Medicaid: The Federal Medical Assistance Percentage (FMAP)

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Summary

Medicaid is a health insurance program jointly funded by the federal government and the states. Generally, eligibility for Medicaid is limited to low-income children, pregnant women, parents of dependent children, the elderly, and people with disabilities. The federal government's share of a state's expenditures for most Medicaid services is called the federal medical assistance percentage (FMAP).

Determined annually, the FMAP is designed so that the federal government pays a larger portion of Medicaid costs in states with lower per capita income relative to the national average (and vice versa for states with higher per capita incomes). For FY2008, FMAPs range from 50.00% to 76.29%. For FY2009, FMAPs range from 50.00% to 75.84% (excluding recently enacted increases described below).

In recent years, the fiscal situation of the states has focused attention on Medicaid expenditures, as well as on changes in the federal share, or FMAP. In the 108th Congress, the Jobs and Growth Tax Relief Reconciliation Act of 2003 (P.L. 108-27) provided temporary fiscal relief for states and local governments through a combination of FMAP increases and direct grants. In the 109th Congress, provisions to exclude certain Hurricane Katrina evacuees and their incomes from FMAP calculations and prevent Alaska's FY2006-FY2007 FMAPs from decreasing were included in the Deficit Reduction Act of 2005 (P.L. 109-171). In the 110th Congress, a temporary FMAP increase was included in economic stimulus legislation that was debated but not adopted at the end of 2008.

In the 111th Congress, a temporary FMAP increase was included in the American Recovery and Reinvestment Act of 2009 (P.L. 111-5). States will receive the increase for nine quarters, subject to certain requirements. Although House-passed and Senate-passed versions were broadly similar, one difference was the degree to which funds would be targeted at states experiencing unemployment rate increases. The enacted version reflects a middle ground on this issue. The Congressional Budget Office has estimated that the provision will increase federal spending by $87.2 billion over five years.

Separate from the temporary FMAP increase, a provision excluding certain employer pension and insurance fund contributions from the calculation of Medicaid FMAPs beginning with FY2006 was included in the Children's Health Insurance Program Reauthorization Act of 2009 (P.L. 111-3). For purposes of calculating Medicaid FMAPs only, the provision will have the effect of reducing certain states' per capita personal income relative to the national average, which in turn could increase their Medicaid FMAPs.

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Introduction

Medicaid is a health insurance program jointly funded by the federal government and the states. Although states have considerable flexibility to design and administer their Medicaid programs, certain groups of individuals must be covered for certain categories of services. Generally, eligibility is limited to low-income children, pregnant women, parents of dependent children, the elderly, and people with disabilities. The federal government's share of Medicaid costs for most services is determined by a formula established in statute; states must contribute the remaining portion of costs in order to qualify for federal funds.[1]

The Federal Medical Assistance Percentage

The federal government's share of most Medicaid service costs is determined by the federal medical assistance percentage (FMAP), which varies by state and is determined by a formula set in statute.[2] Certain Medicaid services receive a higher federal match, including those provided through an Indian Health Service facility, to certain women with breast or cervical cancer, for family planning, or under the Qualifying Individuals program that pays Medicare Part B premiums on behalf of certain Medicaid beneficiaries. For Medicaid administrative costs, the federal share does not vary by state, and is generally 50%.[3]

An enhanced FMAP—not discussed in this report—is provided for both services and administration under the State Children's Health Insurance Program (CHIP), subject to the availability of funds from a state's federal allotment for CHIP. When a state expands its Medicaid program using CHIP funds (rather than Medicaid funds), the enhanced FMAP applies and is paid out of the state's federal allotment.[4]

How FMAPs Are Calculated

The FMAP formula compares each state's per capita income relative to U.S. per capita income, and provides higher reimbursement to states with lower incomes (with a statutory maximum of 83%) and lower reimbursement to states with higher incomes (with a statutory minimum of 50%). The formula for a given state is:

$$FMAP_{state} = 1 - \left((\text{Per capita income}_{state})^2/(\text{Per capita income}_{U.S.})^2 * 0.45 \right)$$

The use of the 0.45 factor in the formula is designed to ensure that a state with per capita income equal to the U.S. average receives an FMAP of 55% (i.e., state share of 45%). In addition, the

[1] For a broader overview of financing issues, see CRS Report RS22849, *Medicaid Financing*, by April Grady.

