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FMAP Enhancement Issues and Options

Abstract: Increased federal sharing of state Medicaid costs may be an important component of an upcoming economic stimulus package, but there is no consensus on how to apportion the additional money among the states. The money could be distributed so as to treat all states equally or targeted to provide more relief to states with the weakest economies. This brief analyzes two proposed approaches and presents a third, analogous to the matching rate adjustment used for S-CHIP, which would provide equal proportionate relief for all states.

Federal fiscal relief to states in the form of increased federal sharing of state Medicaid costs is proposed as an important component of the upcoming economic "stimulus package". This temporary FMAP (Federal Medicaid Assistance Percentage) enhancement would enable states to maintain or restore the Medicaid coverage they would otherwise be forced to reduce due to sharp declines in state revenue and growth of the unemployed and Medicaid eligible populations.[*] (Such federal relief is sensible policy since individual state economies tend to be more volatile than the national economy and most state constitutions prohibit deficit spending.)

The fiscal relief provided by a short-term measure would compensate for the insensitivity of the existing federal Medicaid matching rate formula to economic downturns. (Some are also calling for efforts to develop permanent revisions to the matching formula to make it more responsive in the future.)

The approach to state fiscal relief contained in the economic stimulus package introduced in the Senate in November 2008 (S. 3689) gives each state the same percentage-point increase to its FMAP (an 8-percentage-point increase was proposed in the bill). This approach, while appearing to treat all states equally, does not. It would mean that states that already pay the lowest percentage of Medicaid costs would get the greatest (percentage) reduction in state spending from the FMAP increase. For example, if each state's FMAP were increased by 8 percentage points, a state with a 50% FMAP rate would realize a 16% reduction in state costs (from a 50% to a 42% state share of total costs), while a state with a 71% FMAP rate would realize a 27 ½% reduction in state costs (from a 29% to a 21% state share of total costs).

Moreover, while this approach would provide relief to all states, it would provide much greater proportionate state cost relief in some states that have relatively stable economies but relatively high FMAPs, and lesser relief to states with low FMAPs that have experienced disproportionate economic downturns and unemployment rate increases.

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[*] For a discussion of these dynamics, see (e.g.) Stan Dorn, Bowen Garrett, John Holahan and Aimee Williams (all of the Urban Institute), "Medicaid, S-CHIP and Economic Downturn: Policy Challenges and Policy Responses," Kaiser Commission on Medicaid and the Uninsured, April 2008, http://www.kff.org/medicaid/7770.cfm.

Figure 1 graphically displays the poor relationship between changes in state unemployment rates (preliminary rate for November 2008 minus rate for 2007) and the percentage state Medicaid savings that would derive from an eight percentage-point increase in federal matching rates. (Table 1 shows the related data points.) The 13 states which would receive the lowest state cost reduction (16%) have experienced unemployment rate increases varying from about 0.3% to 3.2% (e.g. 3.0% in California), and the state with the highest unemployment rate jump of 4.3% (Rhode Island) would realize only a 16.9% reduction in state costs. Conversely, 2 of the 3 states realizing reductions of over 29% in state share had increases of 0.3% or less in their unemployment rates.

If the goal is to provide greater relief to states with greater economic downturns, federal matching rate enhancements might be based on measures of state economic distress. For example, the House Leadership's fiscal stimulus plan put forward in September 2008 augmented across-the-board Medicaid financing relief for states with the weakest economies based on three measures: changes in the state's employment rate, increases in housing foreclosures, and increases in poverty, as measured by increases in food stamp participation.[†]

However, such changes in the basis for match rates may be more achievable after due consideration as a longer term solution to the insensitivity of the current formula. As an immediate short-term measure creating pre-defined relative "winner " and "loser" states, it could be more difficult to get consensus support. On the other hand, some variation of the House plan might be considered, with a portion of federal Medicaid fiscal relief tied to such measures of relative economic distress, but with most funds distributed based on an equitable formula for across-the-board relief to states, such as that described below.

If the goal for immediate federal Medicaid fiscal relief for states is equal proportionate relief across all states, one approach would be to provide an equal proportionate reduction in each state's percentage share of costs (i.e., an equal percentage reduction in the state share rather than the same percentage-point reduction in the state matching rate).

> *It is worth noting that the Enhanced FMAP enacted under S-CHIP is calculated in this manner: Each state receives a 30% reduction (*not *a 30-percentage-point) reduction in its share of cost relative to its share for Medicaid. [Social Security Act §2105(b)].*

For approximately the same cost as an 8-percentage-point increase in FMAP, all states could be given a reduction of about 18.5% in their respective state matching rates.[‡] For example, a state with a 50% share of costs (FMAP=50%) would have a share of 40.75% (i.e., an FMAP of 59.25%), and a state with a current share of 30% (FMAP=70%) would have a state share of 24.45% (i.e., an FMAP of 75.55%) All states would then realize the same proportionate savings in their share of costs.

[†] Iris J. Lav, Jason Levitis, and Edwin Park, "House Stimulus Plan Effectively Targets Fiscal Relief To States," Center on Budget and Policy Priorities, September 26, 2008, http://www.cbpp.org/9-26-08sfp.pdf.

