

*Special Series: Economic Recovery Watch*

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## PRELIMINARY ANALYSIS OF MEDICAID ASSISTANCE FOR STATES IN THE SENATE ECONOMIC RECOVERY PACKAGE

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The economic recovery package under consideration by the Senate includes an approximately \$87 billion temporary increase in the share of the Medicaid program paid by the federal government over nine calendar quarters (October 1, 2008 through December 31, 2010). The provision is similar but not identical to a House provision reported by the Energy and Commerce Committee on January 22.<sup>1</sup> This analysis describes the Senate provision (included as part of the economic recovery package scheduled to be considered by the Senate Finance Committee next week), notes key differences between the House and Senate provisions, and provides state-by-state estimates of the assistance provided under the Senate provision.

Like the House provision, the Senate proposal would provide three elements of Medicaid fiscal relief assistance to states:

- First, all states would be “held harmless” for drops in the federal share of Medicaid — known as FMAP — that states would otherwise automatically experience this year (federal fiscal year 2009) and into federal fiscal year 2011. This is necessary to prevent states from losing federal funding as a result of much stronger economic conditions that may have prevailed in a state three years ago, since FMAP is calculated based on a state’s per capita income and with a substantial lag. This provision is identical to the hold harmless provision in the House bill.
- Second, all states would receive a “base” 5.6 percentage point increase in the share of the Medicaid program the federal government pays. Thus in a state like New York in which the federal government usually pays 50 percent of the program, the base federal share for the period of assistance would equal 55.6 percent. In a state like Mississippi in which the federal government usually pays approximately 76 percent of the program, the base federal share for the period of assistance would be 81.6 percent.<sup>2</sup> This provision is identical to that in the

<sup>1</sup> See Iris J. Lav, Edwin Park, Jason Levitis, and Matthew Broaddus, “Preliminary Analysis of Medicaid Assistance For States in the House Economic Recovery Package,” Center on Budget and Policy Priorities, Jan. 22, 2009.

<sup>2</sup> The higher FMAP increase would apply to the costs of Medicaid benefits and Title IV-E foster care and adoption assistance, but not to Medicaid Disproportionate Share Hospital (DSH) payments and to CHIP and other Title IV programs that have federal matching rates based on the FMAP.

House bill, except that the base increase in the House bill equals 4.9 percentage points.

- Third, states that are experiencing particularly poor economic conditions, as indicated by a significant increase in unemployment, would receive additional assistance. Depending on the extent of the percentage point increase in the state's unemployment rate, a state could receive an additional 5 percent, 10 percent, or 13 percent reduction in the share of Medicaid that the state pays. The percentage reduction would apply to the state's share after the application of the hold harmless provision and the base increase. By contrast, the reductions included in the House bill are 6 percent, 12 percent, and 14 percent, and the percent reduction is applied to the state share after the application of the hold harmless but before the base FMAP increase. (See technical note for further explanation of these provisions.)

This fiscal assistance for states would be effective for the period October 1, 2008, through December 31, 2010. The qualification of each state for a higher level of assistance because of unemployment rate increases would be evaluated each quarter, and states would receive the additional assistance if their economic situation worsens. While a state's additional assistance could be increased, no state's additional assistance would be reduced as a result of dropping unemployment before July 1, 2010.

To receive any increased FMAP, a state must not have Medicaid eligibility levels that are more restrictive than were in effect on July 1, 2008. Restrictions on eligibility include changes that make it more difficult for recipients to meet procedural requirements for enrollment or periodic renewal of their coverage. States that restrict eligibility would be allowed to reverse their actions and still qualify for an increased FMAP in the first calendar quarter they have restored their Medicaid eligibility.

The tables below show illustrative estimates of the amount of assistance each state would potentially receive, based on projections of future economic conditions. Of course, those projections are highly uncertain; the uncertainty is greater than usual because no one knows how successful efforts to stimulate the economy through this economic recovery legislation and other means will be. (The projections used here do incorporate some economic improvement as a result of the recovery legislation.) As a result of these uncertainties, readers should be aware that the amount of assistance any state would receive under this legislation could differ substantially from the estimates shown here.

