

# Medicaid, Personal Income and FMAPs

A Historical Perspective

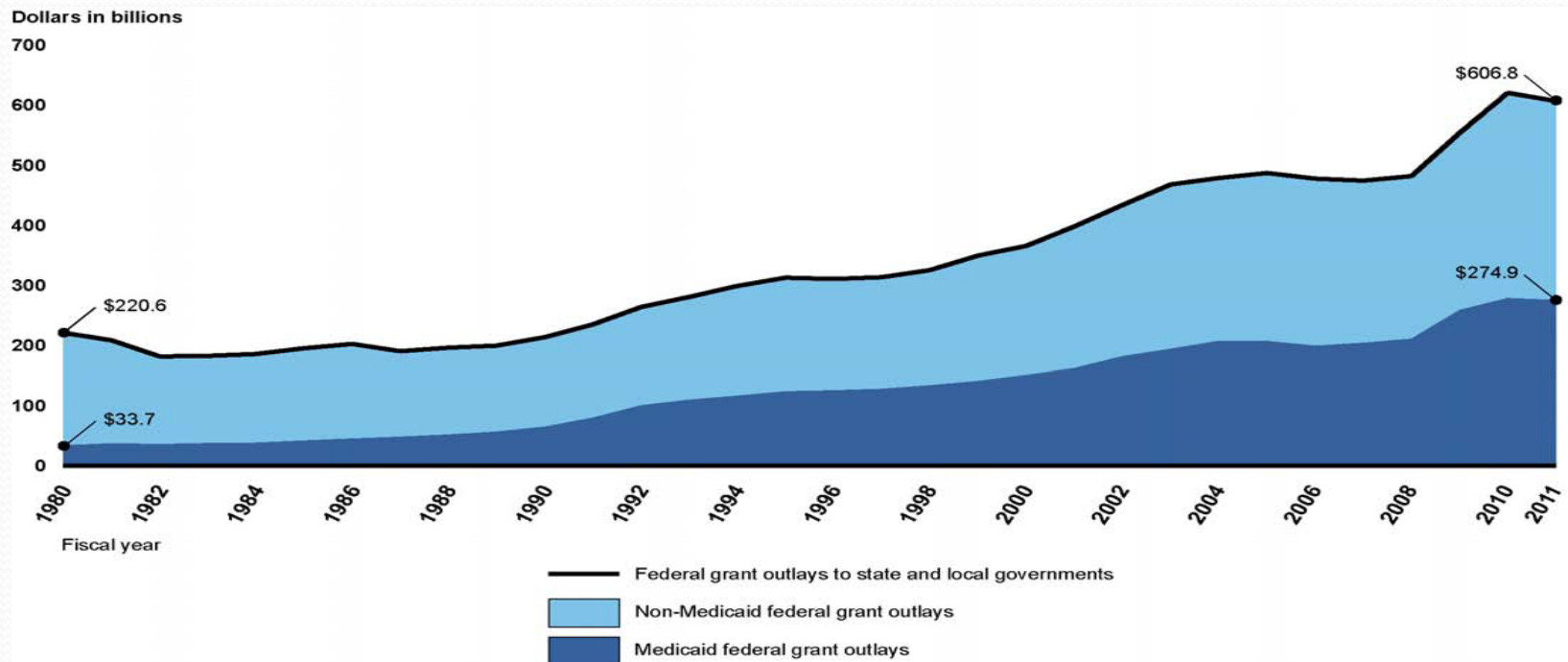
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# Medicaid Comes to Dominate Intergovernmental Finance

Federal Grants Outlays to State and Local Governments and Medicaid, in 2011 Constant Dollars, Fiscal Years 1980 to 2011



Source: GAO analysis of OMB data.

