

medicaid  
and the uninsured

OCTOBER 2011

**Impact of the Medicaid Fiscal Relief Provisions in the American Recovery and Reinvestment Act (ARRA)**

The American Recovery and Reinvestment Act (ARRA), enacted in February 2009, has provided \$103 billion in federal fiscal relief to state Medicaid programs over a period of two and a half years to help them address the effects of the 2007-2009 recession.<sup>i</sup> During a recession, unemployment increases and state revenues decline, making it difficult for states to meet the increased need for Medicaid coverage among the newly unemployed. The ARRA fiscal relief took the form of higher federal Medicaid matching rates (FMAP) for the costs incurred by state Medicaid programs in purchasing covered services to the increasing number of eligible low-income Americans. Higher FMAPs meant that the state had to pay for a smaller share of the program's cost from its own funds. The ARRA relief was temporary: it began on October 1, 2008 and, after one 6-month extension, expired on June 30, 2011. However, states continue to face difficult economic conditions. In July 2011, 10 states and the District of Columbia still had unemployment rates at or above 10 percent.

This brief reviews the ARRA Medicaid fiscal relief provisions—how they were structured and what impact they had on state Medicaid finances during the recession. The brief also examines some of the implications of the recent expiration of the ARRA provisions, especially for states with high unemployment, and suggests an alternative approach to assisting state Medicaid programs in those states experiencing continued economic distress. Key findings include the following:

- The increase in the FMAP from the Recovery Act provided vital and timely fiscal relief to states in support of their Medicaid programs during federal fiscal years 2009-2011. The increase provided \$98 billion in direct fiscal relief to states and an additional \$5 billion in reducing state payments in support of Medicare Part D (the “clawback”). All states benefited from the fiscal relief and most states reported using the funds for multiple purposes such as addressing Medicaid or general fund budget shortfalls, helping to support increases in Medicaid enrollment, or to mitigate reductions in provider rates and benefits.<sup>ii</sup>
- While the ARRA funds provided critical fiscal relief for all states, the funds were not targeted to states with the highest unemployment rates. The dominant piece of the formula was an across-the-board increase of 6.2 percentage points. The unemployment-based provision was less important, and focused on changes and not levels of unemployment. The formula also included a “hold-harmless” provision which grew in importance over the three-year period, benefiting 27 states in the final year; however, the states that benefited from this provision were not the states with the highest unemployment rates.
- An increase in the Medicaid matching rate enabled federal funds to reach states quickly because the structure was in place for states to receive these funds. Compared to similar fiscal relief provided during the last economic downturn, the funds reached states much earlier in the downturn. However, the funds expired when states were still faced with depressed revenues and high unemployment. When the increased ARRA FMAP funds expired on July 1, 2011, every state but North Dakota had a higher unemployment rate than when the relief started, and 22 states and the District of Columbia had unemployment rates two percentage points higher.
- Looking ahead to future recessions, a formula might be considered with (1) a smaller across-the-board provision, (2) a declining hold-harmless provision and (3) an economic provision reflecting both levels and changes in measures of unemployment and employment. In addition, consideration might be given to continuation of state Medicaid fiscal relief in very high unemployment states until their economies recover.

## Medicaid and Recessions

During economic downturns, people lose their jobs, the health insurance coverage they get through their jobs, and the incomes those jobs produce. As a result, more people become eligible for Medicaid and enrollment in the program increases. It has been estimated that a 1 percentage point increase in the national unemployment rate translates into an increase of 1 million in Medicaid and CHIP enrollment and a 1.1 million increase in the number of uninsured. At the same time, state tax revenues decline, making it more difficult for states to pay for their share of their expanding Medicaid programs. That same 1 percentage point increase in the unemployment rate results in a 3 to 4 percent decline in state revenues.<sup>iii</sup>

The cost of Medicaid is shared by the states and the federal government on the basis of a statutory formula that specifies a federal matching rate (FMAP) for each state. States' FMAPs are recalculated each year based on the most recent three years of state per capita income relative to the national average per capita income. For example, FMAPs for the current fiscal year 2012 were published in November 2010 based on 2007-2009 income data. FMAPs range from a floor of 50 percent in relatively affluent states like Connecticut (where the federal government provides one dollar for each state dollar) to nearly 75 percent in the poorest state (Mississippi, where the federal government provides almost three dollars for each state dollar.)

This formula does not generate the fiscal relief that states need during an economic downturn to address their rising Medicaid caseloads and declining revenues. The data used to calculate the FMAP are lagged and therefore may not accurately reflect a state's economic distress. For example, the data that reflect the most recent recession (December 2007 through June 2009) were not fully incorporated into the FMAP calculations until FY 2012, which began October 1, 2011. Moreover, as the Government Accountability Office (GAO) and others have noted, states' economic downturns vary widely in onset, depth, and duration, and do not coincide exactly with national recessions. Likewise, increases in Medicaid enrollment and expenditures are specific to individual states because of differences in states' economic conditions, Medicaid program designs, and health care costs.<sup>iv</sup>

In response to a relatively mild 2001 recession, Congress in 2003 provided \$20 billion in federal fiscal relief to states. Of this total, \$10 billion took the form of an increased FMAP. Specifically, for the five calendar quarters from April 2003 through June 2004, no state's FMAP was allowed to decline below the previous year's level<sup>v</sup>, and each state received an increase of 2.95 percentage points in its FMAP for most Medicaid benefits costs. In exchange for this increased FMAP, states were required to maintain Medicaid eligibility levels. This fiscal relief proved instrumental in helping states to address budget shortfalls, to avoid making additional and deeper reductions in their Medicaid programs, and to preserve eligibility standards.<sup>vi</sup> On the other hand, both the timing and the targeting of the relief were criticized by the GAO, which advised that state countercyclical FMAPs be calculated using changes in states' unemployment rates as a key variable.<sup>vii</sup>

### The ARRA Medicaid Fiscal Relief Provisions

The 2007-2009 recession was much deeper and lasted much longer than its 2001 predecessor. It began in December 2007 and did not officially end until the July-September quarter of 2009. National unemployment during this period increased from 4.7 to 10.1 percent, and high unemployment continues to linger in many states. Many states began the 2007-2009 recession with substantial reserves, both in "rainy day" funds and accumulated reserves. Few, however, were prepared for the severity and length of this economic downturn, its impact on state and local government revenues, and the increased demands it would produce for Medicaid and other public programs. Between December 2007 and December 2009, Medicaid monthly enrollment rose by the largest amount since the early days of program implementation, increasing by nearly 6 million (13.6 percent).<sup>viii</sup>

The ARRA Medicaid fiscal relief provisions were enacted in February 2009, and were retroactive to October 2008.<sup>ix</sup> They reflect the hold-harmless and across-the-board elements of the 2003-2004 formula as well as the GAO recommendation regarding use of state unemployment rates as a variable. There were three components:

- A hold-harmless protection against a decline in FMAP;
- A 6.2 percentage point increase in FMAP for all states; and
- An additional increase in FMAP based on the increase in a state’s unemployment rate.

