kaiser commission on medicaid and the uninsured

MEDICAID FACTS

THE HENRY J. KAISER FAMILY FOUNDATION

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STATE FISCAL CONDITIONS AND MEDICAID

Mid-way through state fiscal year 2010, the effects of the economic recession (rising unemployment, sharp declines in revenues and higher demands for public programs, including Medicaid) continue to plague states. Jointly financed and administered by the federal government and states, Medicaid provides affordable and comprehensive health and long-term care coverage to 60 million low-income Americans.

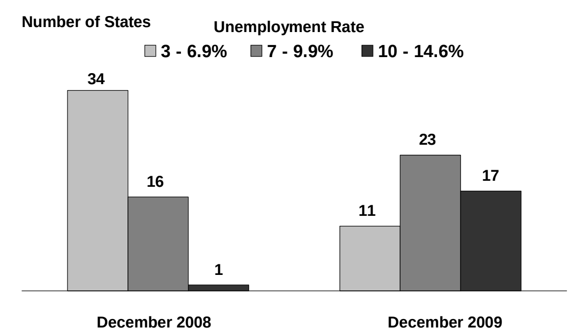
Enhanced federal Medicaid funds from the American Recovery and Reinvestment Act (ARRA) have been critical in helping states to address their funding gaps and preserve Medicaid eligibility (a requirement to be eligible for the funds). However, these funds are set to expire at the end of December 2010 in the middle of state fiscal year 2011 unless extended by Congress. As governors and state legislatures start to develop budget plans for 2011, the outcome of federal decisions to extend the ARRA funds is a key element in shaping state Medicaid policy.

State Economic Conditions

The national unemployment rate stood at 9.7% in January 2010 nationwide. Although a slight dip from the 10% in December, it represents another 20,000 lost jobs. In December 2009, 17 states (including the District of Columbia) had unemployment rates at or above 10%, compared to 2008 when only Michigan had an unemployment rate above 10%. (Figure 1)

Figure 1

States with Unemployment Rates At Various Levels in December 2008 and December 2009



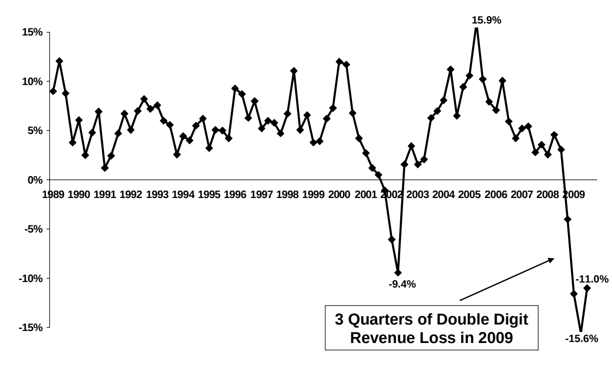
SOURCE: Bureau of Labor Statistics

Since the start of the recession in December 2007, over 8.4 million individuals have lost their jobs. An estimated 14.8 million are unemployed and 6.5 million have been jobless for 27 weeks or more (the long-term unemployed). Among those working, 8.3 million want to work full-time but have had to settle for part-time employment.[i]

Forty-one states are facing mid-year budget shortfalls for state fiscal year 2010 that could total $35 billion. Looking forward to 2011, states estimate a budget gap of $102 billion but could grow to $180 billion as revenues continue to decline. Including current gaps and those already closed by states, budget shortfalls total $350 billion for 2010 and 2011.[ii] According to the Rockefeller Institute, 48 states saw revenues decline in the third quarter of 2009 (July – September). Total state tax revenues fell by 11% during that period, the third consecutive quarter of double digit declines. The first three quarters of 2009 represent the largest decline in state tax revenues on record.[iii] (Figure 2)

Figure 2

State Tax Revenue, 1999-2009



SOURCE: Percent change in quarterly state tax revenue, US Census Bureau

Unlike the federal government, states are legally required to balance their budgets. States can use reserves or rainy day funds, increase taxes or cut spending to close budget gaps during periods of economic stress.