[2] The FMAP is also used in determining the federal share of certain child support enforcement collections, Temporary Assistance for Needy Families (TANF) contingency funds, a portion of the Child Care and Development Fund (CCDF), and foster care and adoption assistance under Title IV-E of the Social Security Act.

[3] See CRS Report RS22101, *State Medicaid Program Administration: A Brief Overview*, by April Grady.

[4] See CRS Report RL30473, *State Children's Health Insurance Program (CHIP): A Brief Overview*, by Elicia J. Herz, Chris L. Peterson, and Evelyne P. Baumrucker.

formula's squaring of income provides higher FMAPs to states with below-average incomes than they would otherwise receive (and vice versa).[5]

The Department of Health and Human Services (HHS) usually publishes FMAPs for an upcoming fiscal year in the *Federal Register* in the preceding November. Thus, FMAPs for FY2008 (the federal fiscal year that began on October 1, 2007) were calculated and published in 2006, and FMAPs for FY2009 were calculated and published in 2007. This time lag between announcement and implementation provides an opportunity for states to adjust to FMAP changes, but it also means that the per capita income amounts used to calculate FMAPs for a given fiscal year are several years old by the time the FMAPs take effect.

Table 1 shows FMAPs for FY2003-FY2010.

Table 1. FY2003-FY2010 FMAPs, by State

State	FY03 first 2 quarters	FY03 last 2 quarters[a]	FY04 first 3 quarters[a]	FY04 last quarter	FY05	FY06[b]	FY07[b]	FY08[b]	FY09[b]	FY10[b]
Alabama	70.60	73.55	73.70	70.75	70.83	69.51	68.85	67.62	67.98	68.01
Alaska[c]	58.27	61.22	61.34	58.39	57.58	57.58	57.58	52.48	50.53	51.43
Arizona	67.25	70.20	70.21	67.26	67.45	66.98	66.47	66.20	65.77	65.75
Arkansas	74.28	77.23	77.62	74.67	74.75	73.77	73.37	72.94	72.81	72.78
California	50.00	54.35	52.95	50.00	50.00	50.00	50.00	50.00	50.00	50.00
Colorado	50.00	52.95	52.95	50.00	50.00	50.00	50.00	50.00	50.00	50.00
Connecticut	50.00	52.95	52.95	50.00	50.00	50.00	50.00	50.00	50.00	50.00
Delaware	50.00	52.95	52.95	50.00	50.38	50.09	50.00	50.00	50.00	50.21
District of Columbia	70.00	72.95	72.95	70.00	70.00	70.00	70.00	70.00	70.00	70.00
Florida	58.83	61.78	61.88	58.93	58.90	58.89	58.76	56.83	55.40	54.98
Georgia	59.60	62.55	62.55	59.58	60.44	60.60	61.97	63.10	64.49	65.10
Hawaii	58.77	61.72	61.85	58.90	58.47	58.81	57.55	56.50	55.11	54.24
Idaho	70.96	73.97	73.91	70.46	70.62	69.91	70.36	69.87	69.77	69.40
Illinois	50.00	52.95	52.95	50.00	50.00	50.00	50.00	50.00	50.32	50.17
Indiana	61.97	64.99	65.27	62.32	62.78	62.98	62.61	62.69	64.26	65.93
Iowa	63.50	66.45	66.88	63.93	63.55	63.61	61.98	61.73	62.62	63.51
Kansas	60.15	63.15	63.77	60.82	61.01	60.41	60.25	59.43	60.08	60.38
Kentucky	69.89	72.89	73.04	70.09	69.60	69.26	69.58	69.78	70.13	70.96
Louisiana	71.28	74.23	74.58	71.63	71.04	69.79	69.69	72.47	71.31	67.61
Maine	66.22	69.53	69.17	66.01	64.89	62.90	63.27	63.31	64.41	64.99
Maryland	50.00	52.95	52.95	50.00	50.00	50.00	50.00	50.00	50.00	50.00
Massachusetts	50.00	52.95	52.95	50.00	50.00	50.00	50.00	50.00	50.00	50.00
Michigan	55.42	59.31	58.84	55.89	56.71	56.59	56.38	58.10	60.27	63.19
Minnesota	50.00	52.95	52.95	50.00	50.00	50.00	50.00	50.00	50.00	50.00
Mississippi	76.62	79.57	80.03	77.08	77.08	76.00	75.89	76.29	75.84	75.67
Missouri	61.23	64.18	64.42	61.47	61.15	61.93	61.60	62.42	63.19	64.51
Montana	72.96	75.91	75.91	72.85	71.90	70.54	69.11	68.53	68.04	67.42

[5] For example, in state A with an above-average per capita income of $42,000 compared to a U.S. per capita income of $40,000, the FMAP formula produces an FMAP of 50.39%. In state B with a below-average per capita income of $38,000 compared to a U.S. per capita income of $40,000, the FMAP formula produces an FMAP of 59.39%. If the formula did not include a squaring of per capita income, it would instead produce FMAPs of 52.75% for state A (higher than current law) and 57.25% for state B (lower than current law).