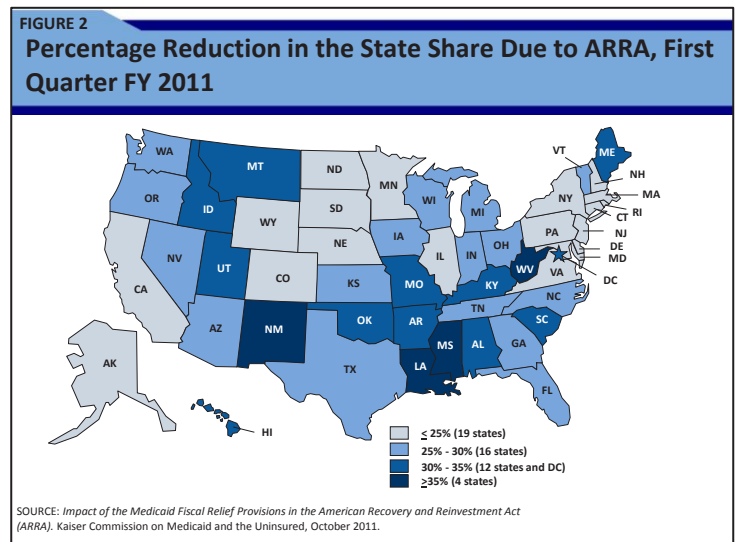
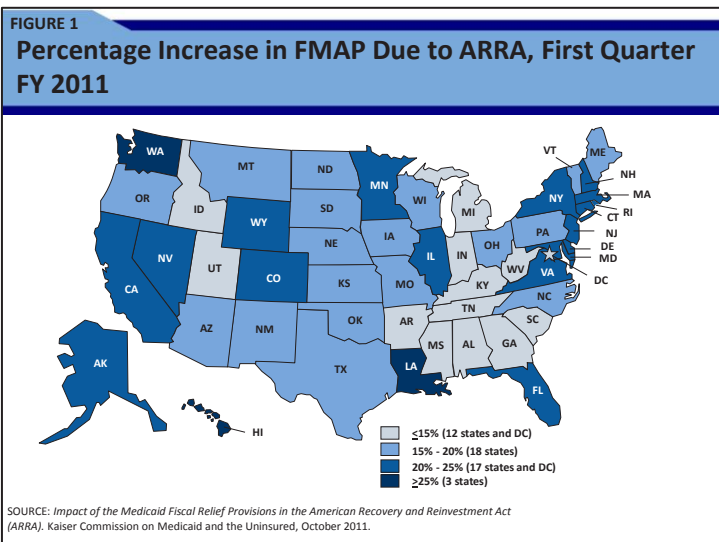
As enacted in February 2009, the ARRA Medicaid fiscal relief provisions applied for a period of nine calendar quarters, from October of 2008 through December of 2010. In August 2010, Congress extended these ARRA provisions for an additional two calendar quarters, through June 30, 2011. This extension phased down the across-the-board increase in two steps: from 6.2 to 3.2 percentage points in the first quarter of calendar year 2011, and from 3.2 to 1.2 percentage points in the second quarter.<sup>x</sup>

### State-by-State Impact of the ARRA Provisions

The ARRA provisions produced a total of \$103 billion in Medicaid fiscal relief over the 11 calendar quarters during which they were in effect. Of this amount, \$83 billion resulted from ARRA itself, \$14.7 billion resulted from the 2-quarter extension, and \$5 billion was attributable to the reduction in each state’s “clawback” payments to the federal government.<sup>xi</sup> More than a third of the relief went to the states with five of the largest Medicaid programs by enrollment: New York (\$13.5 billion); California (\$13.4 billion); Texas (\$6.8 billion); Florida (\$5.6 billion); and Pennsylvania (\$5.0 billion).

There are two perspectives on increases in FMAPs. As shown in Table 1, as of the first quarter of FY 2011 (October through December 2010), the increases in FMAPs were considerably greater in some states than in others. For instance, Hawaii’s FY 2011 FMAP was increased by 15.56 percentage points, or 30 percent, from 51.79 percent to 67.35 percent. In contrast, Kentucky’s FMAP rose by 9.12 percentage points, or 12.8 percent, from 71.49 percent to 80.61 percent (Figure 1).

Another perspective focuses on the extent to which the ARRA Medicaid fiscal relief provisions reduced the required state contribution, since that is how it translates to state fiscal relief. Looking at the first quarter of fiscal year 2011, the reductions in state share ranged from 49.1 percent in Louisiana to 23.2 percent in the eleven states with a regular 50 percent FMAP. Note that while Hawaii and Kentucky’s FMAP increases were very different, both experienced a similar decrease in state share of about 32 percent (Figure 2).



## Impact of ARRA Provisions

**Hold-Harmless.** State FMAPs are recalculated each year and may move up or down (except in the case of the states which remain at the 50 percent floor and the District of Columbia, which has a fixed FMAP of 70 percent). Under the ARRA hold-harmless provision, a state’s FMAP could increase from one year to the next but could not decrease below its level in FY 2008. (If a state’s FMAP increased above its FY 2008 level in FY 2009 or FY 2010, then the new hold-harmless level would be the higher FMAP, not the FY 2008 FMAP).

The hold-harmless remained in effect through the entire period of the ARRA Medicaid fiscal relief, which included FY 2009, FY 2010, and most of FY 2011.<sup>xii</sup> This meant that states which would have experienced ongoing declines in their FMAPs under the regular formula, such as Hawaii, Louisiana, and North Dakota, benefited from the hold-harmless provisions each year that their FMAPs would otherwise have dropped. It also meant that over time more and more states benefited. By FY 2011, 27 states had avoided a drop in their regular FMAP as a result of the hold-harmless provision (Figure 3).<sup>xiii</sup> In contrast, 24 states did not receive any benefit from the hold-harmless provisions, including 11 states and the District of Columbia that were already at the statutory floor and could not, by definition, benefit from the hold-harmless element of the ARRA Medicaid fiscal relief.