[‡] This calculation assumes the national weighted average FMAP rate is about 56.7%. With that assumption, an 8-point across-the-board increase in FMAP would yield the same decrease in the average state share of costs total costs as an 18.5% decrease in the average state share. I.e., 18.5%*(100-56.7%)=8%. If the national weighted average differs from 56.7%, the federal-budget-neutral percentage reduction in the average state share will be different as well.

**Figure 1:   Poorly Targeted Relief: An 8-Percentage-Point Increase in FMAP vs.
                State Unemployment Rate Change (2007-Nov 2008)**
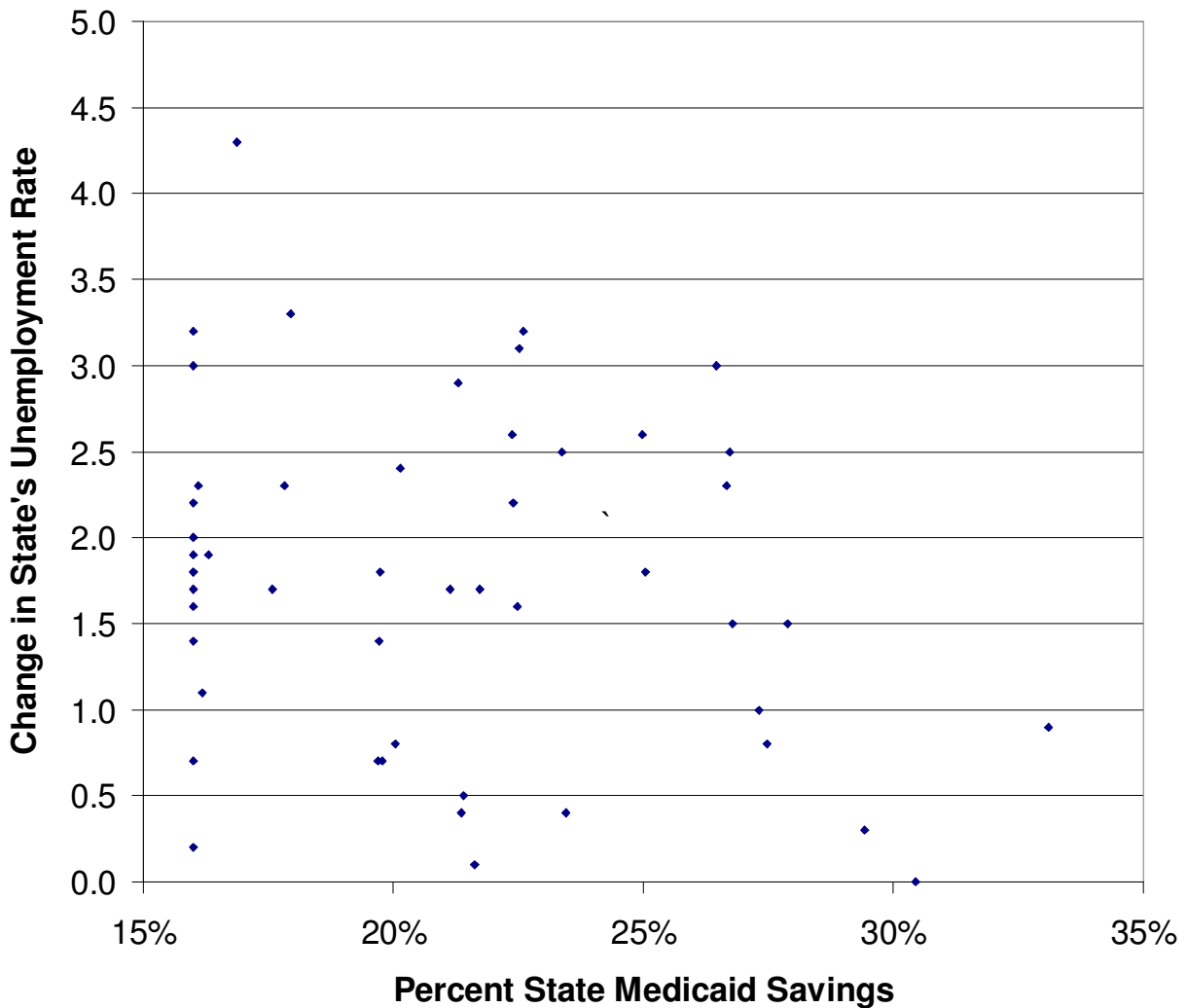
Table 1: State by State Medicaid Match, Savings with 8-Percentage-Point FMAP Increase and Unemployment Rate Change

