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Health Policy Brief

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Extra Federal Support For Medicaid. A temporary increase in federal Medicaid funding for recession-plagued states will expire at year's end. Should Congress extend the aid further?

WHAT'S THE ISSUE?

Medicaid is the joint federal and state health insurance program for low-income Americans. To help states through the current recession, Congress included in 2009 stimulus legislation a temporary increase in the dollars that the federal government sends to states for the program. This additional funding will expire at the end of 2010. Congress is now debating whether or not to extend this assistance through the first six months of 2011.

Many states have been expecting an extension in federal assistance and incorporated that assumption into their budgets for fiscal year 2011, which began on July 1, 2010. Without the extension, states may have to take potentially drastic measures to balance their budgets. Proponents of the extension say that it's essential to support the Medicaid safety net and that it stimulates economic growth even if it adds to the federal budget deficit. Others argue that the extension should be approved only if the additional federal spending is fully offset by federal budget cuts or increased federal revenues.

WHAT'S THE BACKGROUND?

Medicaid, the nation's largest public health insurance program, is a critically important part of the social safety net, serving more than 60 million individuals. According to the Kaiser Family Foundation, Medicaid finances more than 40 percent of births in the U.S. and is the primary payer for two-thirds of the nation's nursing facility residents. In economic downturns, Medicaid rolls expand as income levels drop and individuals face job loss and the accompanying loss of employer-sponsored insurance. Enrollment in Medicaid and the Children's Health Insurance Program (CHIP) is estimated to increase by one million for every 1 percent increase in the unemployment rate. From June 2008 to June 2009, a record 3.3 million Americans were added to the Medicaid rolls, and millions more have likely been added since then.

FMAP SUPPORT ESSENTIAL: Medicaid is jointly funded by the federal and state governments. On average, federal funding accounts for 57 percent of total costs, but the actual amount varies by state, depending on per capita income. The federal contribution, called the federal medical assistance percent-

3.3 million

New Medicaid enrollees

From June 2008 to June 2009, a record number of Americans were added to the Medicaid rolls.

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age (FMAP), ranges between 50 percent and 76 percent, with the federal government paying a larger portion of the costs in states with lower incomes. State and some local governments pay the remainder of the cost. Federal expenditures on Medicaid are currently 7 percent of federal budget outlays.

Medicaid spending is a significant portion of state budgets, accounting for 21 percent of total spending from all sources in 2009, according to the National Association of State Budget Officers. Expanding Medicaid rolls have increased Medicaid spending, which is estimated to grow by 10.5 percent in 2010. This increased demand for Medicaid coverage comes at the same time the recession has dramatically reduced state tax revenues, which in 2010 are down 12 percent from 2008 levels. Unlike the federal government, state governments cannot generally plan to run a deficit and must balance their budgets, including by drawing down reserve funds. The length and depth of this recession have drained reserves and required states to make difficult decisions to cut programs and services or increase taxes, or both. Exhibit 1 shows state budget deficits and the amounts offset by federal stimulus funding.

CONGRESS INCREASED PAYMENTS: To provide relief to the states and support Medicaid beneficiaries and providers, Congress temporarily increased the portion of costs paid by the federal government, as it did in the most recent previous recession. The American Recov-

ery and Reinvestment Act of 2009 (PL 111-5) prevented reductions in the federal match that would otherwise have occurred and provided all states with a 6.2 percentage point increase in the FMAP at a total federal cost of about \$87 billion. States with significant increases in unemployment received additional increases in their FMAP. The expanded FMAPs are in effect for the 27-month period between October 2008 and December 2010. States have used the additional funding to avoid cuts in Medicaid benefits or provider reimbursement rates, to help pay for increases in Medicaid enrollment, and to make up for shortfalls in general fund revenues (Exhibit 2).