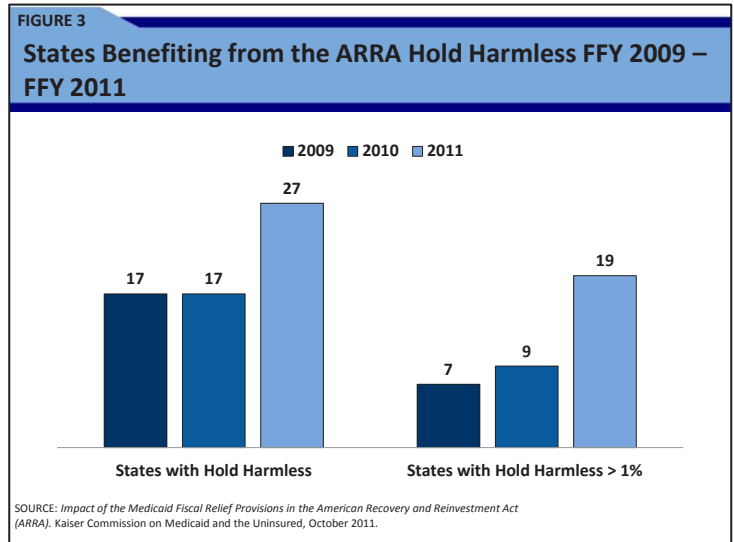


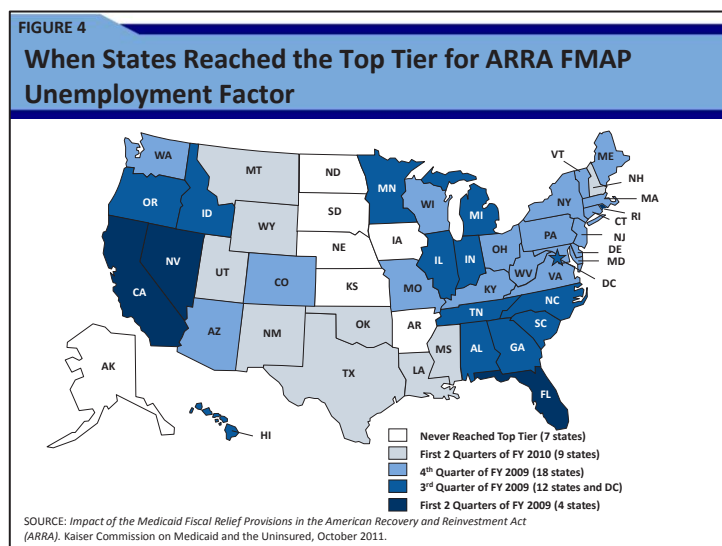
Table 1 displays the amount of the FMAP increase in FY 2011 attributable to the hold-harmless provision. Of the 27 states that benefited, 19 states received an increase of 1.00 percentage points or more. The increases ranged from 8.86 percentage points in Louisiana to 0.05 in Wisconsin. States in which per capita incomes were growing fastest relative to the national average benefited the most; some of these, notably Louisiana (8.86 percentage point increase), Hawaii (4.71), and North Dakota (3.40), benefited substantially (Figure 3).

**6.20 percentage point increase.** Under ARRA, each state’s FMAP, after being held harmless, was increased by 6.2 percentage points for each of the nine calendar quarters through December 31, 2010. During each of the first two quarters in 2011, this increase declined to 3.2 and 1.2 percentage points, respectively.

These across-the-board FMAP increases can be viewed from a number of perspectives. In one sense, a uniform increase in each state’s FMAP treats all states equally. In another, it favors states with high regular FMAPs, because it reduces their required state contribution (100 percent minus its FMAP) proportionally more than it does in the case of states with low FMAPs. For example, a 6.2 percentage point increase for a state with a regular FMAP of 50 percent reduces that state’s share of program costs by 12.4 percent (6.2 divided by 50), keeping in mind a state’s share is 100 percent minus its FMAP. In contrast, the same 6.2 percentage point increase for a state with a regular FMAP of 70 percent reduces that state’s share of program costs by 20.7 percent (6.2 divided by 30). Finally, a uniform across-the-board increase in FMAPs by definition provides more federal funds to states with larger Medicaid programs, regardless of whether their regular FMAPs are high or low.

**Unemployment Rate Increases.** In recognition of the impact of high unemployment on Medicaid enrollment and state tax revenues, ARRA targeted its Medicaid fiscal relief in part on those states where unemployment increased the most, not where unemployment may have been the highest. Unemployment increases were measured as the difference between (1) a state’s lowest average monthly unemployment rate for any 3-month period beginning on or after January 1, 2006 and (2) the state’s average monthly unemployment rate for the most recent 3-month period. Based on this difference, a state was placed into one of three tiers (states with increases of at least 1.5 but less than 2.5 percentage points; at least 2.5 but less than 3.5 percentage points; and 3.5 percentage points and above). Each tier, in turn, resulted in a larger increase in the state’s ARRA FMAP. The formula for determining the amount of the increase was keyed to the *state* share of program costs. In contrast to the 6.2 percentage point increase, this meant that states with low regular FMAPs—i.e., 50 percent states—received higher FMAP increases from the unemployment rate adjustment than states with high regular FMAPs.

The impact of the unemployment rate adjustment is shown in Table 1. All states but North Dakota received an increase in their FMAP from this provision. Among the states that benefited, FMAP increases ranged from 5.39 percentage points in California and other low FMAP states to 1.88 percentage points in South Dakota, a state with a relatively higher FMAP state. The ARRA unemployment rate adjustment was structured so that once a state reached a higher tier, it remained in that tier, regardless of any subsequent decline in its unemployment rate.<sup>xiv</sup> Only four states—California, Florida, Nevada, and Rhode Island—qualified for the top tier in the first two quarters of ARRA Medicaid fiscal relief. Thirteen more qualified in the third quarter of FY 2009, and 18 more in the fourth quarter. By the end of the eleven quarters of ARRA Medicaid fiscal relief, as extended, 44 states had qualified for the top tier; the majority of those not qualifying were Plains states (Figure 4). The rapid increase in the number of states qualifying for the top tier reflected the breadth and depth of the recession.



**Overall ARRA FMAP Increase.** The FMAPs produced by the ARRA Medicaid fiscal relief provisions in FY 2009, FY 2010, and FY 2011 are displayed in Table 1. By the first quarter of FY 2011, ARRA FMAPs ranged from a low of 61.59% in the regular 50 percent match states to a high of 84.86% in Mississippi. Of the three components of the ARRA formula, the most significant was the 6.20 percentage point increase. This was true for all states in all years except Louisiana in FY 2011, when the hold-harmless component resulted in an FMAP increase of 8.86 percentage points. Otherwise, the FMAP increase attributable to the hold-harmless never exceeded 4.71 percent, and the FMAP increase attributable to changes in unemployment peaked at 5.39 percentage points.



## The Federal Cost of the ARRA Provisions

Table 2 summarizes the amounts of federal Medicaid matching funds drawn down by states as a result of the ARRA Medicaid fiscal relief provisions. States received a total of \$32.7 billion in additional federal funds for their FY 2009 programs; for FY 2010, an additional \$39.2 billion; and for FY 2011, an additional \$11.2 billion in the first quarter and an additional \$14.7 billion for the two-quarter extension. In total, ARRA Medicaid fiscal relief, including the impact of the \$5 billion reduction in state “clawback” payments, amounted to \$103 billion.

