

Issues and Options for the Medicaid Matching Formula

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Federal Medical Assistance Percentage (FMAP)

- FMAP is the specific percentage of federal Medicaid funding states receive for most Medicaid expenditures. The FMAP formula is based on a state's per capita income (PCI) in relation to the national average.

- State matching rate = $1 - .45 * \left(\frac{\text{State PCI}}{\text{U.S. PCI}} \right)^2$

- FMAP ranges from 50.00 percent to 73.43 percent for federal fiscal year 2013.
- FMAP formula is based on a 3-year average of state PCI data; reflects economic conditions that existed several years before.

Economic downturns and the FMAP

- During economic downturns, states' employment and tax revenues typically fall as Medicaid enrollment tends to rise.
 - Congress has passed legislation to temporarily increase states' FMAP.
 - In response to the 2001 downturn, Congress provided a \$10 billion across-the board increase in the FMAP for all states.
 - Funds came well after the recession ended.
 - Assistance did not target state needs.
 - In response to the 2007 downturn, Congress passed the American Recovery and Reinvestment Act of 2009 (Recovery Act).
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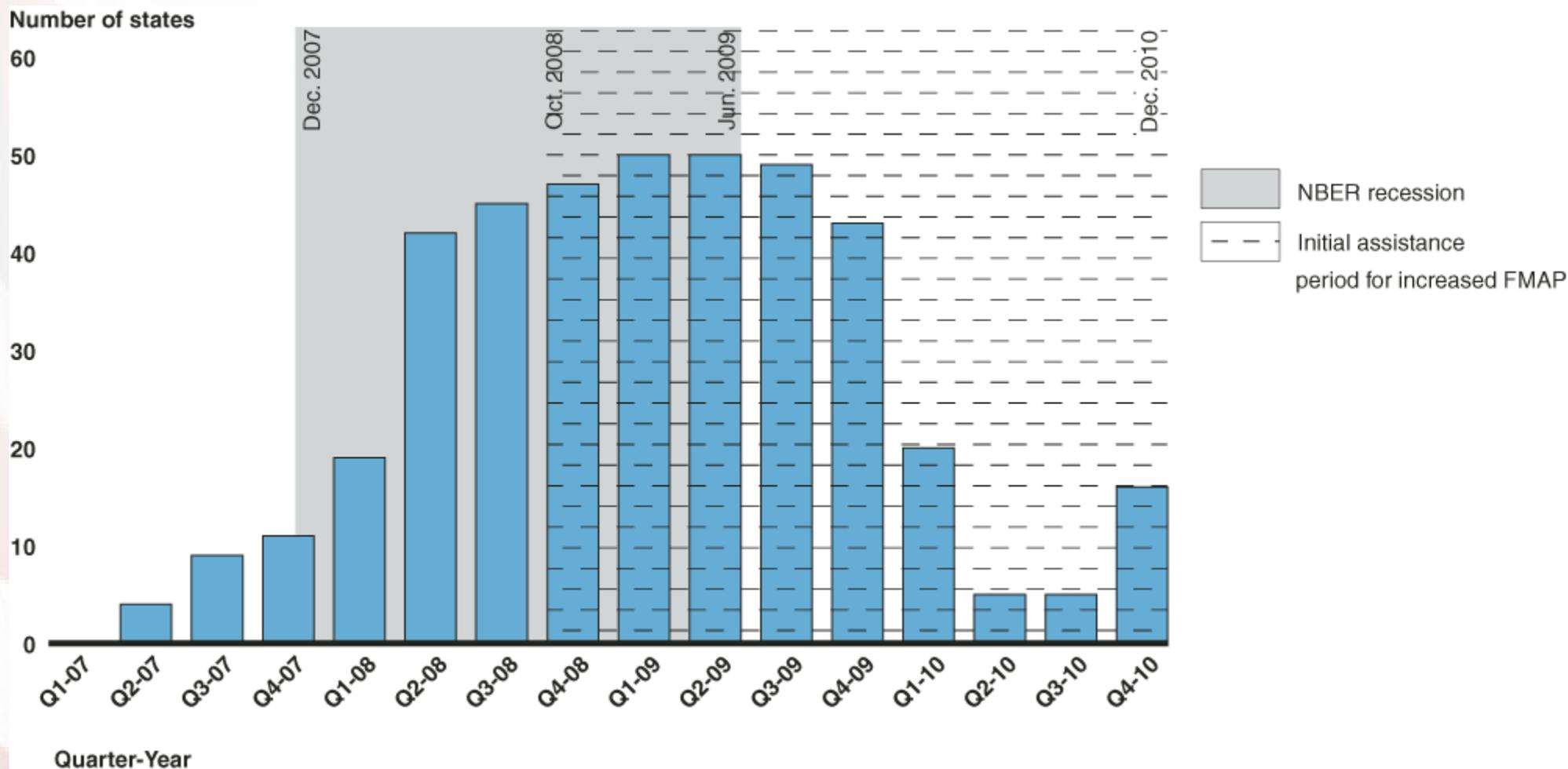
The Recovery Act

- The Recovery Act provided states with \$89 billion through a temporary increase of the FMAP that used three components
 1. A hold-harmless provision that maintained each state's regular FMAP to at least its highest rate since federal fiscal year 2008;
 2. An across-the-board increase of 6.2 percentage points;
 3. An additional increase based on a qualifying increase in the state's rate of unemployment.
- The act also mandated that GAO provide recommendations for modifying the increased FMAP formula to make it more responsive to state Medicaid needs during future downturns.

