kaiser commission on medicaid and the uninsured
KEY FACTS

THE HENRY J. KAISER FAMILY FOUNDATION

June 2011

Enhanced Medicaid Match Rates Expire in June 2011

Through state fiscal year (SFY) 2011, states struggled from the effects of the recent recession with high unemployment, depressed revenues and increased demand for services, including Medicaid. As national unemployment has held at over nine percent and the number of uninsured Americans continues to grow, Medicaid has played a critical role in providing coverage to many who otherwise would be uninsured, especially children. State economies were bolstered by the enhanced federal Medicaid matching funds (FMAP) from the American Recovery and Reinvestment Act of 2009 (ARRA), which was effective October 2008 through December 2010 and then extended at lower levels through June 2011.

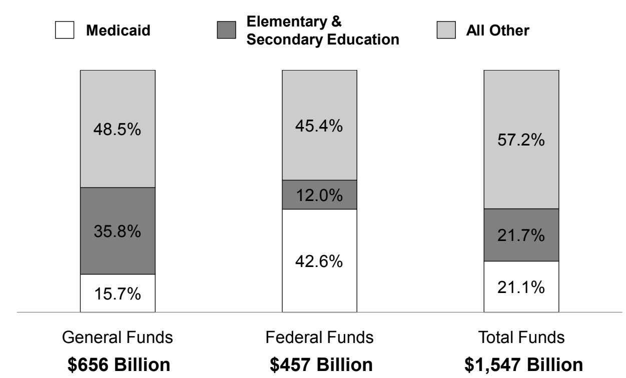
Headed into SFY 2012, state revenues overall are seeing modest growth, but remain well below pre-recession levels. Some states are also starting to see Medicaid enrollment increases taper off; in other states, however, enrollment growth rates continue to increase as unemployment remains high. Despite the different state fiscal conditions, all states face the end of enhanced federal Medicaid matching funds on June 30, 2011. The loss of enhanced federal revenues at the start of SFY 2012 means increases in the state share of Medicaid for all states, increases that are particularly problematic in states that continue to experience high unemployment. States will continue to receive their regular federal matching payments for Medicaid, where on average the federal government pays 56 percent of costs.

What is the FMAP? The Medicaid program is jointly funded by states and the federal government with the federal share of costs determined by a formula set forth in the Social Security Act. The federal matching percentage (FMAP) is calculated based on a state's average per capita income, relative to the national average. States with lower average per capita incomes have higher FMAPs. According to the statutory formula, for FY 2011, the FMAP varies across states from a floor of 50 percent to a high of 74.73 percent. Each state receives federal matching funds after a state pays qualified providers for furnishing covered services to eligible individuals and then submits a claim to the federal government for the funds.

How does Medicaid fit into state budgets? Medicaid represents both a budget item and major federal revenue source for states. On average, states spent about 16 percent of state funds on Medicaid, making it the second largest expenditure in most states' general fund budgets, following spending for elementary and secondary education, which represented 36 percent of state general fund spending in FY 2009 (Table 1 and Figure 1). Medicaid accounted for 43 percent of federal grants to states in 2009, the single largest source of federal funds to states. Accounting for the substantial federal funds states receive from Medicaid, the program accounts for 21 percent of states' overall budgets. Medicaid provides financing for a range of health care providers, supporting jobs, income and economic activity. The economic impact of Medicaid is magnified by the matching formula since states draw down $1 of federal money for every dollar of state funds spent on Medicaid.

Figure 1

Medicaid is the Second Largest Budget Item for State General Fund Spending



SOURCE: National Association of State Budget Officers, 2009 State Expenditure Report, Dec. 2010

What happens to Medicaid during an economic downturn? During economic downturns, unemployment rises, incomes decline, and individuals lose employer-sponsored health coverage. Since Medicaid is a counter-cyclical program, enrollment and spending increase during economic downturns as demand increases. At the same time, state revenues decline, making it more difficult for states to afford their share of the increased spending. From

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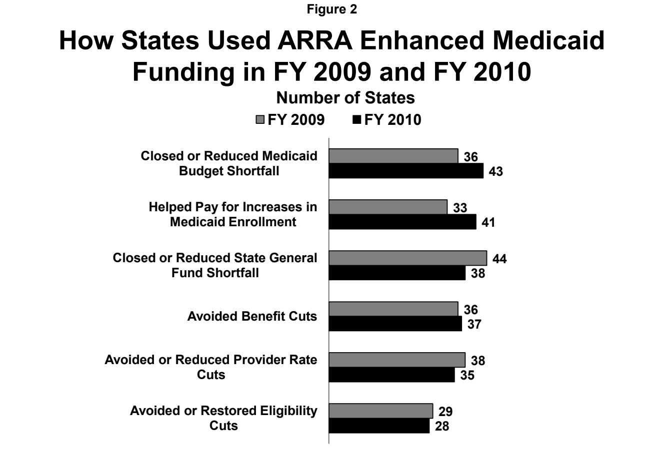
June 2007 to June 2010, Medicaid enrollment increased from 42.3 million to 50.3 million as unemployment roughly doubled. At the same time, state revenues experienced the largest declines on record.