State	FY03 first 2 quarters	FY03 last 2 quarters[a]	FY04 first 3 quarters[a]	FY04 last quarter	FY05	FY06[b]	FY07[b]	FY08[b]	FY09[b]	FY10[b]
Nebraska	59.52	62.50	62.84	59.89	59.64	59.68	57.93	58.02	59.54	60.56
Nevada	52.39	55.34	57.88	54.93	55.90	54.76	53.93	52.64	50.00	50.16
New Hampshire	50.00	52.95	52.95	50.00	50.00	50.00	50.00	50.00	50.00	50.00
New Jersey	50.00	52.95	52.95	50.00	50.00	50.00	50.00	50.00	50.00	50.00
New Mexico	74.56	77.51	77.80	74.85	74.30	71.15	71.93	71.04	70.88	71.35
New York	50.00	52.95	52.95	50.00	50.00	50.00	50.00	50.00	50.00	50.00
North Carolina	62.56	65.51	65.80	62.85	63.63	63.49	64.52	64.05	64.60	65.13
North Dakota	68.36	72.82	71.31	68.31	67.49	65.85	64.72	63.75	63.15	63.01
Ohio	58.83	61.78	62.18	59.23	59.68	59.88	59.66	60.79	62.14	63.42
Oklahoma	70.56	73.51	73.51	70.24	70.18	67.91	68.14	67.10	65.90	64.43
Oregon	60.16	63.11	63.76	60.81	61.12	61.57	61.07	60.86	62.45	62.74
Pennsylvania	54.69	57.64	57.71	54.76	53.84	55.05	54.39	54.08	54.52	54.81
Rhode Island	55.40	58.35	58.98	56.03	55.38	54.45	52.35	52.51	52.59	52.63
South Carolina	69.81	72.76	72.81	69.86	69.89	69.32	69.54	69.79	70.07	70.32
South Dakota	65.29	68.88	68.62	65.67	66.03	65.07	62.92	60.03	62.55	62.72
Tennessee	64.59	67.54	67.54	64.40	64.81	63.99	63.65	63.71	64.28	65.57
Texas	59.99	63.12	63.17	60.22	60.87	60.66	60.78	60.56[d]	59.44	58.73
Utah	71.24	74.19	74.67	71.72	72.14	70.76	70.14	71.63	70.71	71.68
Vermont	62.41	66.01	65.36	61.34	60.11	58.49	58.93	59.03	59.45	58.73
Virginia	50.53	54.40	53.48	50.00	50.00	50.00	50.00	50.00	50.00	50.00
Washington	50.00	53.32	52.95	50.00	50.00	50.00	50.12	51.52	50.94	50.12
West Virginia	75.04	78.22	78.14	75.19	74.65	72.99	72.82	74.25	73.73	74.04
Wisconsin	58.43	61.52	61.38	58.41	58.32	57.65	57.47	57.62	59.38	60.21
Wyoming	61.32	64.92	64.27	59.77	57.90	54.23	52.91	50.00	50.00	50.00
American Samoa	50.00	52.95	52.95	50.00	50.00	50.00	50.00	50.00	50.00	50.00
Guam	50.00	52.95	52.95	50.00	50.00	50.00	50.00	50.00	50.00	50.00
N. Mariana Islands	50.00	52.95	52.95	50.00	50.00	50.00	50.00	50.00	50.00	50.00
Puerto Rico	50.00	52.95	52.95	50.00	50.00	50.00	50.00	50.00	50.00	50.00
Virgin Islands	50.00	52.95	52.95	50.00	50.00	50.00	50.00	50.00	50.00	50.00
Number with decrease from previous year	**17**	**—**[a]	**—**[a]	**11**[e]	**19**[f]	**28**	**27**	**20**	**17**	**14**

Source: Department of Health and Human Services (HHS) notices published in the *Federal Register*.