**TABLE 1: FEDERAL FUNDING FOR STATE MEDICAID COSTS UNDER THE  
SENATE STIMULUS BILL, TOTAL OVER NINE QUARTERS**  
(in \$ thousands)

<b>STATE</b>	<b>ESTIMATED ASSISTANCE</b>
Alabama	\$759,277
Alaska	\$242,129
Arizona	\$1,795,617
Arkansas	\$618,604
California	\$10,578,074
Colorado	\$819,076
Connecticut	\$1,146,290
Delaware	\$298,299
District of Columbia	\$278,817
Florida	\$4,099,915
Georgia	\$1,562,483
Hawaii	\$328,089
Idaho	\$265,741
Illinois	\$2,732,969
Indiana	\$1,161,650
Iowa	\$472,221
Kansas	\$385,726
Kentucky	\$898,938
Louisiana	\$1,522,311
Maine	\$421,977
Maryland	\$1,329,554
Massachusetts	\$2,562,712
Michigan	\$2,127,367
Minnesota	\$1,811,245
Mississippi	\$695,609
Missouri	\$1,439,714
Montana	\$170,084
Nebraska	\$252,804
Nevada	\$425,201
New Hampshire	\$224,197
New Jersey	\$2,036,014
New Mexico	\$539,927
New York	\$11,919,728
North Carolina	\$2,168,788
North Dakota	\$94,809
Ohio	\$2,720,651
Oklahoma	\$849,012
Oregon	\$764,437
Pennsylvania	\$3,801,981
Rhode Island	\$434,368
South Carolina	\$710,197
South Dakota	\$100,628
Tennessee	\$1,431,390
Texas	\$5,009,514
Utah	\$292,389
Vermont	\$245,275
Virginia	\$1,366,312
Washington	\$1,903,365
West Virginia	\$394,903
Wisconsin	\$1,059,561
Wyoming	\$99,758
American Samoa	\$2,269
Guam	\$3,336
N. Mariana Islands	\$1,244
Puerto Rico	\$67,220
Virgin Islands	\$2,975*
<b>Total</b>	<b>\$79,446,742</b>

\* See technical explanation below.

Note: Excludes increases in IV-E reimbursements. CBO has a higher estimate of total assistance of \$86.6 billion, likely due to including IV-E and differing assumptions about unemployment rate changes and Medicaid spending.

**TABLE 2: FEDERAL FUNDING FOR STATE MEDICAID COSTS UNDER  
THE SENATE STIMULUS BILL, BY STATE FISCAL YEAR**  
(in \$ thousands)

<b>STATE</b>	<b>SFY09</b>	<b>SFY10</b>	<b>SFY11</b>	<b>TOTAL</b>
Alabama (a)	\$297,908	\$364,726	\$96,642	\$759,277
Alaska	\$61,980	\$115,312	\$64,837	\$242,129
Arizona	\$541,633	\$816,971	\$437,013	\$1,795,617
Arkansas	\$154,500	\$295,021	\$169,084	\$618,604
California	\$3,452,518	\$4,693,162	\$2,432,395	\$10,578,074
Colorado	\$219,218	\$395,169	\$204,689	\$819,076
Connecticut	\$319,094	\$534,445	\$292,751	\$1,146,290
Delaware	\$76,383	\$141,910	\$80,006	\$298,299
District of Columbia (a)	\$111,547	\$131,641	\$35,628	\$278,817
Florida	\$1,345,395	\$1,815,691	\$938,829	\$4,099,915
Georgia	\$464,944	\$721,027	\$376,512	\$1,562,483
Hawaii	\$92,139	\$154,055	\$81,895	\$328,089
Idaho	\$76,750	\$123,405	\$65,586	\$265,741
Illinois	\$822,538	\$1,253,707	\$656,724	\$2,732,969
Indiana	\$317,084	\$555,887	\$288,680	\$1,161,650
Iowa	\$123,500	\$220,817	\$127,904	\$472,221
Kansas	\$95,709	\$185,029	\$104,988	\$385,726
Kentucky	\$255,348	\$419,218	\$224,372	\$898,938
Louisiana	\$337,627	\$755,939	\$428,745	\$1,522,311
Maine	\$117,113	\$200,165	\$104,700	\$421,977
Maryland	\$367,422	\$620,295	\$341,837	\$1,329,554
Massachusetts	\$596,260	\$1,278,083	\$688,369	\$2,562,712
Michigan (a)	\$912,657	\$962,207	\$252,504	\$2,127,367
Minnesota	\$472,031	\$879,100	\$460,114	\$1,811,245
Mississippi	\$179,904	\$335,969	\$179,737	\$695,609
Missouri	\$393,761	\$682,104	\$363,849	\$1,439,714
Montana	\$45,353	\$81,184	\$43,547	\$170,084
Nebraska	\$67,649	\$121,901	\$63,254	\$252,804
Nevada	\$135,612	\$190,096	\$99,493	\$425,201
New Hampshire	\$53,363	\$107,447	\$63,387	\$224,197
New Jersey	\$533,346	\$975,802	\$526,867	\$2,036,014
New Mexico	\$146,069	\$244,843	\$149,015	\$539,927
New York (b)	\$1,920,918	\$5,542,476	\$4,456,334	\$11,919,728
North Carolina	\$664,287	\$988,942	\$515,560	\$2,168,788
North Dakota (c)	\$25,906	\$44,367	\$24,536	\$94,809
Ohio	\$763,062	\$1,280,855	\$676,733	\$2,720,651
Oklahoma	\$206,020	\$411,608	\$231,384	\$849,012
Oregon (c)	\$233,385	\$350,115	\$180,937	\$764,437
Pennsylvania	\$1,027,357	\$1,807,563	\$967,061	\$3,801,981
Rhode Island	\$142,333	\$192,468	\$99,567	\$434,368
South Carolina	\$209,773	\$328,485	\$171,940	\$710,197
South Dakota	\$27,958	\$47,963	\$24,706	\$100,628
Tennessee	\$400,783	\$680,299	\$350,308	\$1,431,390
Texas (d)	\$1,545,204	\$2,532,328	\$931,982	\$5,009,514
Utah	\$82,445	\$134,525	\$75,419	\$292,389
Vermont	\$62,078	\$117,795	\$65,402	\$245,275
Virginia	\$336,354	\$669,250	\$360,708	\$1,366,312
Washington (c)	\$486,909	\$916,321	\$500,135	\$1,903,365
West Virginia	\$108,003	\$180,105	\$106,795	\$394,903
Wisconsin	\$261,837	\$512,922	\$284,802	\$1,059,561
Wyoming (c)	\$21,119	\$49,346	\$29,293	\$99,758

