

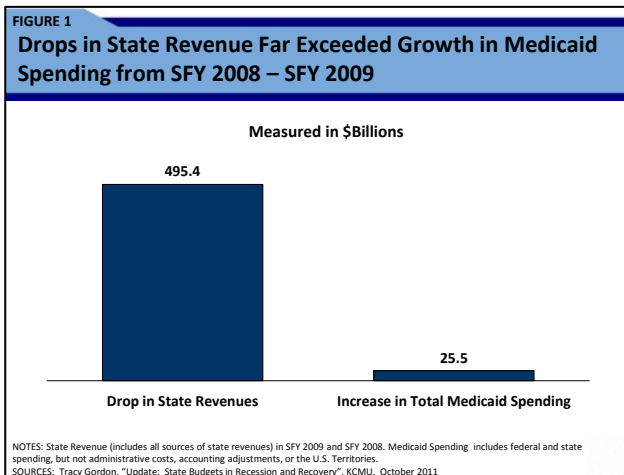
STATE FISCAL CONDITIONS AND MEDICAID

Medicaid is the nation's primary health insurance program for low-income and high need Americans. Covering nearly 60 million, Medicaid provides health coverage for low-income families who lack access to other affordable coverage options and for individuals with disabilities for whom private coverage is often not available or not adequate. During economic downturns state revenues fall at the same time that Medicaid enrollment and spending rise. To help states during the last recession, the American Recovery and Reinvestment Act (ARRA) was passed which temporarily increased the federal government's share of Medicaid costs. Now in state fiscal year (FY) 2012, federal fiscal relief has ended and states continue to suffer from the effects of the recession, although some positive signs are emerging.

State Economic Conditions and Medicaid

State revenues have shown positive growth for the last seven quarters, after experiencing record declines during the recession from December 2007 through June 2009; however, collections remain below their peak in 2008. The national unemployment dropped to 8.3% for January 2012, its lowest rate in three years.¹ Despite improvement, 12.8 million remain unemployed. States closed budget shortfalls totaling over \$530 billion from FYs 2009 – 2012. Looking forward to 2013, 29 states already estimate budget gaps totaling \$44 billion.²

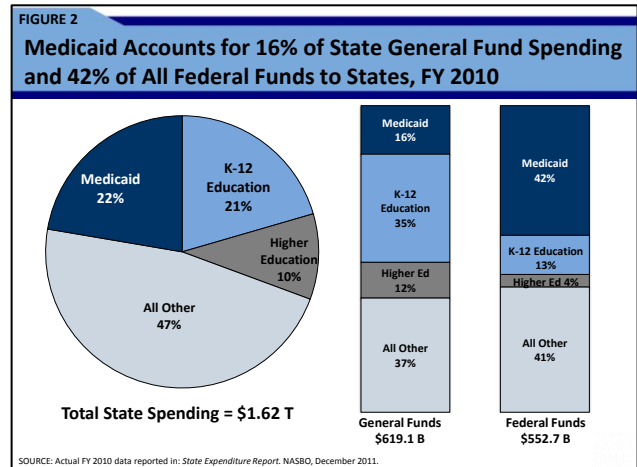
During an economic downturn, individuals lose jobs, incomes drop, state revenues decline, and more individuals qualify and enroll in Medicaid which increases program spending. Data show that declines in state revenues were a much more significant factor for state budget gaps than increases in Medicaid spending. Total state revenues dropped by 30% in FY 2009 compared to total Medicaid spending increases of about 7.6% in that year (Figure 1).³



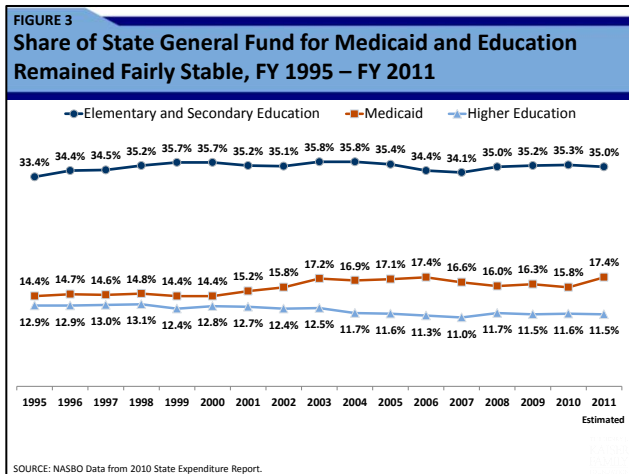
Medicaid and State Budgets

The Medicaid program is jointly funded by states and the federal government. The federal government guarantees matching funds to states for qualifying Medicaid expenditures. The share the federal government pays for Medicaid varies across states based on a formula in the Social Security Act that relies on states' average per capita income and is recalculated annually. States with lower incomes have a higher federal matching percentage (FMAP). For 2012, the FMAP varies across states from a floor of 50% to a high of 74.18%.

State and federal Medicaid funds provide financing for health care providers across the country, supporting jobs and economic activity in addition to providing coverage for low-income Americans. Federal Medicaid matching funds represents the single largest source of federal grant support to states, accounting for an estimated 43% of all federal grants to states in FY 2010. At the same time, states spent 16% of their funds on Medicaid, making it the second largest program in most states' general fund budgets following primary and secondary education (35%) (Figure 2).