Medicaid and the Economy

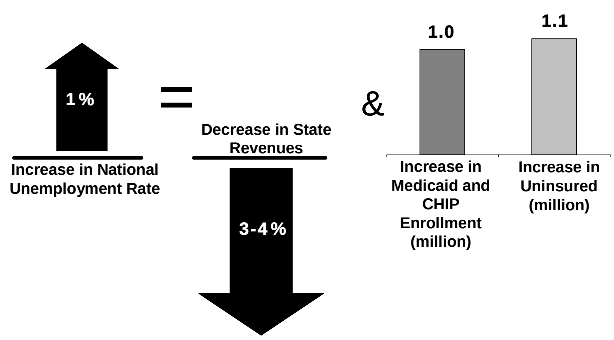
During an economic downturn, unemployment rises and puts upward pressure on Medicaid. As individuals lose employer sponsored insurance and incomes decline, Medicaid enrollment and therefore spending increase. At the same time, revenue losses make it more difficult for states to pay their share of Medicaid spending increases. Specifically, a 1 percentage point increase in the national unemployment rate is estimated to result in 1 million more Medicaid and CHIP enrollees and an additional 1.1 million uninsured at the same time as state revenues are projected to fall by 3 to 4%.

Since the start of the recession in December 2007, unemployment has increased 4.8 percentage points which could result in an estimated 4.8 million more Medicaid and CHIP enrollees and over 5.2 million more uninsured (Figure

3). Even as the economy starts to recover, unemployment and Medicaid enrollment are expected to lag behind other improvements putting continued pressure on state budgets.

Figure 3

Effect of a 1% Point Increase in Unemployment

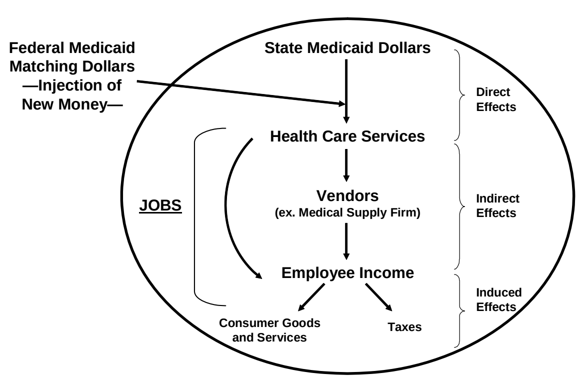


Source: *Medicaid, SCHIP and Economic Downturn: Policy Challenges and Policy Responses*, Kaiser Commission on Medicaid and the Uninsured, April 2008

Medicaid is important both as a source of coverage for low-income Americans and an economic engine in state economies. Medicaid payments made on behalf of enrollees to health care providers support jobs throughout the health sector. The impact of state spending on Medicaid is intensified because of the influx of federal matching funds. On the other hand, cuts to Medicaid to save state dollars result in an equal or greater loss of federal revenue to states which could stunt or slow the pace of economic recovery. (Figure 4)

Figure 4

Medicaid is an Economic Engine in State Economies



SOURCE: The Role of Medicaid in State Economies, KCMU, January 2009

The federal Medicaid matching rate (known as the Federal Medical Assistance Percentage or FMAP that determines the federal share of Medicaid program costs) is calculated annually for each state, and it varies depending on the average personal income in the state. Prior to FY 2009 and the implementation of the American Recovery and Reinvestment Act (ARRA), the FMAP has averaged about 57 percent nationwide, with the FMAP for higher income states at the statutory floor of 50 percent and FMAPs for poorer states ranging up to a high of 76 percent.

American Recovery and Reinvestment Act (ARRA)

In an effort to boost an ailing economy, Congress enacted and President Obama signed the American Recovery and Reinvestment Act (ARRA) on February 17, 2009. The overall package, expected to cost $787 billion, included significant funding for health care and state fiscal relief. Specifically, the Act included an estimated $87 billion for a temporary increase in the federal share of Medicaid costs from October 2008 through December 2010. All states received a base increase in their FMAP match rate of 6.2 percentage points with additional increases targeted to states with higher increases in unemployment.

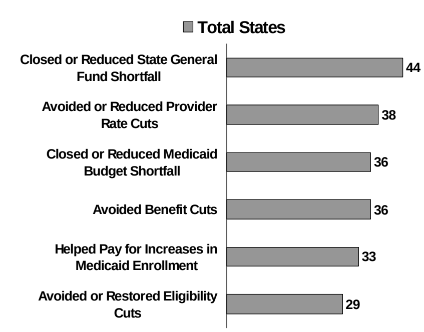
While ARRA increases the federal share for Medicaid, states must still fund the state share of Medicaid to draw the federal funds. During fiscal years 2009 and 2010, the ARRA-enhanced state FMAPs range from a minimum of about 61% to a high of over 84%. To be eligible for the additional federal share of program costs, states could not restrict Medicaid eligibility levels or make it more difficult to apply for and enroll in Medicaid.

