kaiser commission on medicaid and the uninsured

MEDICAID FACTS

THE HENRY J. KAISER FAMILY FOUNDATION

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FINANCING THE MEDICAID PROGRAM: THE IMPACT OF FEDERAL FISCAL RELIEF

In May 2003, Congress passed the Jobs and Growth Tax Relief Reconciliation Act of 2003 that provided $20 billion in temporary federal fiscal relief to the states to ease budgetary pressures caused by a falloff in state tax revenues and rising budget shortfalls. $10 billion of the fiscal relief was provided through a temporary increase in the federal share of Medicaid spending. The fiscal relief, which is scheduled to expire in June 2004, helped states preserve Medicaid coverage by forestalling the need for additional cutbacks.

THE ROLE OF THE FEDERAL MATCHING PAYMENTS

Medicaid, jointly funded and administered by the states and the federal government, provides health and long-term care services to over 50 million low-income people. The federal government matches state spending for the services Medicaid covers on an open-ended basis, with the federal matching rate, known as the federal medical assistance percentage (FMAP) varying by state from 50 to 77 percent. Each state's FMAP is based on a formula relationship between a state's per capita income and the national average per capita income over a three-year period. States with per capita incomes below the national average receive higher matching percentages; states with per capita incomes above the national average receive lower matching percentages.

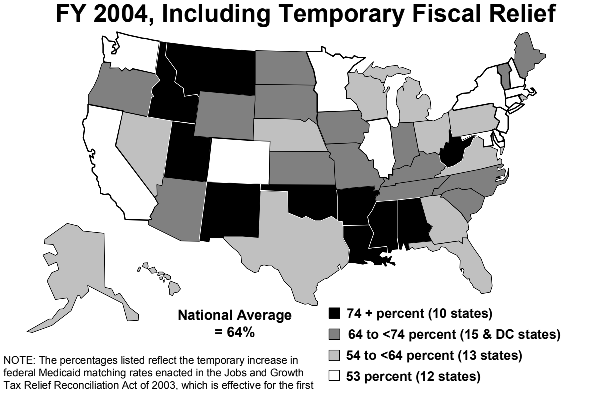
Medicaid is designed as a counter-cyclical program, which means that the program expands when there is an economic downturn and more people become eligible for the program. However, when state economic conditions change quickly, the FMAP does not adjust the federal funds going to that state for several years, creating fiscal stress when state resources are constrained. The FMAP formula is based on prior years' state per capita income data, and therefore often lags current state fiscal conditions by several years.

TEMPORARY INCREASE IN FEDERAL MATCHING PAYMENTS

In May 2003, Congress provided states $20 billion in temporary fiscal relief to help states address their budget problems. $10 billion of the fiscal relief was provided through a temporary 2.95 percentage point increase in each states' federal matching rate for Medicaid (Figure 1). The legislation provided an additional $10 billion in temporary grants for states to use for Medicaid or other state programs. As a condition of receiving the fiscal relief, states were required to maintain the same eligibility levels they had in place as of September 2, 2003. The fiscal relief is scheduled to expire in June 2004.

Figure 1

Federal Medical Assistance Percentages (FMAP), FY 2004, Including Temporary Fiscal Relief



NOTE: The percentages listed reflect the temporary increase in federal Medicaid matching rates enacted in the Jobs and Growth Tax Relief Reconciliation Act of 2003, which is effective for the first 3 calendar quarters of FY 2004.
SOURCE: Federal Register, June 17, 2003.

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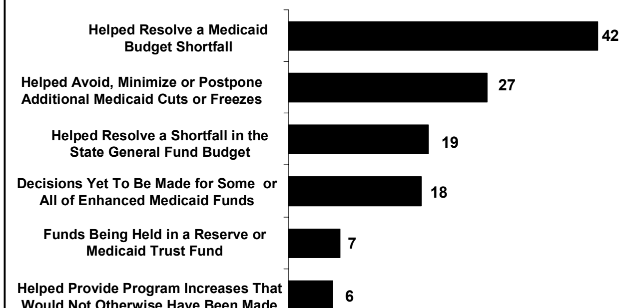
FISCAL RELIEF HELPED STATES FILL BUDGET SHORTFALLS

In a survey of state officials in all 50 states and the District of Columbia in December 2003, the Kaiser Commission on Medicaid and the Uninsured found that the temporary increase in the federal share of Medicaid costs helped states ease their budget problems and avoid making additional and deeper changes to their Medicaid programs in FY 2004. Forty-two states reported that the federal fiscal relief helped to meet the funding increases in their Medicaid programs by resolving budget shortfalls. More than half of all states – 27 states – reported using the fiscal relief to minimize or postpone additional Medicaid cuts or freezes (Figure 2). No states made changes to Medicaid eligibility that would have disqualified the state from receiving the fiscal relief.