Note: Unless otherwise indicated, states operate on July-to-June fiscal years. Fiscal years are referred to by the year in which they end. Thus, in most states, FY2010 covers July 1, 2009 through June 30, 2010. (a) The fiscal years of Alabama, the District of Columbia, and Michigan end September 30. (b) New York's fiscal year ends March 31. (c) North Dakota, Oregon, Washington, and Wyoming operate on biennial budgets ending in June. For those states, aid estimates are for half a budget cycle. (d) Texas's fiscal year ends August 31.

## DETAILED TECHNICAL EXPLANATION OF THE SENATE FMAP PROVISION

Under Section 5001 of the Senate economic recovery package, states would receive a temporary increase in the federal Medicaid matching rate (known as the “FMAP”) for the period October 1, 2008 through December 31, 2010.

The FMAP increase primarily consists of three components:

1. **“Hold Harmless”**: A state whose FMAP rate in fiscal year 2009 is scheduled to be lower than the FMAP in FY 2008 would be able to remain at the higher FY 2008 rate for 2009. States whose fiscal year 2010 rate would otherwise be lower than its fiscal year 2009 and/or fiscal year 2008 rate would be able to remain at the prior year rate, whichever is highest. Finally, states whose fiscal year 2011 rate would otherwise be lower than its fiscal year 2008, fiscal year 2009 and/or fiscal year 2010 rates would be able to remain at the highest rate for those three fiscal years during the first quarter of fiscal year 2011.

*Example: State X has a 60 percent FMAP in fiscal year 2008 and is scheduled to have its FMAP in fiscal year 2009 reduced to 59.5 percent. Under the hold harmless provision, the state’s FMAP would remain at 60 percent in fiscal year 2009. If the FMAP for State X for fiscal years 2010 and 2011 is otherwise scheduled to be less than 60 percent, the state would have a 60 percent FMAP for 2010 and the first quarter of 2011 as well.*

2. **Base Increase**: Each state’s FMAP, after application of the hold harmless provision, would be further increased by 5.6 percentage points.

*Example: After application of the hold harmless provision, State X’s FMAP would be increased from 60 percent in to 65.6 percent for fiscal years 2009 and 2010 and the first quarter of fiscal year 2011.*

3. **Additional Increase for States with Unemployment Rate Increases**: A state may qualify for an additional increase of their FMAP, after application of the hold harmless provision and the base increase. A state qualifies for this increase if its average unemployment rate for the most recent three month period for which unemployment data is available exceeds by at least 1.5 percentage points the lowest average monthly unemployment rate for any three-month period after January 1, 2006 (the base period). The additional FMAP increase a qualifying state receives is determined by the number of percentage points by which the unemployment rate exceeds the lowest rate in that state, measured as described above:

- If the state’s unemployment rate exceeds the lowest rate by 1.5 to 2.5 percentage points, the state’s FMAP would be increased by the number of percentage points equal to the amount necessary to reduce the state’s share of the cost of Medicaid by 5 percent. This calculation is made after application of the hold harmless provision and the base increase.
- If the state’s rate exceeds the lowest rate by 2.5 to 3.5 percentage points, the state’s FMAP would be increased to reduce the share of the cost of Medicaid by 10 percent.
- If the state’s share exceeds the lowest rate by at least 3.5 percentage points, the state’s FMAP would be increased to reduce the share of the cost of Medicaid by 13 percent.