State	A Federal Medical Assistance Percentage FY 2009	B State Share (1 - FMAP)	C State Savings as Pct of Initial State Share	D 2007 Unemploy-ment rate	E (*Preliminary*) Nov 2008 Unemploy-ment Rate	F Unemploy-ment Rate Change (2007-Nov 08)
Alabama	67.98%	32.02%	24.98%	3.5	6.1	2.6
Alaska	50.53%	49.47%	16.17%	6.2	7.3	1.1
Arizona	65.77%	34.23%	23.37%	3.8	6.3	2.5
Arkansas	72.81%	27.19%	29.42%	5.4	5.7	0.3
California	50.00%	50.00%	16.00%	5.4	8.4	3.0
Colorado	50.00%	50.00%	16.00%	3.8	5.8	2.0
Connecticut	50.00%	50.00%	16.00%	4.6	6.6	2.0
Delaware	50.00%	50.00%	16.00%	3.4	5.6	2.2
District of Columbia	70.00%	30.00%	26.67%	5.7	8.0	2.3
Florida	55.40%	44.60%	17.94%	4.0	7.3	3.3
Georgia	64.49%	35.51%	22.53%	4.4	7.5	3.1
Hawaii	55.11%	44.89%	17.82%	2.6	4.9	2.3
Idaho	69.77%	30.23%	26.46%	2.7	5.7	3.0
Illinois	50.32%	49.68%	16.10%	5.0	7.3	2.3
Indiana	64.26%	35.74%	22.38%	4.5	7.1	2.6
Iowa	62.62%	37.38%	21.40%	3.8	4.3	0.5
Kansas	60.08%	39.92%	20.04%	4.1	4.9	0.8
Kentucky	70.13%	29.87%	26.78%	5.5	7.0	1.5
Louisiana	71.31%	28.69%	27.88%	3.8	5.3	1.5
Maine	64.41%	35.59%	22.48%	4.7	6.3	1.6
Maryland	50.00%	50.00%	16.00%	3.6	5.3	1.7
Massachusetts	50.00%	50.00%	16.00%	4.5	5.9	1.4
Michigan	60.27%	39.73%	20.14%	7.2	9.6	2.4
Minnesota	50.00%	50.00%	16.00%	4.6	6.4	1.8
Mississippi	75.84%	24.16%	33.11%	6.3	7.2	0.9
Missouri	63.19%	36.81%	21.73%	5.0	6.7	1.7
Montana	68.04%	31.96%	25.03%	3.1	4.9	1.8
Nebraska	59.54%	40.46%	19.77%	3.0	3.7	0.7
Nevada	50.00%	50.00%	16.00%	4.8	8.0	3.2
New Hampshire	50.00%	50.00%	16.00%	3.6	4.3	0.7
New Jersey	50.00%	50.00%	16.00%	4.2	6.1	1.9
New Mexico	70.88%	29.12%	27.47%	3.5	4.3	0.8
New York	50.00%	50.00%	16.00%	4.5	6.1	1.6
North Carolina	64.60%	35.40%	22.60%	4.7	7.9	3.2
North Dakota	63.00%	37.00%	21.62%	3.2	3.3	0.1
Ohio	62.14%	37.86%	21.13%	5.6	7.3	1.7
Oklahoma	65.90%	34.10%	23.46%	4.3	4.7	0.4
Oregon	62.45%	37.55%	21.30%	5.2	8.1	2.9

	A	B	C	D	E	F
State	**Federal Medical Assistance Percentage FY 2009**	**State Share (1 - FMAP)**	**State Savings as Pct of Initial State Share**	**2007 Unemploy-ment rate**	**(*Preliminary*) Nov 2008 Unemploy-ment Rate**	**Unemploy-ment Rate Change (2007-Nov 08)**
Pennsylvania	54.52%	45.48%	17.59%	4.4	6.1	1.7
Rhode Island	52.59%	47.41%	16.87%	5.0	9.3	4.3
South Carolina	70.07%	29.93%	26.73%	5.9	8.4	2.5
South Dakota	62.55%	37.45%	21.36%	3.0	3.4	0.4
Tennessee	64.28%	35.72%	22.40%	4.7	6.9	2.2
Texas	59.44%	40.56%	19.72%	4.3	5.7	1.4
Utah	70.71%	29.29%	27.31%	2.7	3.7	1.0
Vermont	59.45%	40.55%	19.73%	3.9	5.7	1.8
Virginia	50.00%	50.00%	16.00%	3.0	4.8	1.8
Washington	50.94%	49.06%	16.31%	4.5	6.4	1.9
West Virginia	73.73%	26.27%	30.45%	4.6	4.6	0.0
Wisconsin	59.38%	40.62%	19.69%	4.9	5.6	0.7
Wyoming	50.00%	50.00%	16.00%	3.0	3.2	0.2

Sources and calculations (by column):

A: Federal Register / Vol. 72, No. 228 / Wednesday, November 28, 2007, pp. 67304-5

B: 100% - Col. A

C: 8% / Col. B

D: U.S. Bureau of Labor Statistics, "Regional and State Unemployment, 2007 Annual Averages," February 29, 2008, http://www.bls.gov/news.release/pdf/srgune.pdf.

E: U.S. Bureau of Labor Statistics, "Regional and State Employment and Unemployment, November 2008," December 19, 2008, http://www.bls.gov/news.release/pdf/laus.pdf.

F: Col. E – Col. D