The ARRA funds were able to reach states quickly. As of January 29, 2010, Medicaid FMAP outlays related to ARRA totaled $44.1 billion.[iv] These funds were used to address both overall state budget and Medicaid budget shortfalls; avoid cuts to providers, benefits and eligibility, and help support increased Medicaid enrollment. (Figure 5) Most states reported multiple uses for the ARRA funds meaning that in these states a range of restrictions would have likely occurred without the federal funds.

The FMAP increase in ARRA expires at the end of 2010, mid-way through most states' 2011 fiscal year, when many state economies are still expected to face severe fiscal stress related to the downturn.

Figure 5

How States Used ARRA Enhanced Medicaid Funding in FY 2009



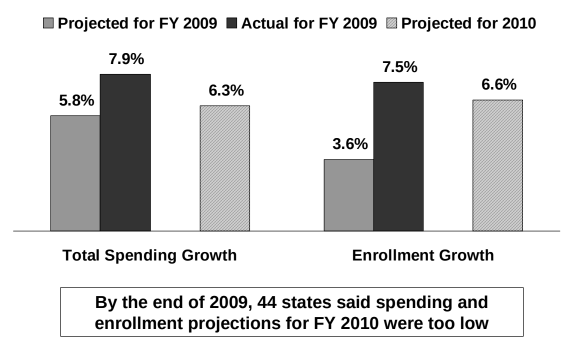
SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, September 2009.

Medicaid Spending, Enrollment & Policy Changes

As a result of the recession, and an increased caseload, Medicaid spending and enrollment growth accelerated in FY 2009 and FY 2010. Total Medicaid spending growth averaged 7.9% in FY 2009, a higher rate than the original projections and the highest rate of growth in six years. Enrollment growth also increased more than in prior years, averaging 7.5% in FY 2009, significantly higher than the 3.6% growth that was projected. On average, states adopted budgets that accounted for Medicaid spending growth of 6.3% and enrollment growth of 6.6% in FY 2010. Mid-way through FY 2010, 44 states said that they were going to exceed these original projections. (Figure 6)

Figure 6

Total Medicaid Spending and Enrollment Growth

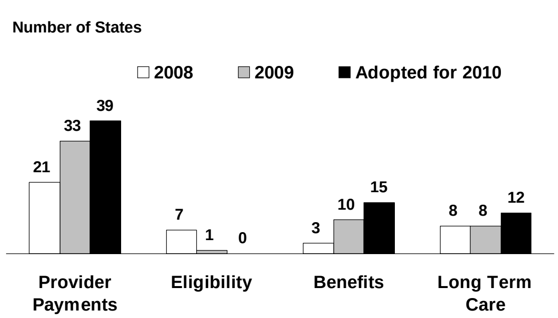


SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, September 2008 and September 2009. Enrollment data updated to reflect most recent June to June Enrollment Data from KCMU and HMA.

Even with the help of the ARRA funds, nearly every state implemented at least one new Medicaid policy to control spending in FY 2009 and FY 2010. More states cut provider rates and eliminated or limited benefits compared to prior years. Rate cuts can jeopardize provider participation and therefore access to needed care. Medicaid eligibility was largely protected in FY 2009 and 2010 because of the ARRA maintenance of eligibility requirements. (Figure 7)

Figure 7

States Imposing Policy Restrictions SFY 2008-2010



NOTE: Past survey results indicate not all adopted actions are implemented. Provider payment restrictions include rate cuts for any provider or freezes for nursing facilities or hospitals. Eligibility includes eligibility and application expansions/restrictions.
SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, September 2009.

States also remain focused on efforts to reorient long-term care services to community settings, improve quality, advance health information technology, and implement innovative delivery systems like medical homes, but these efforts are not likely to generate immediate budget savings.

Mid-way through FY 2010, 44 states indicated that they were likely to or there was a possibility of additional Medicaid cuts beyond those planned at the beginning of the state fiscal year. Some cuts proposed in state budgets for fiscal year 2011 focus on more provider rate cuts and deeper benefit cuts that could target individuals with disabilities. If the ARRA federal funding with the required maintenance of eligibility expires, states may also turn to eligibility cuts to balance their budgets which would further swell the uninsured population.