What happened to Medicaid in the American Recovery and Reinvestment Act (ARRA)? With states facing a fiscal emergency, ARRA was enacted in February 2009. The largest component of state fiscal relief was provided through a temporary increase in the Medicaid FMAP for states. Under ARRA, three factors were used to calculate a state's FMAP increase: a "hold-harmless" to prevent states from receiving a formula-driven reduction in their FMAP; a base increase of 6.2 percentage points (raising the floor or minimum federal match from 50 percent to 56.2 percent); and additional fiscal relief targeted to states with significant increases in unemployment. To receive the enhanced federal financing, states had to comply with provider prompt payment and maintenance of eligibility requirements (MOE). Under the MOE, states could not restrict eligibility standards, methods or procedures beyond those in effect on July 1, 2008. In August 2010, facing an end to the enhanced match on December 31, 2010, Congress passed an extension that phased down the ARRA enhanced FMAP. Instead of a 6.2 percentage point base increase they received under ARRA, states received a 3.2 percentage point increase for the third quarter (January-March 2011) and a 1.2 percentage point increase for the fourth quarter (April-June 2011) (Table 2). Federal fiscal relief to states through the ARRA enhanced FMAP is estimated to total about $100 billion from October 2008 – June 2011.

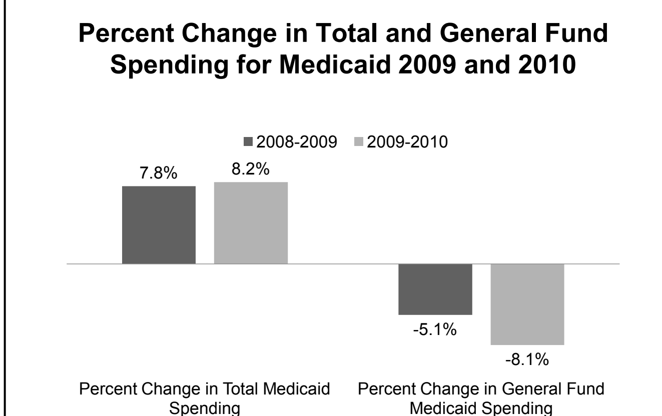
How did states use the enhanced Medicaid matching funds? According to the last Kaiser Commission on Medicaid and the Uninsured (KCMU) 50-state budget survey, all states reported that they used the ARRA enhanced Medicaid funding as it was intended, both to address Medicaid funding shortfalls, mitigate program cuts and to address budget shortfalls across state programs. Well over half of states indicated that the ARRA funds were used in five or more of the six listed options, meaning that in these states, a wide range of even further budget-driven restrictions likely would have occurred without these federal funds provided through Medicaid (Figure 2). Despite total increases in Medicaid spending for 2009 and 2010, state general fund spending for Medicaid declined as a result of the enhanced federal matching funds from ARRA (Figure 3).

Figure 2



SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, 2009 and 2010.

Figure 3



SOURCE: National Association of State Budget Officers, 2009 State Expenditure Report, Dec. 2010

What happens in state fiscal year 2012? Heading into the state fiscal year beginning July 1, 2012, states will see declines in federal match rates and increases in their state share of Medicaid (Table 2). States with the highest FMAPs are expected to see the largest increases in their state shares as the ARRA enhanced FMAP expires. All states had to account for this decline in federal revenues in adopting budgets for state fiscal year 2012, but the challenges are much greater for those where unemployment remains high. In these states, the loss of federal fiscal relief makes economic recovery more difficult and increases the pressure to reduce Medicaid spending despite large caseloads driven by high unemployment. The next KCMU budget survey to be released in the fall of 2011 will capture more detailed policy changes in state Medicaid programs adopted for state fiscal year 2012.