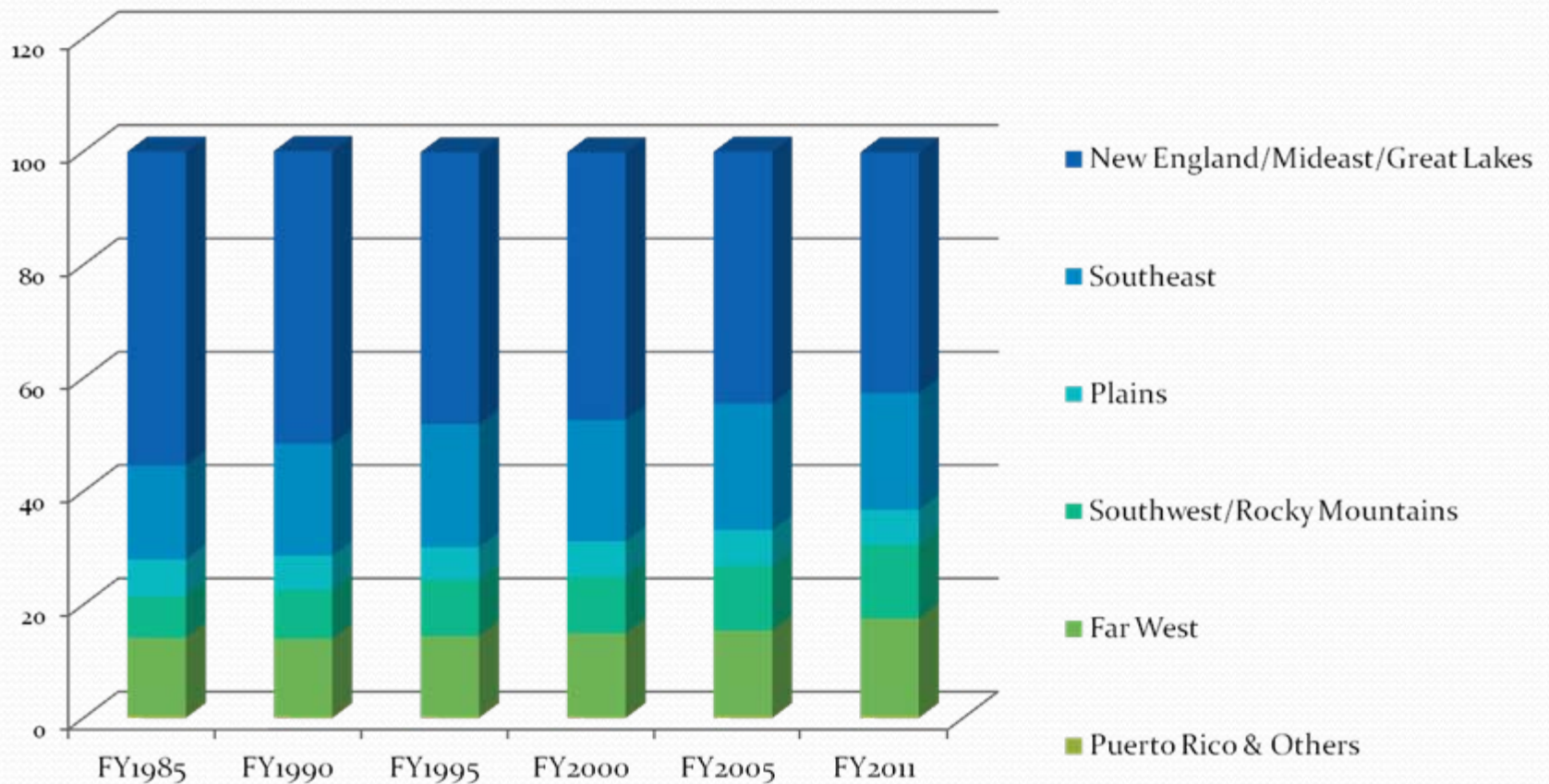
# Managed Care Growing Rapidly

- In FY 1985, institutional settings for long-term care (e.g. nursing facilities) 42% of spending; today 16%.
  - Home and community based services growing.
- Medicaid managed care 23% of spending in FY 2011, nearly doubling from 2000 share.
- Prescription drug costs down from 13% in FY 2004 to 7% in 2009 (Medicare Part D).
  - Note: Shares exclude costs of “clawback” payments supporting Medicare Part D.



# Substantial Regional Shifts

## Regional Shares of Medicaid Program Costs



# Substantial Regional Shifts (con't.)

- New England, Mideast & Great Lakes Medicaid programs spent 55% in 1985; 43% in 2011.
- The Southwest & Rocky Mountains states slow to start, accelerate rapidly; Southwest almost doubles share by 2011.
- Southeast also grows rapidly, but pulls back after 2005.
- Growth in the Far West high in 2011 (CA).



# FMAP Definition

- The Federal Medical Assistance Percentage (FMAP) is the share of most state Medicaid benefits paid for by the federal government.
- The statutory range is 50% (1 federal dollar for each state dollar) to 83% (\$4.88).
- $FMAP = 1 - .45 \times [(State\ PCI)^2 / (U.S.\ PCI)^2]$
- On average, feds pay about 57%.

# Not a Zero Sum Game

- Slow income growth in wealthier states at 50% have affected the national averages against which other states are measured without affecting the 50% states.
- Result: The average FMAP has fallen more than two percentage points since the program began.
- More states now at the 50.00 minimum match—15 in FY 2014.



# FMAP: Forty Year History

- Major compression in FMAP range; 11 states with FMAPs over 71% in 1969; only four in 2009.
- Most states not originally at 50% lose.
- Less wealthy states pay higher shares for programs as mandates have forced them to expand.
- Wealthier states could afford larger programs; FMAP not enough to equalize.



# Population Issues

- Intercensal data have had difficulty tracking internal migration; states like Nevada penalized for years until decennial census data have become available.
- Change to annual American Community Survey may help.
- States with large shares of children and elderly outside the work force (e.g. Utah, Florida) look poorer.

# Personal Income Shocks

- Large cash payments (such as to pension funds) can distort picture (e.g., Michigan), and affect states' FMAPs.
- Periodic redefinitions of personal income by Bureau of Economic Analysis (BEA) “rebenchmarks” can dramatically affect reported personal incomes (e.g., addition of Medicaid in 1980s).
- Per capita personal income—never designed for the purpose—has become the primary statistic allocating federal grant-in-aid funds.



# FMAP: Recent Years

- Compression continues; in 2012-2014, only 2-3 states with FMAPs over 71%; Mississippi down to 73.1%. Declines continue bigger than increases.
- Average FMAP now 59% (down 0.73 between 2011 and 2014); total three-year loss of funds by states over \$1.5 billion.
- Major losses for energy and farm states: ND, SD, LA, IA, NE, KS. Also New England states not at 50.00 (VT, RI, ME).
- Major increase for NV (both income AND population); also FL, ID, DE—states with growing numbers of retirees.



# FMAP: the Future

- **Using current data**, FMAPs in 2015 and 2016 are projected to change minimally for states not named NV (up) or SD (down).
- Farm state incomes down, but lag in data will mean their FMAPs will continue to decrease.
- CA and IL, with slow growing economies, are projected to go above 50%; impact for national program costs.
- News bulletin: **current data will not be used**. BEA is again rebenchmarking data; 2015 FMAPs will be affected.

# FMAP the Future: Uncertainties

- Less wealthy states to continue with low FMAPs.
- BEA rebenchmarking should mean that a number of states will see unexpected shifts in their FMAPs.
- Fiscal year 2015 begins in October 2014, during the first year of ACA Medicaid expansion.
- Possible need for next countercyclical assistance?
- FY 2015: the Perfect Storm?