Outlook

To address severe budget shortfalls, states have already implemented spending cuts to key programs (including Medicaid), imposed across the board spending cuts, made reductions to the state workforce, and turned to options to raise revenues. As governors start the process of developing budgets for state fiscal year 2011, some indicators show that the economy may be improving, but high unemployment, growing Medicaid enrollment, and huge revenue declines mean that the next fiscal year may be even more challenging for states. In addition, budgets for FY 2011 must account for the expiration of the ARRA funds at the end of 2010 which will create a substantial cliff in financing at a time when state economies are still struggling and unable to fill the gap. Several governors have assumed in their proposed budgets that Congress will act and extend the ARRA funds.

Without the ARRA funds and the Medicaid eligibility protections, states may face considering severe cuts to Medicaid provider payment rates, benefits and eligibility cuts. As states make these tough choices, Congress is debating legislation to extend the ARRA funds and other legislation to increase jobs. The jobs bill passed in the House and President Obama's proposed budget for 2011 extend the Medicaid FMAP increase through June 2011 (the end of most state fiscal years). Although the immediate focus for states is on the economy, states will also be monitoring the outcome of national health reform efforts which could include new responsibilities for states including an expansion of Medicaid for the low-income population, especially adults not previously eligible for public coverage.

[i] Bureau of Labor Statistics Employment Summary, February 5, 2010.
[ii] McNichol and Johnson, "Recession Continues to Batter State Budgets: State Responses Could Slow Recovery", Center on Budget and Policy Priorities, January 28, 2010.
[iii] Dadayan and Boyd, "Recession or No Recession, State Tax Revenues Remain Negative." Rockefeller Institute of Government, January 2010.
[iv] http://www.hhs.gov/recovery/2010/01/hhs_weekly_01292010.xls. Accessed Feb. 12, 2010.

This publication (#7580-06) is available on the Kaiser Family Foundation's website at www.kff.org