Most initial estimates of the projected costs of the ARRA nine-quarter FMAP increases were somewhat higher than the eventual \$83 billion expended. Estimates of the Department of Health and Human Services, the Government Accountability Office and the Congressional Budget Office all were about 5 percent higher.<sup>xv</sup> Federal Funds Information for States (FFIS), a state-based research organization, projected a cost slightly over \$81 billion in the expectation that states would respond to the increased demand on their resources that Medicaid represented by cutting back the program where they were permitted to.<sup>xvi</sup> Reports by the Kaiser Family Foundation, the Government Accountability Office and others have documented that state programmatic cutbacks did occur. A majority of the states implemented changes that reduced provider reimbursement rates, cut optional benefits or otherwise reduced cost structures. These actions constrained Medicaid costs, but Medicaid expenditure growth was driven by increases in enrollment related to the recession.<sup>xvii</sup>

It should be noted that the economic impact of the increased federal Medicaid spending exceeds the outlay levels shown above, including jobs at providers with large numbers of Medicaid patients (e.g., hospitals, nursing homes, clinics, pharmacies) that might have been lost in the absence of these revenues. These figures also do not reflect the federal or state tax revenues produced by the economic activity resulting from employment at Medicaid providers and plans.<sup>xviii</sup>

## The Impact of the ARRA Provisions

In assessing federal fiscal relief to states during a recession, two questions must be addressed. First, are the funds timely? Second, are they well-targeted?

On the question of timing, an October 2010 GAO report found that most of the ARRA Medicaid fiscal relief funds had been quickly accessed by the states, largely because they flowed through an existing federal-state funding mechanism. States reported using the funds to cover the costs of increased Medicaid caseloads, to maintain Medicaid benefits, to maintain payment rates for institutional providers and practitioners, and to support general state budget needs.<sup>xix</sup> These findings were confirmed by annual state Medicaid budget survey conducted by the Kaiser Commission on Medicaid and the Uninsured, which found that the ARRA funds “clearly assisted state Medicaid programs and helped them avoid or mitigate program restrictions that would have occurred otherwise.”<sup>xx</sup>

On the question of targeting, the ARRA Medicaid funds were not concentrated in the states with the highest unemployment rates. Table 3 allows a comparison of the extent to which state FMAPs increased, the extent to which the required state contribution dropped, and state unemployment rates. The ARRA provisions to hold states harmless against declines in their regular FMAPs and to adjust for changes in (rather than level of) unemployment had the effect of moderating the FMAP increases to states with high unemployment levels relative to other states. Lower unemployment states such as Alaska, Hawaii, and Louisiana received much more substantial increases in their FMAPs than higher unemployment states such as Kentucky, Michigan, and South Carolina. Of the twenty states with the highest unemployment rates in the first quarter of FY 2011, fourteen had FMAP increases less than or equal to the 17.6 percent median increase.

Similarly, the ARRA provisions did not focus the greatest reductions in state contribution on the states with the highest unemployment rates. As shown in Table 3, all of the 11 states with a regular 50 percent FMAP received the lowest reduction in state share: 23.2 percent. Of these, only California had a double digit unemployment rate in the first quarter of FY 2011. Of the states with the greatest reduction in state share—Arkansas, Louisiana, Mississippi, Montana, New Mexico, Oklahoma, and West Virginia—only Mississippi had an unemployment rate of 10 percent or more. Among the 10 states with double-digit unemployment rates, some experienced reductions in state share in excess of 30 percent (Kentucky, Mississippi, and South Carolina), and some had reductions of less than 25 percent (California, Rhode Island).

The imprecise targeting of the ARRA provisions reflects their design. Consider the hold-harmless provision, which had little effect on FMAPs during FY 2009, but by FY 2011 had become increasingly important. Its impact was to shift Medicaid fiscal relief funds toward many states that needed them the least. Admittedly, by the second year of the recession, virtually all states were having fiscal difficulties, even with the state fiscal relief from ARRA. Nonetheless, the extent of the hold-harmless FMAP increases in the states with the best economic circumstances is hard to justify.

The most important of the components, the 6.2 percentage point increase, had two important consequences. First, it directed federal funds heavily to those states with the largest Medicaid programs. Second, it provided a greater reduction in state share to states with the highest regular FMAPs. While some states with large Medicaid programs (e.g. California) and some states with high regular FMAPs (e.g. Mississippi and South Carolina) had double-digit unemployment rates in FY 2011, the benefit of the across-the-board increase did not flow primarily to states with the highest unemployment rates.

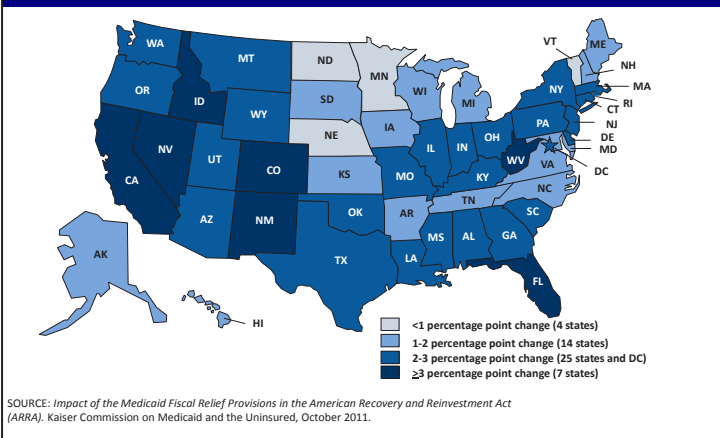
Finally, the unemployment increase is the component most clearly designed to be countercyclical, given that it focused on changes in unemployment rates rather than unemployment levels. While this component initially achieved its objective, the rapid rate at which most states attained the top tier of assistance meant that it began to look more like an across-the-board increase, albeit one that provided somewhat more benefit to states with lower regular FMAPs. In addition, GAO has found that while increase in unemployment is a useful measure for modeling an expected increase in Medicaid enrollment, changes in employment are a better measure reflecting changes in state revenues available to support the program.<sup>xxi</sup>

### **The Expiration of the ARRA Provisions**

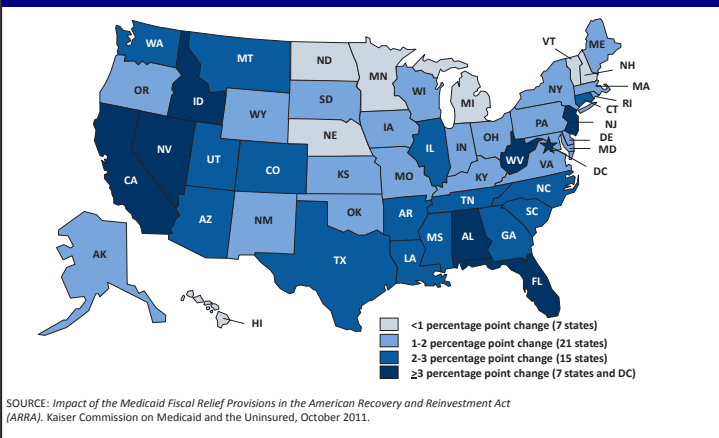
In a review of the ARRA provisions, the GAO notes that their timing was much improved from that of the 2003-2004 Medicaid fiscal relief provisions.<sup>xxii</sup> The most recent recession began in December 2007 and ended during the July-September quarter in 2010; under the ARRA provisions fiscal relief was available for state Medicaid spending during the quarter beginning in October 2008 and continued through June of 2011. Thus, the availability of federal fiscal relief was fairly well aligned with state fiscal distress.