a. The Jobs and Growth Tax Relief Reconciliation Act of 2003 (P.L. 108-27) temporarily increased Medicaid FMAPs to provide $10 billion in state fiscal relief. States also received $10 billion in direct grants.

b. FY2009 and FY2010 do not reflect temporary increases provided under the American Recovery and Reinvestment Act of 2009 (P.L. 111-5). FY2006 and later years do not reflect increases that may result from a provision excluding certain employer contributions from the calculation of Medicaid FMAPs, included in the Children's Health Insurance Program Reauthorization Act of 2009 (P.L. 111-3). See text for details.

c. Alaska's Medicaid FMAP used an alternative formula for FY2001-FY2005 (P.L. 106-554) and did not decrease in FY2006-FY2007 because of a provision in the Deficit Reduction Act of 2005 (DRA, P.L. 109-171). Prior to DRA, Alaska had reverted to using the same FMAP calculation as other states, providing an FY2006 FMAP of 50.16% and FY2007 FMAP of 51.07%.

d. This FY2008 value of 60.56% was provided by HHS implementation of a DRA provision related to Hurricane Katrina (see discussion under "Statutory Exceptions" in this report). Using the regular FMAP formula, the state's FY2008 value would have been 60.53%.

e. Compared to regular FMAPs that applied in the first two quarters of FY2003.

f. Compared to regular FMAPs that applied in the last quarter of FY2004.

Statutory Exceptions

Although the FMAP is generally determined by a formula set in statute, there are exceptions made for certain states and situations:

- As of FY1998, the District of Columbia's Medicaid FMAP is set at 70%.[6]
- The territories (Puerto Rico, American Samoa, the Northern Mariana Islands, Guam, and the Virgin Islands) have FMAPs set at 50% and, unlike the 50 states and the District of Columbia, are subject to federal spending caps.[7]
- Alaska's Medicaid FMAP was set in statute for FY1998-FY2000, used an alternative formula for FY2001-FY2005, and was held at its FY2005 level for FY2006-FY2007.[8]
- Under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (P.L. 108-27), all states and territories received a temporary increase. Medicaid FMAPs for the last two quarters of FY2003 and the first three quarters of FY2004 were held harmless from annual declines and were increased by an additional 2.95 percentage points.[9]
- The Deficit Reduction Act of 2005 (P.L. 109-171) provided that in computing Medicaid FMAPs for any year after 2006 for a state that the Secretary of HHS determines has a significant number of Hurricane Katrina evacuees as of October 1, 2005, the Secretary will disregard such evacuees and their incomes.[10]
- A provision excluding certain employer pension and insurance fund contributions from the calculation of Medicaid FMAPs beginning with FY2006 was included in the Children's Health Insurance Program Reauthorization Act of 2009 (P.L. 111-3). It will have the effect of reducing certain states' per capita personal

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[6] P.L. 105-33 (Balanced Budget Act of 1997). The 70% also applies for purposes of computing an enhanced FMAP for CHIP.

[7] For more information, see Government Accountability Office, *U.S. Insular Areas: Multiple Factors Affect Federal Health Care Funding*, GAO-06-75, October 2005, at http://www.gao.gov/new.items/d0675.pdf.

[8] P.L. 105-33 set Alaska's Medicaid FMAPs for FY1998-FY2000 at 59.80%. P.L. 106-554 provided that its FMAPs for FY2001-FY2005 would be calculated using the state's per capita income deflated by 1.05 (thereby increasing the FMAPs). P.L. 109-171 provided that its FMAPs for FY2006-FY2007 would not fall below the state's FY2005 level. These provisions also applied for purposes of computing enhanced FMAPs for CHIP.

[9] Although Medicaid disproportionate share hospital (DSH) payments (i.e., payments to hospitals that serve large numbers of low-income and Medicaid patients and are subject to federal spending caps) are reimbursed using the FMAP, this increase did not apply to DSH. In addition, states had to meet certain requirements in order to receive an increase (e.g., they could not restrict eligibility after a certain date).