Figure 2

States Report Use of Enhanced FMAP in FY2004



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

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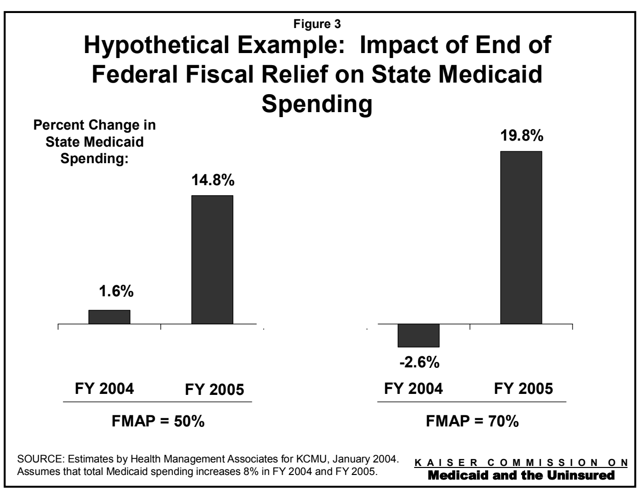
The fiscal relief helped many states fill shortfalls in their overall general fund budgets. The fiscal relief also helped to temporarily slow the rate of growth of the state share of Medicaid spending by increasing the federal share. Because the federal government is temporarily assuming a greater share of Medicaid expenditures, state Medicaid spending is projected to grow only 3.3 percent, while total (state and federal) Medicaid spending is projected to increase by 8.2 percent in FY 2004.

STATES EXPECT SIGNIFICANT IMPACT WHEN TEMPORARY FEDERAL FISCAL RELIEF EXPIRES

The end of the federal fiscal relief in June, when the federal matching rates drop, will have a strong impact on the Medicaid program. On July 1, 2004 the cost of Medicaid in every state will increase as a result of the expiration of the fiscal relief. The end of the fiscal relief, on top of underlying Medicaid spending growth, will make the percentage increases in the state cost of Medicaid in FY 2005 appear to be extremely high.

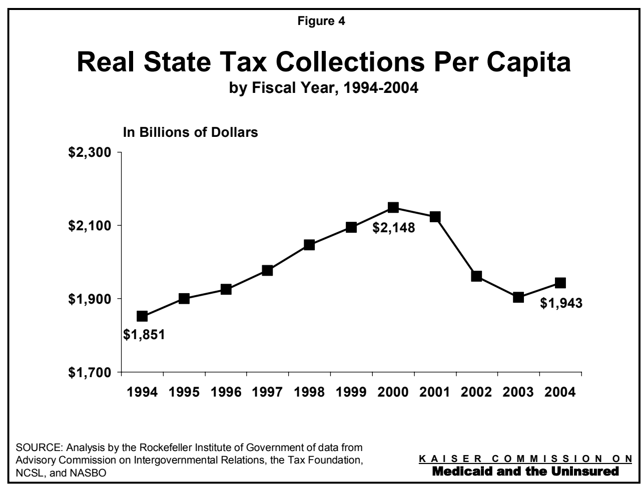
For example, a state with a regular FMAP of 50 percent and annual growth rate of 8 percent in total Medicaid spending would see an increase in the state general fund cost of Medicaid of at least 14.8 percent in FY 2005 (Figure 3). Proportionately, the impact will be greatest in those states with the lowest per capita incomes and highest federal matching rates. In some of the ten states with regular FMAP above 70 percent, the annual rate of growth in the state general fund share of Medicaid spending in FY 2005 might exceed 20 percent, as a result of the end of the fiscal relief.



FUTURE OUTLOOK

At the mid-point of FY 2004, states are facing a budget outlook that has improved modestly, buttressed by temporary federal fiscal relief. Three years of state Medicaid cost containment actions have slowed the rate of growth of Medicaid spending and enrollment, although Medicaid spending remains one of the fastest growing parts of states' budgets. Medicaid enrollment is predicted to increase, albeit at a slower rate because the need for Medicaid coverage has not abated. The state revenue situation has also stabilized, as states have experienced the second straight quarter of real, adjusted state tax revenue growth. However, state tax revenue growth is still much weaker than before the recession and far from sufficient to overcome existing state budget shortfalls.

When the fiscal relief expires on June 30, 2004, few states will have the fiscal resources available to fill the gap that it creates. When the fiscal relief ends, the percentage increases in the state cost of Medicaid in FY 2005 will likely be the highest experienced in years. Few states expect spending pressures they face to subside by then, and state tax revenues are not yet growing significantly (Figure 4) leaving states with no easy means of filling the gaps that the expiration of the fiscal relief will create.



While economic conditions are improving modestly, the outlook remains challenging for most state budgets in FY 2005. States will again be forced to consider spending pressures from Medicaid, education, and other state programs without the assistance of the federal fiscal relief which helped them balance their budgets over the last two fiscal years.

For additional information on Medicaid and state budgets please see the Kaiser Commission on Medicaid and the Uninsured reports entitled, *States Respond to Fiscal Pressure: A 50-State Update of State Medicaid Spending Growth and Cost Containment Actions*, and *Is the State Fiscal Crisis Over? A 2004 State Budget Update,* January 2004, available at www.kff.org. Additional copies of this publication (#7073) are also available online at www.kff.org.