What GAO found

- To examine the responsiveness of past FMAP increases, GAO analyzed relationships between the increased FMAP, increases in unemployment (as a proxy for changes in state's Medicaid enrollment), and reductions in wages and salaries (as a proxy for changes in states' revenues).
- GAO found that the Recovery Act FMAP funds:
 - were better timed and targeted for state Medicaid needs than were funds provided following the 2001 national recession, but
 - were not allocated on the basis of a state's ability to generate revenue and maintain state Medicaid services.

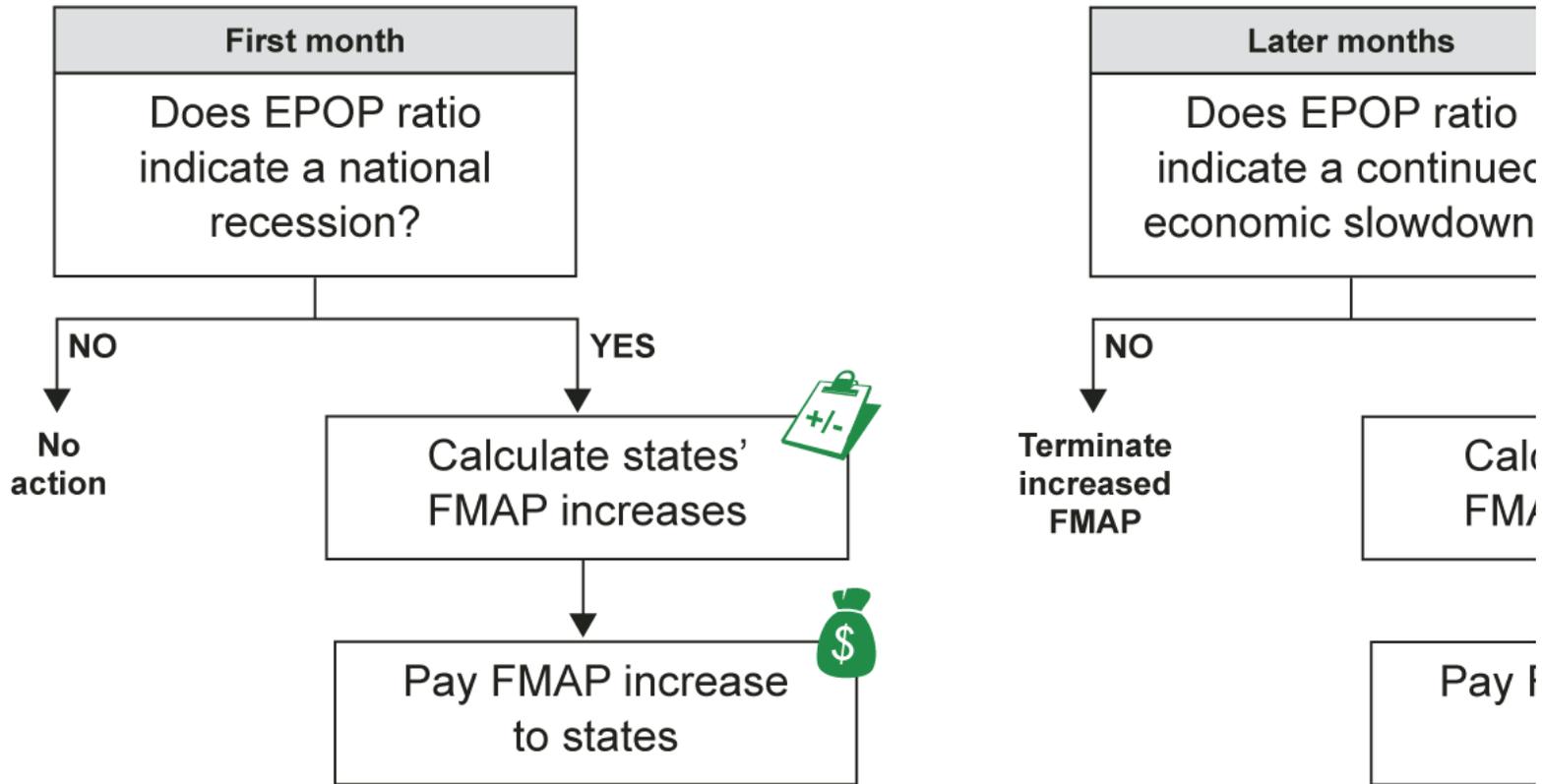
States in economic downturn during the 2007 recession, by quarter