Table 1

Selected Measures of State Fiscal Distress

	Unemployment Rate (Seasonally Adjusted)		Original FY 2010 FMAP	FY 2010 ARRA FMAP (Q1)	Projected SFY 2011 State Budget Shortfall (in millions)	Projected SFY 2011 Shortfall as % of SFY 2010 Budget	Monthly Medicaid Enrollment (in thousands)		
	Dec-08	Dec-09					Jun-08	Jun-09	% Change
United States	**7.4%**	**10.0%**	**--**	**--**	**$102,100**	**17%**	**43,579.6**	**46,867.3**	**7.5%**
Alabama	6.5%	11.0%	68.01%	77.53%	Unknown	Unknown	698.0	736.1	5.5%
Alaska	6.8%	8.8%	51.43%	61.12%	$677	15%	83.3	86.9	4.3%
Arizona	6.6%	9.1%	65.75%	75.93%	$2,600	27%	969.2	1,105.7	14.1%
Arkansas	5.7%	7.7%	72.78%	80.46%	NA	NA	487.6	514.0	5.4%
California	8.7%	12.4%	50.00%	61.59%	$14,400	15%	6,538.9	6,852.6	4.8%
Colorado	5.8%	7.5%	50.00%	61.59%	$1,800	24%	407.2	467.6	14.8%
Connecticut	6.6%	8.9%	50.00%	61.59%	$4,700	27%	431.5	459.5	6.5%
Delaware	5.7%	9.0%	50.21%	61.78%	NA	NA	153.1	166.7	8.9%
District of Columbia	8.2%	12.1%	70.00%	79.29%	$104	2%	128.7	133.8	4.0%
Florida	7.6%	11.8%	54.98%	67.64%	$4,700	18%	2,151.7	2,502.8	16.3%
Georgia	7.5%	10.3%	65.10%	74.96%	$4,000	23%	1,266.9	1,387.1	9.5%
Hawaii	5.1%	6.9%	54.24%	67.35%	$529	10%	192.3	214.4	11.5%
Idaho	6.1%	9.1%	69.40%	79.18%	$84	3%	175.1	185.5	6.0%
Illinois	7.2%	11.1%	50.17%	61.88%	$12,800	34%	2,043.4	2,191.5	7.2%
Indiana	7.8%	9.9%	65.93%	75.69%	$316	2%	827.4	920.3	11.2%
Iowa	4.4%	6.6%	63.51%	72.55%	$1,100	18%	335.0	374.4	11.8%
Kansas	5.0%	6.6%	60.38%	69.68%	$300	5%	253.7	264.4	4.2%
Kentucky	7.6%	10.7%	70.96%	80.14%	$598	6%	698.5	748.5	7.2%
Louisiana	5.5%	7.5%	67.61%	81.48%	Unknown	Unknown	860.1	898.4	4.5%
Maine	6.5%	8.3%	64.99%	74.86%	$940	31%	254.5	262.1	3.0%
Maryland	5.4%	7.5%	50.00%	61.59%	$2,000	15%	520.2	626.5	20.4%
Massachusetts	6.4%	9.4%	50.00%	61.59%	$2,700	10%	1,051.6	1,068.3	1.6%
Michigan	10.2%	14.6%	63.19%	73.27%	$2,000	9%	1,539.0	1,645.5	6.9%
Minnesota	6.6%	7.4%	50.00%	61.59%	$4,000	26%	603.8	660.5	9.4%
Mississippi	7.8%	10.6%	75.67%	84.86%	$716	14%	530.6	577.3	8.8%
Missouri	7.1%	9.6%	64.51%	74.43%	NA	NA	750.7	778.3	3.7%
Montana	5.0%	6.7%	67.42%	77.99%	NA	NA	78.1	82.5	5.6%
Nebraska	3.9%	4.7%	60.56%	68.76%	$329	9%	177.3	190.0	7.2%
Nevada	8.4%	13.0%	50.16%	63.93%	$1,700	55%	188.9	213.5	13.0%
New Hampshire	4.3%	7.0%	50.00%	61.59%	$250	16%	114.3	123.9	8.4%
New Jersey	6.8%	10.1%	50.00%	61.59%	$8,000	27%	781.3	812.4	4.0%
New Mexico	4.7%	8.3%	71.35%	80.49%	$318	6%	408.6	432.1	5.8%
New York	6.6%	9.0%	50.00%	61.59%	$7,400	13%	4,139.6	4,417.9	6.7%
North Carolina	8.1%	11.2%	65.13%	74.98%	$4,400	21%	1,238.0	1,328.9	7.3%
North Dakota	3.3%	4.4%	63.01%	69.95%	NA	NA	51.9	58.7	13.1%
Ohio	7.4%	10.9%	63.42%	73.47%	$3,200	12%	1,653.3	1,797.6	8.7%
Oklahoma	4.6%	6.6%	64.43%	75.83%	$725	13%	522.4	563.0	7.8%
Oregon	8.3%	11.0%	62.74%	72.87%	$4,200	29%	356.5	393.4	10.4%
Pennsylvania	6.4%	8.9%	54.81%	65.85%	$4,100	15%	1,925.7	2,017.8	4.8%
Rhode Island	9.4%	12.9%	52.63%	63.92%	$197	6%	158.7	159.3	0.4%
South Carolina	8.8%	12.6%	70.32%	79.58%	$1,300	23%	626.2	664.3	6.1%
South Dakota	3.7%	4.7%	62.72%	70.80%	$102	9%	90.9	95.3	4.8%
Tennessee	7.6%	10.9%	65.57%	75.37%	$1,000	10%	1,237.0	1,266.3	2.4%
Texas	5.6%	8.3%	58.73%	70.94%	NA	NA	2,882.6	3,099.6	7.5%
Utah	4.1%	6.7%	71.68%	80.78%	$700	14%	203.1	241.1	18.7%
Vermont	5.9%	6.9%	58.73%	69.96%	$338	30%	124.5	133.9	7.5%
Virginia	5.0%	6.9%	50.00%	61.59%	$1,300	8%	665.8	720.6	8.2%
Washington	6.5%	9.5%	50.12%	62.94%	$2,100	13%	885.7	966.4	9.1%
West Virginia	4.5%	9.1%	74.04%	83.05%	$134	4%	307.4	320.1	4.1%
Wisconsin	5.9%	8.7%	60.21%	70.63%	$3,400	25%	754.6	878.7	16.5%
Wyoming	3.2%	7.5%	50.00%	61.59%	$147	8%	55.6	61.2	10.1%

Note: States with "Unknown" budget shortfall amounts are expecting a shortfall, but the actual shortfall amount is unknown.

Source: Kaiser *statehealthfacts.org* . Unemployment data from the U.S. Bureau of Labor Statistics; state budget shortfall amounts from the Center on Budget and Policy Priorities; and Medicaid enrollment data from Health Management Associates analysis of state Medicaid enrollment reports, prepared for the Kaiser Commission on Medicaid and the Uninsured, 2010.