPP estimates, based on recent economic projections from the Congressional Budget Office (CBO) and other forecasters.[4] These projections do not include new costs to states to address the virus.

Unlike the federal government, states must balance their operating budgets every year. Without further federal assistance, they will be forced to make deep cuts in areas such as education and health care, lay off teachers and other workers, and cancel contracts with businesses. They may also raise taxes. These steps would worsen the recession, delay recovery, and hurt families and communities. Budget pressures could also lead states to shortchange public health measures to respond to COVID-19.

To forestall damaging state budget cuts or tax increases, the federal government should enact further fiscal assistance to states. Previous legislation responding to the pandemic includes some support for state budgets; in particular, the Families First Coronavirus Response Act raised the FMAP by 6.2 percentage points for the duration of the public health emergency. But that provision will provide states with about $40 billion for each year it is in effect — far less than the looming budget shortfalls — and will last only until the official public health emergency ends, even if the economy and state budgets remain in crisis.[5] Even taking into account other state fiscal relief in the subsequent Coronavirus Aid, Relief, and Economic Security (CARES) Act, federal help enacted to date will fill only a small fraction of state shortfalls.[6]

How the Proposal Would Work

The Casey bill includes a further FMAP increase that would automatically adjust to the depth and duration of the downturn, irrespective of the length of the public health emergency. By tying federal fiscal relief to the unemployment rate in each state, the proposal would ensure that assistance continued as long as economic conditions required without further congressional action, then terminated promptly when a state's economy had recovered.

Here's how the proposal would work.

In any quarter, the FMAP would increase by 4.8 percentage points for each percentage point by which a state's unemployment rate exceeded a state-specific threshold. That threshold is meant to approximate the unemployment rate that corresponds to full employment in the state. It would equal the lower of:

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[4] Elizabeth McNichol and Michael Leachman, *States Continue to Face Large Shortfalls Due to COVID-19 Effects*, Center on Budget and Policy Priorities, June 15, 2020, https://www.cbpp.org/research/state-budget-and-tax/states-continue-to-face-large-shortfalls-due-to-covid-19-effects.

[5] Congressional Budget Office, *Preliminary Estimate of the Effects of H.R. 6201, the Families First Coronavirus Response Act*, April 2, 2020, https://www.cbo.gov/system/files/2020-04/HR6201.pdf.

[6] Elizabeth McNichol, Michael Leachman, and Joshuah Marshall, *States Need Significantly More Fiscal Relief to Slow the Emerging Deep Recession*, Center on Budget and Policy Priorities, April 14, 2020, https://www.cbpp.org/research/state-budget-and-tax/states-need-significantly-more-fiscal-relief-to-slow-the-emerging-deep.

- The 20th percentile of quarterly unemployment rates over the previous 15 years plus one percentage point. (If you rank quarterly unemployment rates from highest to lowest, the 20th percentile is the rate that is above the lowest 20 percent of rates.)
- The average quarterly unemployment rate for the previous three years plus one percentage point.

For example, if the threshold were 4.5 percent (roughly the threshold in the typical state) and a state's unemployment rate were 8.5 percent, the increase in the FMAP would be 19.2 percentage points ((8.5 – 4.5) x 4.8).

FMAP increases under the proposal would apply to all enrollees, including low-income adults covered through the Affordable Care Act's (ACA's) Medicaid expansion. This category will likely see disproportionate growth during the recession, since it will provide coverage to many of those losing their jobs.

The proposal would limit the FMAP for any population to 95 percent, so that states would retain an incentive to manage their Medicaid programs efficiently. But states could apply any increase in the FMAP beyond this limit retroactively to Medicaid spending for quarters before the economic downturn began, so they would still receive the full fiscal relief. For example, if a state's FMAP under the proposal would otherwise have reached 100 percent, it could claim only a 95 percent FMAP for the current quarter, but could also claim federal funding for an additional 5 percent of its Medicaid spending in a quarter before the downturn.

In exchange for the increased federal funding, states would be subject to a maintenance-of-effort (MOE) requirement: they couldn't impose new Medicaid eligibility restrictions and would be required to provide enrollees with 12 months of continuous coverage during downturns, meaning that they couldn't lose coverage until at least 12 months after they enrolled, even if their circumstances change.[7] This is similar to the MOE requirement in the Families First Act. FMAP increases enacted in the early 2000s and during the Great Recession also included MOE requirements.[8]

Why the Proposal Makes Sense

Tying the federal Medicaid matching rate to a state's unemployment rate makes sense for several reasons. It would automatically adjust the amount of fiscal relief to the extent of each state's need, protect health coverage during economic downturns, and give states greater certainty in budgeting.

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[7] States have had the option to provide 12 months of continuous coverage to children enrolled in Medicaid and the Children's Health Insurance Program (CHIP) since CHIP's enactment in 1997. States can also elect to provide continuous eligibility to adults through a Medicaid waiver. To date, 23 states have adopted continuous eligibility for children in Medicaid, and 25 have adopted it for CHIP. So far, Montana and New York are the only states with continuous eligibility for adults. Judith Solomon, Jennifer Wagner, and Aviva Aron-Dine, *Medicaid Protections in Families First Act Critical to Protecting Health Coverage*, Center on Budget and Policy Priorities, April 17, 2020, https://www.cbpp.org/research/health/medicaid-protections-in-families-first-act-critical-to-protecting-health-coverage.