This alignment was not perfect however. As shown in Table 3, when the ARRA provisions took effect during the first quarter of FY 2009, only one state—Michigan—had an unemployment rate of 10 percent or more.<sup>[i]</sup> In the first quarter of FY 2011, shortly before the ARRA provisions expired, ten states had unemployment rates of 10 percent or more, and Michigan's had actually increased to 11.4 percent. In addition all states had higher unemployment rates during the first quarter of FFY 2011 when the ARRA provisions were originally set to expire, compared to the first quarter of FFY 2009 when the fiscal relief began; for 33 states, the unemployment rate was at least 2 percentage points higher over this period (Figure 5). However, the increased FMAP funds from ARRA were extended and phased down, providing additional support to states. By the end of this extension in July 2011, all states but North Dakota had higher unemployment rates compared when the fiscal relief began and economic conditions had only moderately improved with 22 states and the District of Columbia still showing unemployment rates 2 percentage points higher than when the funding began (Figure 6).

**FIGURE 5**  
**Percentage Point Change in Unemployment Rates,  
 First Quarter FY 2009 – First Quarter FY 2011**



**FIGURE 6**  
**Percentage Point Change in Unemployment Rates,  
 First Quarter FY 2009 – July 2011**



The consequences of the expiration of the ARRA provisions for these states are as unfortunate as they are predictable. According to the latest Kaiser Medicaid budget survey, state general fund spending growth spiked for state fiscal year 2012 (by over 28 percent) as the ARRA funds expired and states had to try and replace the lost ARRA funds. States also adopted additional cost containment policies to mitigate that increase such as provider rate restrictions, benefit restrictions and new policies to control spending for prescription drugs.<sup>xxiii</sup>

### Conclusion

There appears to be no doubt that the ARRA FMAP funds provided timely and necessary support to state Medicaid programs (and to the people they serve) during a period of substantial declines in state revenues and steadily increasing Medicaid enrollment. While the ARRA funds benefited all states, the ARRA FMAP formula was not, however, as effectively targeted as it could have been. In the future, a formula with a smaller across-the-board increase, a declining hold-harmless, and a larger unemployment factor that focuses on changes and levels of unemployment and employment, might be considered.<sup>xxiv</sup> In addition, consideration might be given to continuation of state Medicaid fiscal relief in very high unemployment states until their economies recover.

*This paper was prepared for the Kaiser Family Foundation’s Commission on Medicaid and the Uninsured (KCMU) by Vic Miller with assistance from Andy Schneider, a consultant to KCMU, and Laura Snyder and Robin Rudowitz, with KCMU.*



**Table 1. ARRA FMAPs for Selected Fiscal Periods  
(Federal Fiscal Year quarters)**

	First Quarter 2009			First Quarter 2010			First Quarter 2011					
	Regular	ARRA	% Increase	Regular	ARRA	% Increase	Regular	Hold Harmless	Unemployment Adjustment	ARRA Total FMAP	% Increase in FMAP	% Reduction in State Share
Alabama	67.98	76.64	12.7%	68.01	77.53	14.0%	68.54	0.00	3.26	78.00	13.8%	30.1%
Alaska	50.53	58.68	16.1%	51.43	61.12	18.8%	50.00	2.48	3.78	62.46	24.9%	24.9%
Arizona	65.77	75.01	14.0%	65.75	75.93	15.5%	65.85	0.35	3.53	75.93	15.3%	29.5%
Arkansas	72.81	79.14	8.7%	72.78	80.46	10.6%	71.37	1.57	2.04	81.18	13.7%	34.3%
California	50.00	61.59	23.2%	50.00	61.59	23.2%	50.00	0.00	5.39	61.59	23.2%	23.2%
Colorado	50.00	58.78	17.6%	50.00	61.59	23.2%	50.00	0.00	5.39	61.59	23.2%	23.2%
Connecticut	50.00	60.19	20.4%	50.00	61.59	23.2%	50.00	0.00	5.39	61.59	23.2%	23.2%
Delaware	50.00	60.19	20.4%	50.21	61.78	23.0%	53.15	0.00	5.03	64.38	21.1%	24.0%
District of Columbia	70.00	77.68	11.0%	70.00	79.29	13.3%	70.00	0.00	3.09	79.29	13.3%	31.0%
Florida	55.40	67.64	22.1%	54.98	67.64	23.0%	55.45	1.38	4.61	67.64	22.0%	27.4%
Georgia	64.49	73.44	13.9%	65.10	74.96	15.1%	65.33	0.00	3.63	75.16	15.0%	28.4%
Hawaii	55.11	66.13	20.0%	54.24	67.35	24.2%	51.79	4.71	4.65	67.35	30.0%	32.3%
Idaho	69.77	78.37	12.3%	69.40	79.18	14.1%	68.85	1.02	3.11	79.18	15.0%	33.2%
Illinois	50.32	60.48	20.2%	50.17	61.88	23.3%	50.20	0.12	5.36	61.88	23.3%	23.5%
Indiana	64.26	73.23	14.0%	65.93	75.69	14.8%	66.52	0.00	3.49	76.21	14.6%	28.9%
Iowa	62.62	68.82	9.9%	63.51	72.55	14.2%	62.63	0.88	2.84	72.55	15.8%	26.5%
Kansas	60.08	66.28	10.3%	60.38	69.68	15.4%	59.05	1.33	3.10	69.68	18.0%	26.0%
Kentucky	70.13	77.80	10.9%	70.96	80.14	12.9%	71.49	0.00	2.92	80.61	12.8%	32.0%
Louisiana	71.31	80.01	12.2%	67.61	81.48	20.5%	63.61	8.86	2.81	81.48	28.1%	49.1%
Maine	64.41	72.40	12.4%	64.99	74.86	15.2%	63.80	1.19	3.67	74.86	17.3%	30.6%
Maryland	50.00	58.78	17.6%	50.00	61.59	23.2%	50.00	0.00	5.39	61.59	23.2%	23.2%
Massachusetts	50.00	58.78	17.6%	50.00	61.59	23.2%	50.00	0.00	5.39	61.59	23.2%	23.2%
Michigan	60.27	69.58	15.4%	63.19	73.27	15.9%	65.79	0.00	3.58	75.57	14.9%	28.6%
Minnesota	50.00	60.19	20.4%	50.00	61.59	23.2%	50.00	0.00	5.39	61.59	23.2%	23.2%
Mississippi	75.84	83.62	10.3%	75.67	84.86	12.1%	74.73	1.56	2.37	84.86	13.6%	40.1%
Missouri	63.19	71.24	12.7%	64.51	74.43	15.4%	63.29	1.22	3.72	74.43	17.6%	30.3%
Montana	68.04	76.29	12.1%	67.42	77.99	15.7%	66.81	1.72	3.26	77.99	16.7%	33.7%
Nebraska	59.54	65.74	10.4%	60.56	68.76	13.5%	58.44	2.12	2.00	68.76	17.7%	24.8%
Nevada	50.00	63.93	27.9%	50.16	63.93	27.5%	51.61	1.03	5.09	63.93	23.9%	25.5%
New Hampshire	50.00	56.20	12.4%	50.00	61.59	23.2%	50.00	0.00	5.39	61.59	23.2%	23.2%
New Jersey	50.00	58.78	17.6%	50.00	61.59	23.2%	50.00	0.00	5.39	61.59	23.2%	23.2%
New Mexico	70.88	77.24	9.0%	71.35	80.49	12.8%	69.78	1.57	2.94	80.49	15.3%	35.4%
New York	50.00	58.78	17.6%	50.00	61.59	23.2%	50.00	0.00	5.39	61.59	23.2%	23.2%
North Carolina	64.60	73.55	13.9%	65.13	74.98	15.1%	64.71	0.42	3.65	74.98	15.9%	29.1%
North Dakota	63.15	69.95	10.8%	63.01	69.95	11.0%	60.35	3.40	0.00	69.95	15.9%	24.2%
Ohio	62.14	70.25	13.1%	63.42	73.47	15.8%	63.69	0.00	3.82	73.71	15.7%	27.6%
Oklahoma	65.90	74.94	13.7%	64.43	75.83	17.7%	64.94	2.16	3.43	76.73	18.2%	33.6%
Oregon	62.45	71.58	14.6%	62.74	72.87	16.1%	62.85	0.00	3.92	72.97	16.1%	27.2%
Pennsylvania	54.52	63.05	15.6%	54.81	65.85	20.1%	55.64	0.00	4.74	66.58	19.7%	24.7%
Rhode Island	52.59	63.89	21.5%	52.63	63.92	21.5%	52.97	0.00	5.05	64.22	21.2%	23.9%
South Carolina	70.07	78.55	12.1%	70.32	79.58	13.2%	70.04	0.28	3.06	79.58	13.6%	31.8%
South Dakota	62.55	68.75	9.9%	62.72	70.80	12.9%	61.25	1.47	1.88	70.80	15.6%	24.6%
Tennessee	64.28	73.25	14.0%	65.57	75.37	15.0%	65.85	0.00	3.57	75.62	14.8%	28.6%
Texas	59.44	68.76	15.7%	58.73	70.94	20.8%	60.56	0.00	4.18	70.94	17.1%	26.3%
Utah	70.71	77.83	10.1%	71.68	80.78	12.7%	71.13	0.55	2.90	80.78	13.6%	33.4%
Vermont	59.45	67.71	13.9%	58.73	69.96	19.1%	58.71	0.74	4.31	69.96	19.2%	27.2%
Virginia	50.00	58.78	17.6%	50.00	61.59	23.2%	50.00	0.00	5.39	61.59	23.2%	23.2%
Washington	50.94	60.22	18.2%	50.12	62.94	25.6%	50.00	1.52	5.22	62.94	25.9%	25.9%
West Virginia	73.73	80.45	9.1%	74.04	83.05	12.2%	73.24	1.01	2.60	83.05	13.4%	36.7%
Wisconsin	59.38	65.58	10.4%	60.21	70.63	17.3%	60.16	0.05	4.22	70.63	17.4%	26.3%
Wyoming	50.00	56.20	12.4%	50.00	61.59	23.2%	50.00	0.00	5.39	61.59	23.2%	23.2%
										<b>Median:</b>	<b>17.6%</b>	<b>27.2%</b>