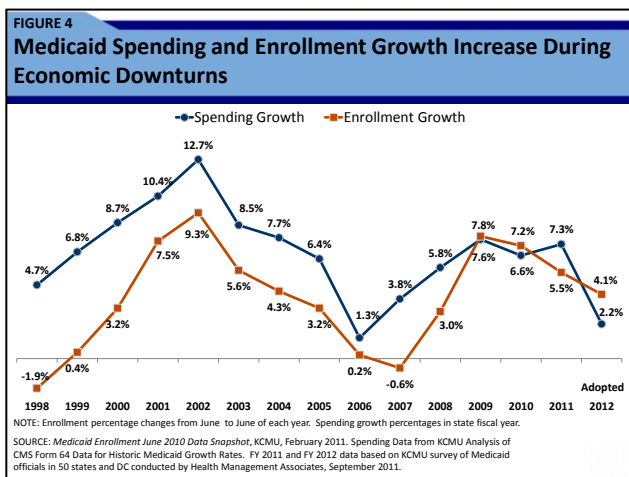


Despite beliefs that Medicaid is claiming a larger share of state budgets, the share of state general fund dollars for Medicaid has remained fairly stable increasing from 14.4% in 1995 to 15.8% in 2010 at the same time general fund spending for education increased from 33.4% to 35.3% (Figure 3).⁴ Estimates for FY 2011 show the share of state general funds for Medicaid increasing slightly to 17.4% largely due to the end of the temporary federal ARRA Medicaid funding and a shift in spending to the states.



Medicaid Spending and Enrollment Growth

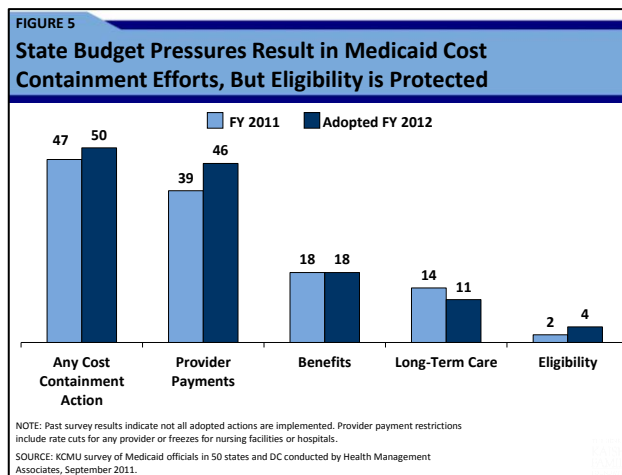
Tied to the recession, states experienced robust Medicaid spending and enrollment growth in FY 2011, but are projecting lower growth for FY 2012 (Figure 4).⁵ For FY 2012, legislatures authorized average spending growth of 2.2%, one of the lowest rates on record, and projected average enrollment growth of 4.1%. Midway through FY 2012, the majority of states reported that spending and enrollment trends were at or below original projections.⁶



From October 2008 through June 2011, increased federal funding through the ARRA enhanced FMAP helped states to balance their budgets and support their Medicaid programs. Increasing the federal share of Medicaid spending resulted in the only two declines in annual state spending for Medicaid in the program's history (a drop of 4.9% in FY 2010 and 10.9% in FY 2009.) However, the expiration of ARRA funds resulted in large increases in state Medicaid funding in FY 2012 (28.7%) even though total program spending was budgeted for 2.2% growth.

Medicaid Policy Changes

Due to state budget issues, cost containment efforts have been a dominant theme for much of the last decade. In FY 2011, 47 states implemented at least one new policy to control Medicaid costs and 50 states planned to do so in FY 2012 (Figure 5). Most states reported program reductions in multiple areas. However, the Patient Protection and Affordable Care Act (ACA) "maintenance of eligibility" requirements generally prohibit states from restricting Medicaid eligibility or tightening enrollment procedures. States are also moving forward with a range of delivery system changes designed to improve care and control costs.



Outlook

Despite intense fiscal pressure, Medicaid continues to serve a critical role in providing health coverage to millions of low-income Americans. Medicaid has helped to stem increases in the uninsured, especially for children because Medicaid eligibility levels are much higher. Therefore, most of the growth in the uninsured has been for adults.

Looking ahead, states continue to move forward with initiatives to improve the program and control costs and are also looking ahead to the implementation of health reform which will mean a large expansion in coverage as well as fewer uninsured. The trajectory of the economy, governor's budgets for FY 2013, the Supreme Court decision related to the ACA, and federal deficit discussions will be key issues for Medicaid over the next year.

¹ Bureau of Labor Statistics, February 3, 2012.

² *States Continue to Feel Recession's Impact*. Center for Budget and Policy Priorities. January 9, 2012.

³ *Update: State Budgets in Recession and Recovery*. KCMU. October, 2011.

⁴ <http://www.kff.org/medicaid/8253.cfm>

⁵ *2011 State Expenditure Report*. NASBO. December 2011.

⁶ *Moving Ahead Amid Fiscal Challenges: A Look at Medicaid Spending, Coverage and Policy Trends*, KCMU. October 2011. <http://www.kff.org/medicaid/8248.cfm>.

⁷ *A Mid-Year State Medicaid Budget Update for FY 2012 and A Look Forward to FY 2013*, KCMU, February 2012.

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