Table 1: State Medicaid Spending by Funding Source, 2009

	General Fund	Federal Funds	Total
Alabama	8.5%	47.0%	25.5%
Alaska	6.1%	22.4%	7.5%
Arizona	13.4%	58.3%	29.4%
Arkansas	15.0%	48.4%	19.7%
California	12.9%	38.3%	20.6%
Colorado	17.5%	33.8%	14.1%
Connecticut	22.3%	0.0%	20.9%
Delaware	16.3%	42.9%	12.3%
Florida	14.5%	48.9%	26.2%
Georgia	10.8%	46.6%	19.5%
Hawaii	8.3%	46.1%	11.3%
Idaho	12.2%	44.0%	22.8%
Illinois	21.9%	57.1%	30.9%
Indiana	9.4%	44.0%	21.8%
Iowa	10.0%	31.3%	17.9%
Kansas	13.5%	40.1%	17.4%
Kentucky	11.3%	50.4%	22.9%
Louisiana	11.8%	43.8%	24.0%
Maine	16.5%	62.4%	29.9%
Maryland	15.8%	46.1%	19.5%
Massachusetts	28.9%	0.0%	17.7%
Michigan	18.3%	44.6%	23.0%
Minnesota	17.4%	47.3%	22.2%
Mississippi	6.7%	48.5%	26.4%
Missouri	17.0%	54.2%	32.4%
Montana	8.1%	35.1%	15.2%
Nebraska	17.3%	39.3%	17.6%
Nevada	11.3%	37.8%	14.7%
New Hampshire	29.3%	42.0%	26.5%
New Jersey	13.7%	49.3%	20.7%
New Mexico	10.5%	49.1%	20.5%
New York	14.1%	55.5%	26.7%
North Carolina	14.1%	56.3%	24.9%
North Dakota	13.4%	28.2%	14.1%
Ohio	38.2%	27.9%	24.3%
Oklahoma	13.4%	26.7%	18.5%
Oregon	12.1%	41.0%	14.3%
Pennsylvania	23.3%	54.5%	30.8%
Rhode Island	24.2%	48.4%	25.8%
South Carolina	10.1%	49.1%	23.0%
South Dakota	20.7%	37.9%	21.7%
Tennessee	21.7%	40.9%	25.4%
Texas	5.1%	14.0%	7.5%
Utah	5.5%	41.0%	14.6%
Vermont	15.1%	48.2%	19.6%
Virginia	18.1%	44.9%	15.2%
Washington	24.1%	44.6%	21.4%
West Virginia	7.9%	49.3%	11.9%
Wisconsin	8.5%	40.3%	15.4%
Wyoming	5.7%	22.2%	7.0%
US total	15.7%	42.6%	21.1%
Notes	See NASBO notes for AL, CT, IN, MD, MI, MO, MT, RI, and TN.		
Sources	State Expenditure Report 2009, National Association of State Budget Officers, Fall 2010 http://www.nasbo.org/LinkClick.aspx?fileticket=w7RqO74lIEw%3d&tabid=38.		

Table 2: Federal Medical Assistance Percentages (FMAPs) FYs 2011 and 2012 and Unemployment Data April 2011