NOTE: Excludes insular areas, which received stimulus funds under a slightly different system.

SOURCE: Federal Medical Assistance Percentage (FMAP) for Medicaid with American Recovery and Reinvestment Act (ARRA) Adjustments, FYs 2009, 2010, and 2011. Kaiser Commission on Medicaid and the Uninsured, accessed October 12, 2011. <http://www.statehealthfacts.org/comparemaptable.jsp?ind=695&cat=4> and <http://www.statehealthfacts.org/comparemaptable.jsp?ind=916&cat=4>.

**Table 2. ARRA Increased-FMAP Drawdowns and Clawback Impact by State  
(Federal Fiscal Years; \$Millions)**

State	2009	2010	2011	Total	Total	Clawback	Total	
			1st Qtr	ARRA	Extension	Reduction	Amount	Share
Alabama	\$354	\$390	\$99	\$843	\$119	\$50	\$1,012	0.98%
Alaska	83	105	30	218	46	12	276	0.27%
Arizona	763	904	234	1,900	252	52	2,205	2.14%
Arkansas	232	309	92	633	117	30	780	0.76%
California	3,831	4,482	1,947	10,260	2,337	789	13,385	13.01%
Colorado	337	440	119	896	159	50	1,105	1.07%
Connecticut	505	566	150	1,222	199	77	1,498	1.46%
Delaware	130	147	37	315	56	9	379	0.37%
District of Columbia	131	155	39	326	51	9	385	0.37%
Florida	1,796	2,184	544	4,524	747	329	5,601	5.44%
Georgia	669	714	173	1,556	246	84	1,886	1.83%
Hawaii	145	188	57	391	87	21	499	0.48%
Idaho	115	132	48	295	48	17	360	0.35%
Illinois	1,206	1,461	376	3,043	458	237	3,739	3.63%
Indiana	558	539	185	1,283	174	67	1,523	1.48%
Iowa	193	270	82	545	101	42	688	0.67%
Kansas	177	217	64	458	91	29	578	0.56%
Kentucky	428	470	130	1,028	146	64	1,238	1.20%
Louisiana	477	759	245	1,481	410	102	1,994	1.94%
Maine	221	234	55	511	92	33	636	0.62%
Maryland	635	799	218	1,652	297	62	2,011	1.95%
Massachusetts	1,221	1,362	380	2,963	513	158	3,634	3.53%
Michigan	990	1,116	293	2,399	369	121	2,888	2.81%
Minnesota	779	828	216	1,823	284	96	2,203	2.14%
Mississippi	288	354	107	748	139	41	928	0.90%
Missouri	626	718	195	1,539	265	129	1,934	1.88%
Montana	71	92	30	193	31	11	235	0.23%
Nebraska	109	129	40	278	50	23	351	0.34%
Nevada	175	190	45	409	65	20	494	0.48%
New Hampshire	84	125	43	253	45	17	314	0.31%
New Jersey	853	991	249	2,093	351	180	2,624	2.55%
New Mexico	230	301	88	619	111	17	747	0.73%
New York	4,396	5,156	1,414	10,966	2,012	481	13,458	13.08%
North Carolina	950	964	229	2,143	345	178	2,666	2.59%
North Dakota	39	46	16	101	20	5	126	0.12%
Ohio	1,185	1,385	356	2,927	472	177	3,577	3.48%
Oklahoma	342	443	120	905	152	56	1,113	1.08%
Oregon	342	391	106	838	148	46	1,033	1.00%
Pennsylvania	1,547	1,944	536	4,026	723	269	5,018	4.88%
Rhode Island	197	197	55	448	75	27	551	0.54%
South Carolina	369	414	103	886	125	60	1,071	1.04%
South Dakota	48	57	17	122	23	8	153	0.15%
Tennessee	620	848	188	1,655	249	137	2,041	1.98%
Texas	2,009	2,981	669	5,660	917	236	6,813	6.62%
Utah	128	149	39	317	52	20	388	0.38%
Vermont	106	135	35	277	44	15	336	0.33%
Virginia	571	717	195	1,482	263	101	1,846	1.79%
Washington	641	821	223	1,685	311	104	2,100	2.04%
West Virginia	176	220	68	464	79	27	571	0.55%
Wisconsin	614	648	206	1,469	209	93	1,770	1.72%
Wyoming	34	58	15	106	19	5	131	0.13%
<b>Total</b>	<b>\$32,728</b>	<b>\$39,246</b>	<b>\$11,200</b>	<b>\$83,174</b>	<b>\$14,696</b>	<b>\$5,021</b>	<b>\$102,891</b>	<b>100.00%</b>

NOTE: Excludes small amounts for insular areas, which were reimbursed under a different system.