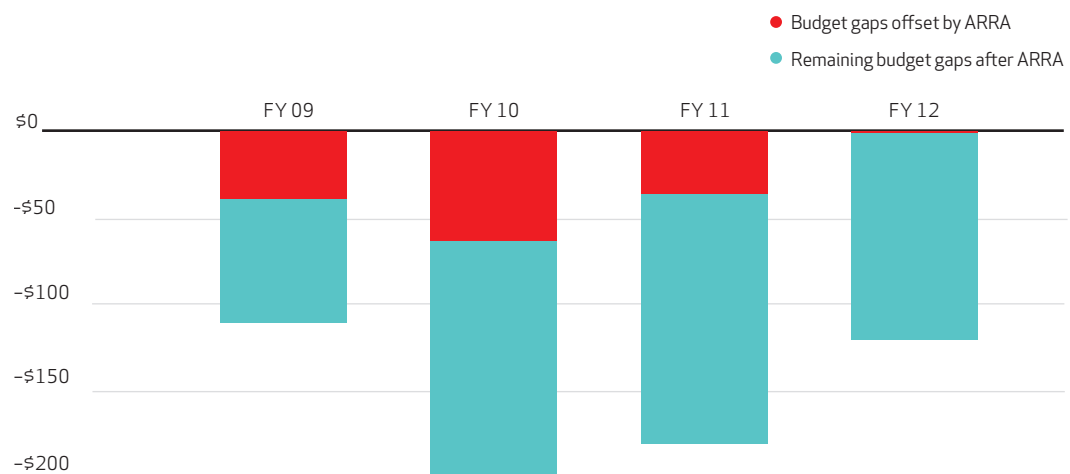
ARRA included a “maintenance of effort” requirement that prevents states from making their Medicaid eligibility policies more restrictive than they were in July 2008 in order to qualify for the additional funding. The new health reform law also includes a maintenance-of-effort requirement that restricts the options available to states to make up budget shortfalls by reducing Medicaid eligibility.

WHAT’S THE DEBATE?

Congress has been considering extending the FMAP expansion through June 2011, the end of most current state fiscal years. Both houses of Congress had earlier included a six-month extension in separate bills that would also have extended other stimulus provisions and avoided a scheduled reduction in Medicare

EXHIBIT 1

Large Budget Deficits Remain As Recovery Act’s Aid To States Runs Out



SOURCE Center on Budget and Priorities. **NOTES** Billions of dollars. ARRA is American Recovery and Reinvestment Act of 2009.

EXHIBIT 2**How States Used ARRA Enhanced Medicaid Funding In Fiscal Year 2009**

SOURCE Kaiser Commission on Medicaid and the Uninsured. Survey of Medicaid officials in 50 states and the District of Columbia conducted by Health Management Associates, September 2009. **NOTES** Bars represent number of states (plus D.C.). ARRA is American Recovery and Reinvestment Act of 2009.

payments to physicians. But recent debate over this so-called extender package has focused on whether it is appropriate to further increase the federal deficit to accomplish these policy goals since a portion of the cost was not offset by reductions in expenditures or increases in revenue.

DEADLOCK IN CONGRESS: The House of Representatives stripped out a provision to extend Medicaid support to the states from a bill it passed in May. As this Policy Brief is published, Democratic leaders in the Senate have not been able to muster the 60-vote supermajority needed to overcome opposition to the Medicaid extension. As originally proposed, the FMAP extension would have cost \$24 billion. Recent versions under consideration in the Senate would reduce the cost to \$15-\$16 billion by phasing out the extension, dropping it to 3.2 percent in first quarter of 2011 and 1.2 percent in the second quarter.

SUPPORTING ARGUMENTS: Proponents of the extension argue that it is necessary to avoid serious harm to state budgets, Medicaid beneficiaries, and providers and to continue to boost spending and therefore demand in a still weak economy. Two-thirds of states will cut jobs or services in fiscal year 2011 if the additional funding is not passed. Some cuts will affect Medicaid payments and services, but spending in other areas will also be affected. For example, New Mexico is considering eliminating some Medicaid services such as emergency hospital care, inpatient psychiatric

care, and prescribed medications, while Alabama is expected to reduce funding for state courts, public safety, and mental health. Without additional federal funding, New York City expects that the number of anticipated layoffs would triple, to more than 13,000. The wide-ranging cuts would affect recipients of particular services and could also set off a negative chain reaction in the economy—weakening the growth of employment, dampening consumer spending, and slowing or calling to a halt the economic recovery, proponents argue.