GAO prototype formula for temporary FMAP increases

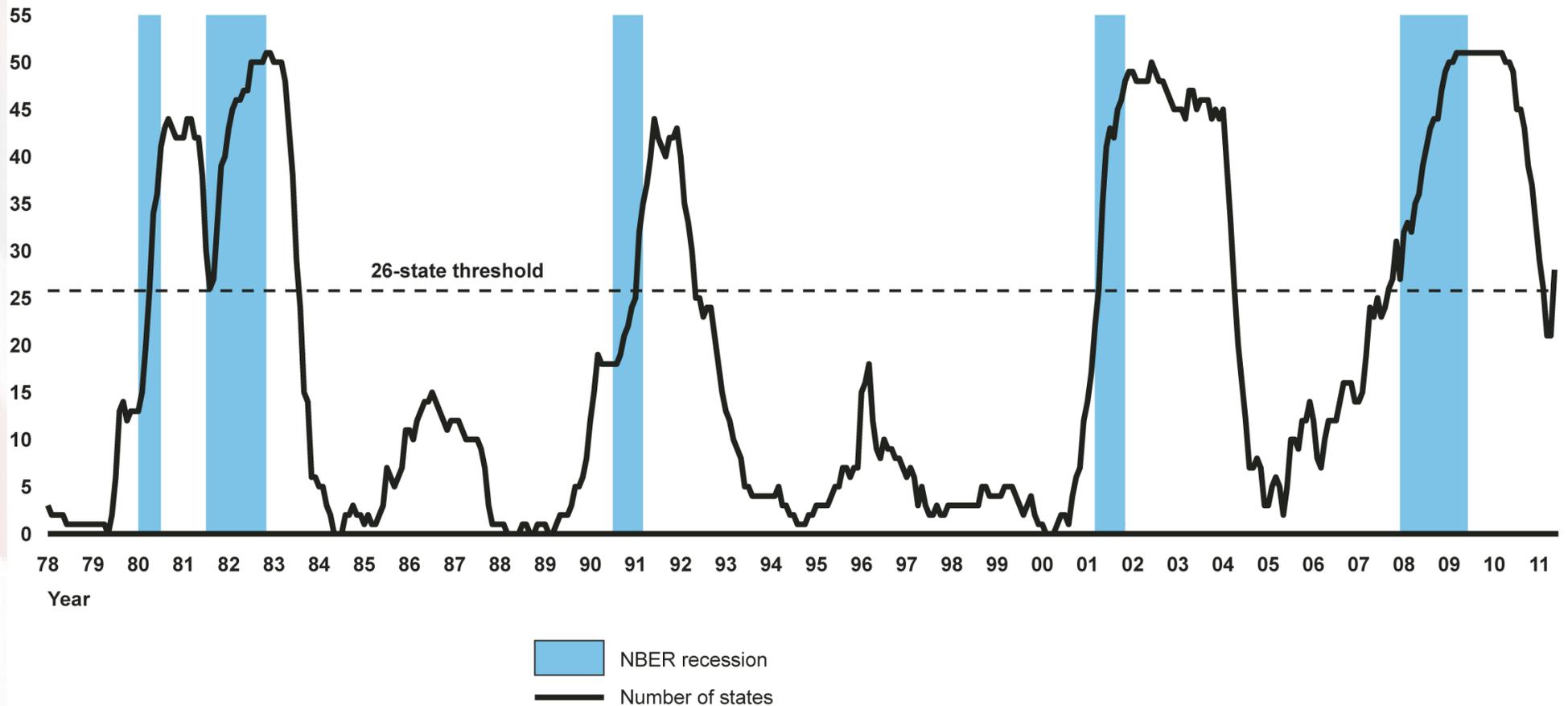
1. Automatic trigger: when a threshold number of states show a decrease in their employment-to-population (EPOP) ratio over two consecutive months, FMAP increases would begin.
2. Targeted assistance: state assistance would be calculated based on
 - increases in state unemployment, a proxy for increased Medicaid enrollment; and
 - reductions in total wages and salaries, a proxy for states' revenue losses.
3. Automatic triggering off: assistance would end when fewer than the threshold number of states shows a decline in their EPOP ratio over two consecutive months.

GAO prototype formula for temporary increased FMAP assistance to states



Prototype formula compared with prior downturns

Number of states with declining EPOP



Source: GAO analysis of Bureau of Labor Statistics data (GAO-12-38)

GAO reports on FMAP

- **MEDICAID: Prototype Formula Would Provide Automatic, Targeted Assistance to States during Economic Downturns**
GAO-12-38, Nov. 10, 2011
- **MEDICAID: Improving Responsiveness of Federal Assistance to States during Economic Downturns**, GAO-11-395, March 31, 2011
- **STATE AND LOCAL GOVERNMENTS: Knowledge of Past Recessions Can Inform Future Federal Fiscal Assistance**, GAO-11-401, March 31, 2011
- **MEDICAID: Strategies to Help States Address Increased Expenditures during Economic Downturns**, GAO-07-97, Oct. 18, 2006



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