	Original FMAP 2011	ARRA FMAP Q1 2011	ARRA FMAP Q2 2011	ARRA FMAP Q3 2011	FMAP 2012	Δ ARRA FMAP Q3 2011 to FMAP 2012	Unemployment April 2011
Alabama	68.5%	78.0%	75.2%	73.3%	68.6%	-6.4%	9.3%
Alaska**	50.0%	62.5%	59.6%	57.7%	50.0%	-13.3%	7.3%
Arizona	65.9%	75.9%	73.1%	71.2%	67.3%	-5.5%	9.3%
Arkansas	71.4%	81.2%	78.3%	76.4%	70.7%	-7.4%	7.7%
California	50.0%	61.6%	58.8%	56.9%	50.0%	-12.1%	11.9%
Colorado	50.0%	61.6%	58.8%	56.9%	50.0%	-12.1%	8.8%
Connecticut	50.0%	61.6%	58.8%	56.9%	50.0%	-12.1%	9.1%
Delaware	53.2%	64.4%	61.6%	59.7%	54.2%	-9.2%	8.2%
District of Columbia	70.0%	79.3%	76.5%	74.6%	70.0%	-6.1%	9.6%
Florida	55.5%	67.6%	64.8%	62.9%	56.0%	-10.9%	10.8%
Georgia	65.3%	75.2%	72.3%	70.5%	66.2%	-6.1%	9.9%
Hawaii	51.8%	67.4%	64.5%	62.6%	50.5%	-19.4%	6.1%
Idaho	68.9%	79.2%	76.4%	74.5%	70.2%	-5.7%	9.6%
Illinois	50.2%	61.9%	59.1%	57.2%	50.0%	-12.5%	8.7%
Indiana	66.5%	76.2%	73.4%	71.5%	67.0%	-6.3%	8.2%
Iowa	62.6%	72.6%	69.7%	67.8%	60.7%	-10.4%	6.0%
Kansas	59.1%	69.7%	66.8%	64.9%	56.9%	-12.3%	6.7%
Kentucky	71.5%	80.6%	77.8%	75.9%	71.2%	-6.2%	10.0%
Louisiana	63.6%	81.5%	78.7%	76.8%	61.1%	-20.4%	8.1%
Maine	63.8%	74.9%	72.0%	70.2%	63.3%	-9.8%	7.6%
Maryland	50.0%	61.6%	58.8%	56.9%	50.0%	-12.1%	6.8%
Massachusetts	50.0%	61.6%	58.8%	56.9%	50.0%	-12.1%	7.8%
Michigan	65.8%	75.6%	72.7%	70.9%	66.1%	-6.7%	10.2%
Minnesota	50.0%	61.6%	58.8%	56.9%	50.0%	-12.1%	6.5%
Mississippi	74.7%	84.9%	82.0%	80.2%	74.2%	-7.4%	10.4%
Missouri	63.3%	74.4%	71.6%	69.7%	63.5%	-9.0%	8.9%
Montana	66.8%	78.0%	75.2%	73.3%	66.1%	-9.8%	7.3%
Nebraska	58.4%	68.8%	65.8%	63.9%	56.6%	-11.4%	4.2%
Nevada	51.6%	63.9%	61.1%	59.2%	56.2%	-5.1%	12.5%
New Hampshire**	50.0%	61.6%	58.8%	56.9%	50.0%	-12.1%	4.9%
New Jersey	50.0%	61.6%	58.8%	56.9%	50.0%	-12.1%	9.3%
New Mexico	69.8%	80.5%	77.7%	75.8%	69.4%	-8.5%	7.6%
New York	50.0%	61.6%	58.8%	56.9%	50.0%	-12.1%	7.9%
North Carolina	64.7%	75.0%	72.2%	70.3%	65.3%	-7.1%	9.7%
North Dakota	60.4%	70.0%	67.0%	65.0%	55.4%	-14.7%	3.3%
Ohio	63.7%	73.7%	70.9%	69.0%	64.2%	-7.0%	8.6%
Oklahoma	64.9%	76.7%	73.9%	72.0%	63.9%	-11.3%	5.6%
Oregon	62.9%	73.0%	70.1%	68.3%	62.9%	-7.8%	9.6%
Pennsylvania	55.6%	66.6%	63.8%	61.9%	55.1%	-11.0%	7.5%
Rhode Island	53.0%	64.2%	61.4%	59.5%	52.1%	-12.4%	10.9%
South Carolina	70.0%	79.6%	76.8%	74.9%	70.2%	-6.2%	9.8%
South Dakota	61.3%	70.8%	69.0%	67.0%	59.1%	-11.8%	4.9%
Tennessee	65.9%	75.6%	72.8%	70.9%	66.4%	-6.4%	9.6%
Texas	60.6%	70.9%	68.1%	66.2%	58.2%	-12.1%	8.0%
Utah	71.1%	80.8%	78.0%	76.1%	71.0%	-6.7%	7.4%
Vermont**	58.7%	70.0%	67.1%	65.2%	57.6%	-11.7%	5.3%
Virginia	50.0%	61.6%	58.8%	56.9%	50.0%	-12.1%	6.1%
Washington	50.0%	62.9%	60.1%	58.2%	50.0%	-14.1%	9.1%
West Virginia	73.2%	83.1%	80.2%	78.3%	72.6%	-7.3%	8.8%
Wisconsin	60.2%	70.6%	67.8%	65.9%	60.5%	-8.2%	7.3%
Wyoming	50.0%	61.6%	58.8%	56.9%	50.0%	-12.1%	6.0%
United States*	**50.0%**	**56.2%**	**53.2%**	**51.2%**	**50.0%**	**-2.3%**	9.0%

Notes	Original 2011: Would have been in effect from October 1, 2010 through September 30, 2011 in the absence of ARRA. ARRA FY 2011 Q1: Effective from October 1, 2010 to December 31, 2010. ARRA FY 2011 Q2: Effective from January 1, 2011 to March 31, 2011. ARRA FY 2011 Q3: Effective from April 1, 2011 to June 30, 2011. FY 2012: Will go into effect July 1, 2011 when enhanced funding under ARRA expires.
Sources	Original FY 2011: Federal Register, November 27, 2009 (Vol. 74, No. 227), pp. 62315-62317, at http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=2009_register&docid=fr27no09-71.pdf. ARRA FY2011: Federal Register, June 3, 2011 (Vol. 76, No. 107), pp 32204-32207, at http://www.gpo.gov/fdsys/pkg/FR-2011-06-03/pdf/2011-13783.pdf. FY 2012 FMAP: Federal Register, November 10, 2010, pp. 69082-69084, at http://edocket.access.gpo.gov/2010/pdf/2010-28319.pdf.
Footnote *	US total reflects federal minimum FMAP.
Footnote **	The unemployment tier decreased for Q3 and Q4 but the Department was not able to satisfy the 60 day notice requirement so their unemployment tier was held harmless. Therefore, the FMAP rates for the final two quarters of the recession adjustment period reflect the applicable percent for the first quarter of FY11.

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