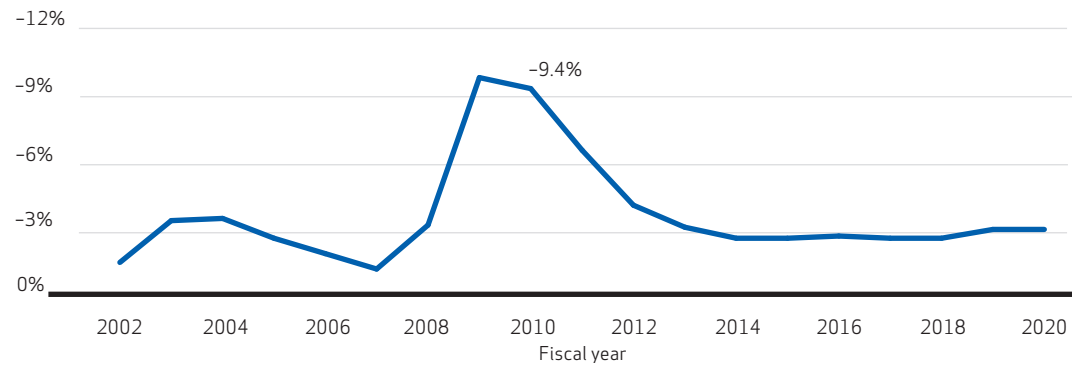
State options to resolve the budget shortfalls by reducing Medicaid costs have been limited by the maintenance-of-effort requirements, which prevent states from restricting eligibility. Remaining alternatives include cutting coverage of health care services that may be important to beneficiaries but not required by the federal government and reducing provider reimbursement.

OPPOSING ARGUMENTS: Most opponents support the purpose of the legislation but believe that it is inappropriate to continue to add to the federal budget deficit, which currently totals 9.4 percent of the country's \$14.6 trillion gross domestic product, according to the Congressional Budget Office (Exhibit 3). Rather, they believe that any new funding must be fully offset by decreases in spending or increases in revenue. Senate Minority Leader Mitch McConnell (R-KY) summed up the concerns: "We've offered ways of paying for these programs, and we've been eager to

\$87 billion

Total federal cost

The amount of extra money given the states in 2009 to prevent reductions in FMAP.

EXHIBIT 3**Federal Budget Deficits As A Percentage Of The Gross Domestic Product (GDP), 2002–2020**

SOURCE Congressional Budget Office. **NOTE** Fiscal years 2010–2020 are estimates.

About Health Policy Briefs

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approve them. What we’re not willing to do is use worthwhile programs as an excuse to burden our children and our grandchildren with an even bigger national debt than we’ve already got.” Less costly alternatives to a full six-month extension of the enhanced FMAPs include a phase-down in the additional federal money provided in the first two quarters of 2011, an approach that has been included in the most recent Senate version of the bill.

WHAT’S NEXT?

Congressional leaders are continuing to search for a compromise that would provide states with additional funding, although it is not clear at what level. A bipartisan group of 10 governors held a press conference at the

end of June urging Congress to extend the FMAP provision and acknowledged that reduced funding was better than no additional funds.

If the FMAP expansion is not extended, many states will have to take additional action to balance their budgets, which may require special sessions of state legislatures. The timing of such action is unclear, with some observers predicting that additional cuts will be made shortly and others expecting the states to give Congress additional time to act before making further painful cuts. Since spending in the new fiscal year has already begun in most states, delaying action may require more substantial cuts in the second half of the year. ■

RESOURCES

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