[8] Aviva Aron-Dine, "Medicaid 'Maintenance of Effort' Protections Crucial to Preserving Coverage," Center on Budget and Policy Priorities, May 13, 2020, https://www.cbpp.org/blog/medicaid-maintenance-of-effort-protections-crucial-to-preserving-coverage.

Triggered State Fiscal Relief Automatically Adjusts Based on Need

A triggered increase in the FMAP, as in the Casey bill, would go a long way toward filling the gaps in state budgets that the pandemic and recession are producing. A one percentage-point increase in the unemployment rate increases the pressure on state budgets by about $45 billion a year, a recent Brookings analysis estimates. A 4.8 percentage-point increase in the FMAP would deliver about $32 billion in additional funds to state governments, and so would automatically offset more than two-thirds of the fiscal pressure associated with the unemployment increase.[9]

The proposal's design means that relief would automatically adjust to the extent of the downturn, without requiring additional federal action, and would continue until the economy has truly recovered, rather than ending when the public health emergency expires or on some arbitrary date. And, because the FMAP increase for a state would depend on its unemployment rate, the policy would automatically give more help to states whose economies and budgets are hit especially hard by the recession.[10] These features of the policy align with recommendations from the bipartisan National Governors Association, which has recommended basing state FMAP increases on state unemployment rates.[11]

Delivering State Fiscal Relief Through FMAP Protects Health Coverage

Increasing the FMAP would also protect health coverage. Millions more people are enrolling or will enroll in Medicaid in coming months because of the recession, the large majority of whom would otherwise become uninsured. For example, Urban Institute researchers estimate that with an unemployment rate of 15 percent, Medicaid enrollment will increase by 8 to 14 million people (16 to 29 percent).[12]

Without more federal help, many states will likely cut Medicaid. During past budget crises, states restricted Medicaid eligibility, including for seniors, people with disabilities, and pregnant women; made it harder for eligible people to get and stay covered; eliminated or cut key benefits; and cut payments to physicians, hospitals, nursing homes, and other providers.[13] States are already considering Medicaid cuts as a result of the current downturn.[14]

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[9] Matthew Fiedler and Wilson Powell III, "States will need more fiscal relief. Policymakers should make that happen automatically," USC-Brookings Schaeffer Initiative for Health Policy, April 2, 2020, https://www.brookings.edu/blog/usc-brookings-schaeffer-on-health-policy/2020/04/02/states-will-need-more-fiscal-relief-policymakers-should-make-that-happen-automatically/.

[10] State revenue shortfalls are strongly associated with state unemployment rates. See Fiedler, Furman, and Powell, *op. cit.*

[11] National Governors Association, *Governors' Letter Regarding COVID-19 Aid Request,* April 21, 2020, https://www.nga.org/policy-communications/letters-nga/governors-letter-regarding-covid-19-aid-request/.

[12] Bowen Garrett and Anuj Gangopadhyaya, *How the COVID-19 Recession Could Affect Health Insurance Coverage*, Urban Institute, May 4, 2020, https://www.urban.org/research/publication/how-covid-19-recession-could-affect-health-insurance-coverage.

[13] Aviva Aron-Dine and others, *Larger, Longer-Lasting Increases in Federal Medicaid Funding Needed to Protect Coverage*, Center on Budget and Policy Priorities, May 5, 2020, https://www.cbpp.org/research/health/larger-longer-lasting-increases-in-federal-medicaid-funding-needed-to-protect.

[14] Rachel Roubein and Dan Goldberg, "States cut Medicaid as millions of jobless workers look to safety net," *Politico,* May 5, 2020, https://www.politico.com/news/2020/05/05/states-cut-medicaid-programs-239208.

Such cuts would be damaging under any circumstances but especially harmful during the current public health crisis. FMAP increases protect health coverage both by reducing states' cost per dollar of Medicaid spending and through MOE protections, and they proved successful in averting or mitigating Medicaid cuts during the Great Recession.[15]

Triggered Fiscal Relief Gives States More Budget Certainty

Some have expressed concerns that linking state fiscal relief to state economic conditions would make it harder for states to plan their budgets because they would not know exactly how much federal aid they will get. But in reality, triggered state fiscal relief reduces states' uncertainty in budgeting and their risk of mid-year budget shortfalls.

States base their budget decisions on forecasts of the economy, federal aid, and other factors influencing revenues and spending. Revenue collections are especially sensitive to economic conditions. So when economic forecasts prove too optimistic, states collect less revenue than expected and experience mid-year budget shortfalls, which often lead to harmful program cuts. Currently, with great uncertainty surrounding the economic outlook, states are at high risk for such shortfalls.

Providing a fixed dollar amount of state fiscal relief does not reduce this uncertainty. A state that sets its budget taking into account its economic forecast and expected federal aid will still be left with a budget shortfall equal to its revenue shortfall if its underlying economic forecast proves too optimistic.

In contrast, with FMAP increases based on state economic conditions, errors in states' forecasts of federal aid will partially or fully offset errors in their revenue projections, reducing mid-year budget shortfalls. For example, if the actual unemployment rate exceeds the forecast, tax revenues will be lower than expected but federal Medicaid funding will be higher than expected, and the two misestimates will partly or largely cancel out. This reduces overall budget uncertainty and the likelihood of a mid-year budget shortfall.

Because the course of the coronavirus and its impacts on the economy are unpredictable, states' economic and budget projections for 2021 and 2022 are highly uncertain. Providing additional federal Medicaid funding tied to a state's unemployment rate would reduce that budgetary uncertainty.

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[15] Aron-Dine and others, *op. cit.*