If a state during any quarter becomes a qualifying state, or if a qualifying state experiences an unemployment rate increase that makes the state eligible for even greater assistance, the state would become eligible for the larger FMAP increase in the next calendar quarter. No state would have its additional assistance reduced from the levels provided in the previous calendar quarter based on changes to its unemployment rate at least through July 1, 2010. The level of assistance could decline for the last two quarters of assistance (July through December of 2010), but only with three months' notice to the state. This is slightly different from how the House provision works. Under the House provision, assistance during the final two quarters is based on the unemployment increase from the base period through the three months from December 2009 to February 2010, i.e., the same period that is used to determine assistance for March through June of 2010.

*Example: State X has already experienced a 2.6 percentage point increase in its unemployment rate based on the most recent data compared to its lowest unemployment rate since January 1, 2006. After application of the hold harmless provision and the base, State X's FMAP is 65.6 percent. This means that the state's share of the cost equals 34.4 percent. This share of the cost would be reduced by 10 percent, or 3.44 percentage points, because the state qualifies for the second level of additional assistance. State X's FMAP would thus be further increased by 3.44 percentage points, which translates into a FMAP of 69.04 percent. If State X subsequently sees its unemployment rate increase exceed 3.5 percentage points, it will qualify for the highest level of additional assistance in the next calendar quarter. Its share of the cost would then be reduced by 13 percent, or 4.47 percentage points. State X's FMAP would then be 70.07 percent, at least through July 1, 2010.*

The FMAP increase would generally apply to all Medicaid costs, except for Disproportionate Share Hospital (DSH) payments made to hospitals that serve low-income patients and Medicaid beneficiaries, and payments attributable to individuals newly covered by income eligibility expansions that were not already in place on July 1, 2008. The increase would also not apply to non-Medicaid program costs like SCHIP whose matching rates are based on the FMAP, with the exception of title IV-E costs.

The territories — Puerto Rico, American Samoa, Guam, the Northern Marianas Islands, and the Virgin Islands — would generally receive a temporary increase in their federal funding cap. While the FMAP for each of the territories is set at 50 percent, total federal funding for each of the territories is capped. The cap would be increased by 11.2 percent for the period October 1, 2008 through December 31, 2010.<sup>3</sup> The House provision would have similarly increased the cap for the territories by 20 percent but also included an explicit option for the territories to instead have their cap increased by 10 percent while also receiving the base increase of 4.9 percentage points.

States would generally only be eligible for the FMAP increase if they ensure that their Medicaid eligibility criteria and enrollment/renewal procedures are no more restrictive than those in place on

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<sup>3</sup> An increase in the federal funding cap alone is unlikely to provide any benefit to the Virgin Islands, because unlike Puerto Rico and the other territories, it is not currently exceeding its cap. In implementing a very similar increase in the funding cap for the territories as part of the FMAP increase enacted in 2003 (and that involved similar legislative language), however, the Centers for Medicare and Medicaid Services (CMS) assumed that the territories were eligible for both the funding cap increase and the base increase. If CMS implements the funding cap increase in a similar fashion, the Virgin Islands are estimated to receive federal assistance equal to \$3.0 million during the duration of the temporary FMAP increase. See Centers for Medicare and Medicaid Services, State Medicaid Director Letter SMD #03-005, June 13, 2003.

July 1, 2008. States that restrict their eligibility during the duration of the FMAP become eligible again for the FMAP increase in the first calendar quarter in which they reinstate their eligibility to July 1, 2008 levels. States who have restricted eligibility after July 1, 2008 but before enactment of this provision would be eligible for the FMAP increase starting with the first calendar quarter of fiscal year 2009 if they reinstate their eligibility no later than July 1, 2009.

States that require local governments to finance a portion of the state's share of the cost of Medicaid would be prohibited from raising the effective proportion paid by local governments compared to the levels prior to any temporary FMAP increase. In addition, states would not be permitted to deposit any federal funds provided through the temporary FMAP increase into their rainy day funds.