kaiser commission on medicaid and the uninsured

MEDICAID FACTS

THE HENRY J. KAISER FAMILY FOUNDATION

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STATE FISCAL CONDITIONS AND MEDICAID

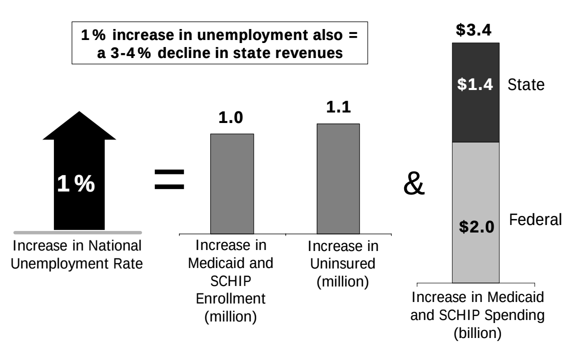
With the nation in the midst of an economic recession, states are faced with slower than anticipated state revenue growth and significant budget shortfalls. Medicaid, the program that provides health coverage and long term care support services to 44.5 million people in low-income families and nearly 14 million elderly and disabled people, is financed by the federal government and the states, and is administered by states within broad federal guidelines. Demand for Medicaid increases when the economy is weak requiring states to manage increases in enrollment and spending just as state budget conditions are most constrained.

State fiscal situation is severe. States were experiencing budget constraints heading into state fiscal year 2009 which began for most states on July 1, 2008. Forty-one states and the District of Columbia are projecting FY 2009 mid-year shortfalls of $42 billion with gaps reaching $145 billion in FY 2010.[i] State revenues are coming in well below projections and unemployment is rising. The national unemployment rate in November 2008 was 6.7%, compared to 4.7% at the same time last year. Unlike the federal government, states are required to balance their budgets annually. States can use reserves, but often they must increase taxes or cut spending to achieve a balanced budget during periods of economic stress.

Medicaid grows during an economic downturn. During an economic downturn, unemployment rises and puts upward pressure on Medicaid. As individuals lose employer sponsored insurance and incomes decline, enrollment and therefore Medicaid spending increase. At the same time, increases in unemployment have a negative impact on state revenues making it even more difficult to pay the state share of Medicaid spending increases (Figure 1).

Figure 1

Impact of a 1% Growth in Unemployment

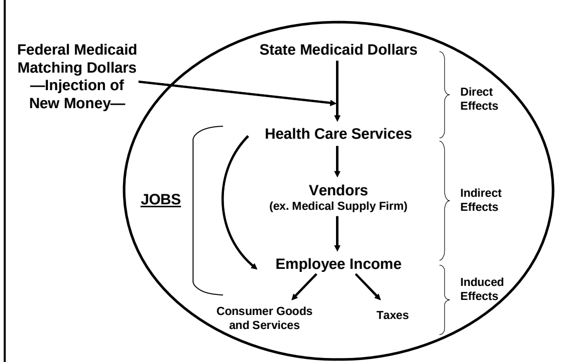


Source: *Medicaid, SCHIP and Economic Downturn: Policy Challenges and Policy Responses*, Kaiser Commission on Medicaid and the Uninsured, April 2008

Medicaid is an economic engine in state economies. In addition to providing health care coverage, Medicaid spending generates economic activity at the state level. Medicaid funding supports jobs and generates income and tax revenues within the health care sector and other sectors of the economy due to the multiplier effect. Medicaid's economic impact is intensified because of federal matching dollars. Reductions in state spending for Medicaid result in declines in federal dollars so a state with a 60 percent match rate must cut Medicaid spending by $2.40 to save $1 in state Medicaid spending. Cutting Medicaid during a downturn can worsen the economy (Figure 2).

Figure 2

Medicaid is an Economic Engine in State Economies

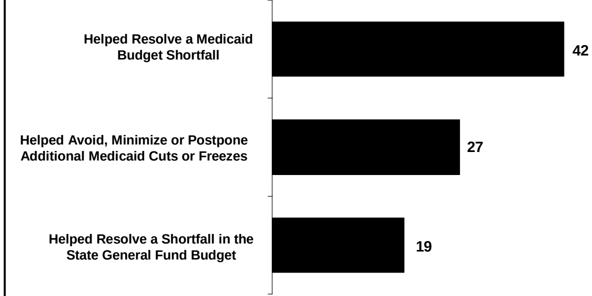


SOURCE: The Role of Medicaid in State Economies: A Look at the Research. KCMU, January 2009.

Fiscal relief proved to be successful in the last economic downturn. In 2003 Congress passed the Jobs and Growth Tax Relief Reconciliation Act that provided a temporary increase in the federal match rate to increase the federal share of Medicaid costs. States were required to maintain Medicaid eligibility levels as a condition for receiving the federal funds. States reported that the increased federal support helped to resolve a Medicaid budget shortfall, avoid additional Medicaid cuts and resolve a shortfall in the state general fund budget (Figure 3).

Figure 3

How States Used Increased Federal Medicaid Matching Funds from Temporary Fiscal Relief in FY2004



SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, January 2004.

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