SOURCE: Drawdowns through October 12, 2011. CMS.

**Table 3. Unemployment Rates and FY 2011 FMAP Changes due to ARRA  
(Federal Fiscal Year quarters)**

State	Unemployment Rate					First Quarter of 2011			
	First Quarter of FFY 2009	First Quarter of FFY 2011	Percentage Point Δ from FFY 2009 - FFY 2011	July 2011	Percentage Point Δ from FFY 2009 - July 2011	Regular FMAP	Total ARRA FMAP	% Increase in FMAP	% Reduction State Share
Alabama	6.5	9.1	2.6	10	3.5	68.54	78.00	13.8%	30.1%
Alaska	6.7	7.9	1.2	7.7	1.0	50.00	62.46	24.9%	24.9%
Arizona	7.4	9.7	2.3	9.4	2.0	65.85	75.93	15.3%	29.5%
Arkansas	6.0	7.9	1.9	8.2	2.2	71.37	81.18	13.7%	34.3%
California	8.7	12.5	3.8	12	3.3	50.00	61.59	23.2%	23.2%
Colorado	5.8	8.9	3.1	8.5	2.7	50.00	61.59	23.2%	23.2%
Connecticut	6.5	9.1	2.6	9.1	2.6	50.00	61.59	23.2%	23.2%
Delaware	6.2	8.4	2.2	8.1	1.9	53.15	64.38	21.1%	24.0%
District of Columbia	7.7	9.7	2.0	10.8	3.1	70.00	79.29	13.3%	31.0%
Florida	7.7	11.9	4.2	10.7	3.0	55.45	67.64	22.0%	27.4%
Georgia	7.6	10.4	2.8	10.1	2.5	65.33	75.16	15.0%	28.4%
Hawaii	5.3	6.4	1.1	6.1	0.8	51.79	67.35	30.0%	32.3%
Idaho	5.9	9.6	3.7	9.4	3.5	68.85	79.18	15.0%	33.2%
Illinois	7.2	9.4	2.2	9.5	2.3	50.20	61.88	23.3%	23.5%
Indiana	7.5	9.6	2.1	8.5	1.0	66.52	76.21	14.6%	28.9%
Iowa	4.8	6.1	1.3	6	1.2	62.63	72.55	15.8%	26.5%
Kansas	5.2	6.9	1.7	6.5	1.3	59.05	69.68	18.0%	26.0%
Kentucky	8.0	10.3	2.3	9.5	1.5	71.49	80.61	12.8%	32.0%
Louisiana	5.3	7.7	2.4	7.6	2.3	63.61	81.48	28.1%	49.1%
Maine	6.5	7.5	1.0	7.7	1.2	63.80	74.86	17.3%	30.6%
Maryland	5.5	7.4	1.9	7.1	1.6	50.00	61.59	23.2%	23.2%
Massachusetts	6.3	8.3	2.0	7.6	1.3	50.00	61.59	23.2%	23.2%
Michigan	10.0	11.4	1.4	10.9	0.9	65.79	75.57	14.9%	28.6%
Minnesota	6.3	7.0	0.7	7.2	0.9	50.00	61.59	23.2%	23.2%
Mississippi	7.5	10.2	2.7	10.4	2.9	74.73	84.86	13.6%	40.1%
Missouri	7.2	9.6	2.4	8.7	1.5	63.29	74.43	17.6%	30.3%
Montana	5.3	7.4	2.1	7.7	2.4	66.81	77.99	16.7%	33.7%
Nebraska	3.7	4.4	0.7	4.2	0.5	58.44	68.76	17.7%	24.8%
Nevada	8.7	14.9	6.2	12.9	4.2	51.61	63.93	23.9%	25.5%
New Hampshire	4.6	5.7	1.1	5.2	0.6	50.00	61.59	23.2%	23.2%
New Jersey	6.5	9.2	2.7	9.5	3.0	50.00	61.59	23.2%	23.2%
New Mexico	5.4	8.6	3.2	6.7	1.3	69.78	80.49	15.3%	35.4%
New York	6.3	8.3	2.0	8	1.7	50.00	61.59	23.2%	23.2%
North Carolina	7.9	9.8	1.9	10.1	2.2	64.71	74.98	15.9%	29.1%
North Dakota	3.5	3.9	0.4	3.3	-0.2	60.35	69.95	15.9%	24.2%
Ohio	7.6	9.6	2.0	9	1.4	63.69	73.71	15.7%	27.6%
Oklahoma	4.4	6.8	2.4	5.6	1.2	64.94	76.73	18.2%	33.6%
Oregon	8.4	10.6	2.2	9.5	1.1	62.85	72.97	16.1%	27.2%
Pennsylvania	6.2	8.5	2.3	7.8	1.6	55.64	66.58	19.7%	24.7%
Rhode Island	9.0	11.5	2.5	10.8	1.8	52.97	64.22	21.2%	23.9%
South Carolina	8.6	10.9	2.3	10.9	2.3	70.04	79.58	13.6%	31.8%
South Dakota	3.7	4.7	1.0	4.7	1.0	61.25	70.80	15.6%	24.6%
Tennessee	7.8	9.4	1.6	9.8	2.0	65.85	75.62	14.8%	28.6%
Texas	5.7	8.2	2.5	8.4	2.7	60.56	70.94	17.1%	26.3%
Utah	4.8	7.5	2.7	7.5	2.7	71.13	80.78	13.6%	33.4%
Vermont	5.3	5.8	0.5	5.7	0.4	58.71	69.96	19.2%	27.2%
Virginia	4.9	6.6	1.7	6.1	1.2	50.00	61.59	23.2%	23.2%
Washington	6.6	9.3	2.7	9.3	2.7	50.00	62.94	25.9%	25.9%
West Virginia	4.9	9.6	4.7	8.1	3.2	73.24	83.05	13.4%	36.7%
Wisconsin	5.9	7.6	1.7	7.8	1.9	60.16	70.63	17.4%	26.3%
Wyoming	3.8	6.5	2.7	5.7	1.9	50.00	61.59	23.2%	23.2%

SOURCE: Bureau of Labor Statistics. <http://www.bls.gov/>.

<sup>i</sup> As of October 12, 2011, the latest date for which drawdown data have been made available as of the drafting of this paper. This Includes \$83.2 billion for the initial 9 fiscal quarters of ARRA increased FMAs, \$14.7 billion for the two quarters provided for in the extended period of two quarters and \$5.0 billion of reduced state liability for the Medicare Part D “clawback”.

