kaiser commission on medicaid and the uninsured
KEY FACTS

THE HENRY J. KAISER FAMILY FOUNDATION

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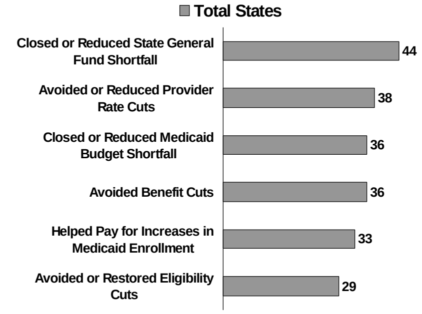
Medicaid and State Budgets: From Crunch to Cliff

At the start of state fiscal year 2010, states were in the middle of a severe fiscal crunch with unemployment continuing to rise, state revenues plummeting and demand for public programs, including Medicaid, growing. Federal fiscal relief, in the form of an increase in the federal share of Medicaid costs that was part of the American Recovery and Reinvestment Act (ARRA) proved to be critical in helping states address budget shortfalls, preserve Medicaid eligibility and soften cuts. However, the ARRA funds are set to expire on December 31, 2010, half way through state fiscal year 2011 creating a major cliff in state financing. If these funds are not extended, states will be faced with tough choices to meet balanced budget requirements. With few other options for savings, some states might need to turn to restrictions on Medicaid eligibility once the ARRA requirements to maintain eligibility expire. Major health reform proposals under consideration in Congress expand Medicaid in an effort to achieve broader coverage, so any erosion in Medicaid could complicate efforts to implement these objectives.

Medicaid fiscal relief funds in ARRA have been critical in helping states to address budget shortfalls, preserve eligibility and avoid or soften program cuts. 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. To be eligible for the funds, states could not restrict their eligibility levels or enrollment procedures from those in place on July 1, 2008. ARRA funds were able to reach states quickly and 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 1). 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.

Figure 1

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.

States fear that the economy will not be fully recovered when the ARRA funds end on December 31, 2010. Even if the recession is officially over, improvements to unemployment, state revenues and Medicaid caseload growth usually lag by one to two years. The Census Bureau reports record declines in total state tax revenue of 16.3% with income tax revenue falling by 27% for the second quarter of 2009, from April to June (Figure 2). Even when revenues start to grow, it will take a long time to recover from these severe drops in revenues. Budget shortfalls and fiscal challenges are likely to persist throughout state fiscal year 2011 and these will be exacerbated by the end of the increased Medicaid funding through ARRA that are scheduled to expire at the end of 2010, mid-way through the 2011 state fiscal year. The end of the Medicaid ARRA funds would mean that the average state share for Medicaid could increase from an average of 34 percent to 43 percent resulting in an estimated increase of about $39 billion in calendar year 2011 for states to maintain their programs (Figure 3). It may be impossible for states to absorb this increase, so difficult decisions will need to be considered in the spring of 2010 as states adopt their budgets for the next fiscal year.

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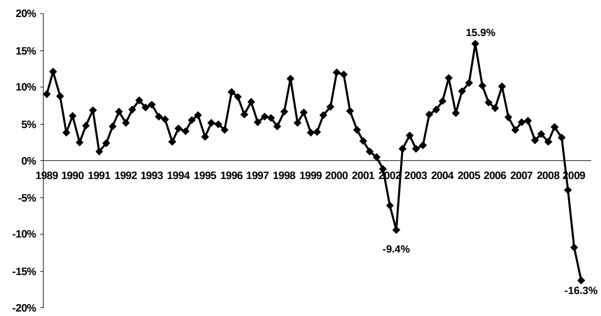
Figure 2

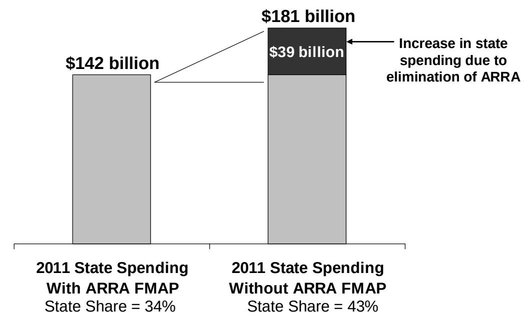
State Tax Revenue, 1999-2009



SOURCE: Percent change in quarterly state tax revenue, US Census Bureau.
http://ftp2.census.gov/govs/qtax/table1.xls

Figure 3

Projected Increase in State Medicaid Spending When ARRA Funds End, CY 2011



NOTES: Includes only spending on benefits, excluding DSH and admin.
SOURCE: Kaiser Commission on Medicaid and Uninsured analysis based on CBO projections, 2009

Without the ARRA funds and maintenance of eligibility requirements, states may consider severe eligibility and benefit cuts to meet balanced budget requirements. During the last economic downturn from 2001 to 2004 states enacted an array of Medicaid cost containment initiatives. Given these sustained efforts over time to control Medicaid costs, there are few options left to achieve significant program savings without cutting into core program eligibility and benefits. States are facing budget shortfalls of at least $350 billion for 2010 through 2011[1], so without the ARRA funds, some of these cuts may become real possibilities. More than half of the states (29) reported that the Medicaid ARRA funds and eligibility requirements helped to avoid or restore eligibility cuts.[2] Cuts could come at a time when more individuals are turning to public health coverage due to a sagging economy. Research shows that during economic downturns unemployment rises, more individuals will lose employer based health coverage, Medicaid and CHIP caseloads will grow and there will be more uninsured. The health coverage figures released by the Census Bureau for 2008 (at the start of the recession) show that employer coverage continued to erode but increases in Medicaid of 2.9 million helped to mitigate the increase in the number of uninsured. For children, increases in Medicaid coverage resulted in a reduction in the number of uninsured children by about 800,000.

Cutbacks in Medicaid coverage could compromise the implementation of health reform. Cutting back on Medicaid eligibility without other coverage options would likely exacerbate the problems of the uninsured right before expansions in health coverage could take effect if health reform is passed. Leading health reform proposals in the House and in the Senate Finance Committee would expand Medicaid to all non-elderly individuals with incomes up to 133 percent of the poverty level or about $29,000 for a family of four. The proposals also include subsidies to help low-income individuals who are not eligible for Medicaid or employer sponsored coverage in a new health insurance exchange. Extending the ARRA funds and maintaining the eligibility and enrollment requirements on existing coverage could help preserve existing coverage and avoid back-tracking before health reform could take effect.

This publication (#8001) is available on the Kaiser Family Foundation's website at www.kff.org

[1] Iris Lav and Elizabeth McNichol. "New Fiscal Year Brings No Relief from Unprecedented Budget Problems." Center for Budget and Policy Priorities, September 3, 2009.
[2] Vernon Smith, Kathleen Gifford, Eileen Ellis, Robin Rudowitz, Molly O'Malley-Watts and Caryn Marks. "The Crunch Continues: Medicaid Spending, Coverage and Policy in the Midst of a Recession." Kaiser Commission on Medicaid and the Uninsured, September 2009.