<sup>ii</sup> Smith, V, Gifford K, Ellis E, Rudowitz R and L Snyder. *Moving Ahead Amid Fiscal Challenges: A Look at Medicaid Spending, Coverage and Policy Trends Results from a 50-State Budget Survey for State Fiscal Years 2011 and 2012*. Kaiser Commission on Medicaid and the Uninsured, October 2011.

<sup>iii</sup> Kaiser Commission on Medicaid and the Uninsured, Short Term Options for Medicaid in a Recession (December 2008), p. 2. <http://www.kff.org/medicaid/upload/7843.pdf>.

<sup>iv</sup> Government Accountability Office, “Medicaid Strategies to Help States Address Increased Expenditures during Economic Downturns,” GAO 07-97 (October 18, 2006); Government Accountability Office, “State and Local Governments: Knowledge of Past Recessions Can Inform Future Federal Fiscal Assistance,” GAO-11-401 (March 31, 2011).

<sup>v</sup> In 2003 and 2004 the FMAP was allowed to decline below the base level if a state’s regular FMAP declined two years in a row. This was different from ARRA.

<sup>vi</sup> Wachino, V, O’Malley M, and R Rudowitz. *Financing Health Coverage: The Fiscal Relief Experience*. Kaiser Commission on Medicaid and the Uninsured, (#7434; November 2005). <http://www.kff.org/medicaid/upload/Financing-Health-Coverage-The-Fiscal-Relief-Experience-Policy-Brief.pdf>.

<sup>vii</sup> Government Accountability Office, “Medicaid Strategies to Help States Address Increased Expenditures during Economic Downturns”, GAO 07-97 (October 18, 2006); Government Accountability Office, “State and Local Governments: Knowledge of Past Recessions Can Inform Future Federal Fiscal Assistance,” GAO-11-401 (March 31, 2011), pp 32-33.

<sup>viii</sup> Kaiser Commission on Medicaid and the Uninsured, *Medicaid Enrollment: December 2009 Data Snapshot*, September 2010. <http://www.kff.org/medicaid/upload/8050-02.pdf>.

<sup>ix</sup> Section 5001 of the American Recovery and Reinvestment Act of 2009, P.L. 111-5 (February 17, 2009). Section 5001 was enacted as part of Title V of Division B of ARRA. The purposes of Title V, as set forth in section 5000, were “(1) To provide fiscal relief to States in a period of economic downturn,” and “(2) To protect and maintain State Medicaid programs during a period of economic downturn, including by helping to avert cuts to provider payment rates and benefits or services, and to prevent constrictions of income eligibility requirements for such programs, but not to promote increases in such requirements.”

<sup>x</sup> Section 201 of P.L. 111-226 (August 10, 2011).

<sup>xi</sup> Under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, (MMA), P.L. 108-173, the cost of prescription drug coverage for individuals dually eligible for Medicare and Medicaid was transferred from state Medicaid programs to the new Medicare Part D prescription drug program. The MMA also required states to make monthly payments to the Medicare Prescription Drug Account in the Medicare Supplementary Medicare Insurance Trust Fund that were intended to correspond to the savings states realized from the transfer of prescription drug coverage to Medicare Part D. These “clawback” payments are based in part on states’ FMAs; the higher a state’s FMAP, the lower the state’s savings from Medicare Part D and the lower the state’s “clawback” payment. By increasing state FMAs, the ARRA provisions also reduced state “clawback” payments.

<sup>xii</sup> The FY 2003-2004 JGTRRA hold-harmless had held states harmless only to the previous year’s base level. This meant that states whose underlying FMAP went down in both FY 2003 and FY 2004 saw their JGTRRA FY 2004 FMAP also decline.

<sup>xiii</sup> Kaiser Commission on Medicaid and the Uninsured, *An Overview of Changes in the Federal Medical Assistance Percentages (FMAs) for Medicaid*, July 2011. <http://www.kff.org/medicaid/8210.cfm>.

<sup>xiv</sup> ARRA originally maintained states at their highest tier for the first seven quarters, and the extension made this nine quarters. However, the provision of the extension requiring advance notice of any decline made it impossible to implement any such reduction for the full eleven quarters.

<sup>xv</sup> These estimates were prepared in 2009 and do not account for the reduction in state “clawback” payments. Guidance enabling states to apply the ARRA FMAP increases to the calculation of “clawback” payments was not issued until March 2010, but the policy was made retroactive to the start of the ARRA FMAP provisions on October 1, 2008. Center for Medicaid and State Operations, Letter to State Medicaid Directors re: Revised Clawback Calculations, SMD #10-004 (March 5, 2010), <http://www.cms.gov/smdl/downloads/SMD10004.pdf>.

<sup>xvi</sup> Federal Funds Information for States (FFIS); Issue Brief 09-14, *Updated Estimates of ARRA*; April 8, 2009.

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. Kaiser Commission on Medicaid and the Uninsured, *American Recovery and Reinvestment Act (ARRA): Medicaid and Health Care Provisions*, March 2009.

<http://www.kff.org/medicaid/upload/7872.pdf>.

<sup>xvii</sup> Smith, V, Gifford K, Ellis E, Rudowitz R and L Snyder. *Moving Ahead Amid Fiscal Challenges: A Look at Medicaid Spending, Coverage and Policy Trends Results from a 50-State Budget Survey for State Fiscal Years 2011 and 2012*. Kaiser Commission on Medicaid and the Uninsured, October 2011.

<sup>xviii</sup> Kaiser Commission on Medicaid and the Uninsured, *The Role of Medicaid in State Economies: A Look at the Research*, January 2009. <http://www.kff.org/medicaid/7075a.cfm>.

<sup>xix</sup> Government Accountability Office, “Recovery Act: Increased Medicaid Funds Aided Enrollment Growth, and Most States Reported Taking Steps to Sustain Their Programs,” GAO-11-58 (Oct 8, 2010).

<sup>xx</sup> Smith V, et al. 2011, p. 24

<sup>xxi</sup> Government Accountability Office, “Medicaid: Improving Responsiveness of Federal Assistance to States during Economic Downturns,” GAO-11-395 (March 31, 2011), pp32.

<sup>xxii</sup> Government Accountability Office, “Medicaid: Improving Responsiveness of Federal Assistance to States during Economic Downturns,” GAO-11-395 (March 31, 2011).

<sup>[1]</sup> The fact that Michigan did not reach the top tier of the unemployment factors until the third quarter of fiscal year 2009 highlights that the formula was targeted to changes not levels in unemployment.

<sup>xxiii</sup> Smith, V, et al. 2011.

<sup>xxiv</sup> GAO has suggested that, in addition to increases in unemployment, a well-targeted fiscal relief provision might also consider decreases in wages and salaries as a proxy for decreases in state revenues. Government Accountability Office, “Medicaid: Improving Responsiveness of Federal Assistance to States during Economic Downturns,” GAO-11-395 (Mar 31, 2011), p. 33.



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