[10] The provision also applied for purposes of computing enhanced FMAPs for CHIP. Although it was described as a "hold harmless for Katrina impact" in DRA, the language of the Katrina provision required evacuees to be disregarded even if their inclusion would *increase* a state's FMAP. Due to lags in the availability of data used to calculate FMAPs, FY2008 was the first year to which the provision applied. In 2007, HHS proposed and then finalized an implementation methodology that prevented the lowering of any FY2008 FMAPs and increased the FY2008 FMAP for one state (Texas). The methodology took advantage of a data timing issue that does not apply after FY2008. Although HHS had initially expressed concern that some states could see lower FMAPs in later years as a result of the DRA provision, the final methodology indicates that there is no reliable way to track the number and income of evacuees on an ongoing basis and therefore no basis for adjusting FMAPs after FY2008. See 72 *Federal Register* 3391 (January 25, 2007) and 72 *Federal Register* 44146 (August 7, 2007).

income relative to the national average, which in turn could increase their Medicaid FMAPs. HHS has yet to release estimates for this provision.

- Under the American Recovery and Reinvestment Act of 2009 (P.L. 111-5), all states and territories can receive a temporary FMAP (and/or federal spending cap) increase for nine quarters if specified requirements are met. In general, the law holds all states harmless from any decline in their regular FMAPs, provides all states with an across-the-board increase of 6.2 percentage points, and provides qualifying states with an unemployment-related increase. It allows each territory to choose between an FMAP increase of 6.2 percentage points along with a 15% increase in its spending cap, or its regular FMAP along with a 30% increase in its spending cap. (For more information, see the "111th Congress" section at the end of this report.)
- As noted earlier, the regular FMAP does not apply to certain Medicaid services that receive a higher federal match (e.g., those provided through an Indian Health Service facility).

Data Used to Calculate State FMAPs

As specified in Section 1905(b) of the Social Security Act, the per capita income amounts used in the FMAP formula are equal to the average of the three most recent calendar years of data available from the Department of Commerce. In its most recent (FY2010) FMAP calculations, HHS used state per capita personal income data for 2005, 2006, and 2007 that became available from the Department of Commerce's Bureau of Economic Analysis (BEA) in September 2008. The use of a three-year average helps to moderate fluctuations in a state's FMAP over time.

BEA revises its most recent estimates of state per capita personal income on an annual basis to incorporate revised and newly available source data on population and income.[11] It also undertakes a comprehensive data revision—reflecting methodological and other changes—every few years that may result in upward and downward revisions to each of the component parts of personal income (as defined in BEA's national income and product accounts, or NIPA). These components include

- earnings (wages and salaries, employer contributions for employee pension and insurance funds, and proprietors' income);
- dividends, interest, and rent; and
- personal current transfer receipts (e.g., government social benefits such as Social Security, Medicare, Medicaid, state unemployment insurance, etc.).[12]

As a result of these annual and comprehensive revisions, it is often the case that the value of a state's per capita personal income for a given year will change over time. For example, the 2004 state per capita personal income data published by BEA in September 2006 (used in the

[11] Preliminary estimates of state per capita personal income for the latest available calendar year—as well as revised estimates for the two preceding calendar years—are released in April. Revised estimates for all three years are released in September.

[12] Employer and employee contributions for government social insurance (e.g., Social Security, Medicare, unemployment insurance, etc.) are excluded from personal income, and earnings are counted based on residency (i.e., for individuals who live in one state and work in another, their income is counted in the state where they reside).

calculation of FY2008 FMAPs) differed from the 2004 state per capita personal income data published in September 2007 (used in the calculation of FY2009 FMAPs).

It should be noted that the NIPA definition of personal income used by BEA is not the same as the definition used for personal income tax purposes. Among other differences, NIPA personal income excludes capital gains (or losses) and includes transfer receipts (e.g., government social benefits), while income for tax purposes includes capital gains (or losses) and excludes most of these transfers.

Factors That Influence FMAPs

Several factors influence state FMAPs. The first is the nature of the state economy and its ability to respond to economic changes (i.e., downturns or upturns). The impact of a national economic downturn or upturn will be related to the structure of the state economy and the business sectors causing the upturn or downturn. For example, a national decline in automobile sales, while having an impact on automobile sales and all state economies, will have a larger impact in states that manufacture automobiles, as production is reduced and workers are laid off.

Second, the FMAP formula relies on per capita personal income to reflect state economies and their response to economic changes *in relation to the U.S. average per capita personal income*. The national economy is basically the sum of all state economies. As a result, the national response to an economic change is the sum of the state responses to economic change. If more states (or larger states) experience an economic decline, the national economy reflects this decline to some extent. However, the national decline will be lower than the state declines because the total decline has been offset by states with increases (i.e., states with growing economies). The U.S. per capita personal income, because of this balancing of positive and negative, has only a small percentage change each year. Since the FMAP formula compares state changes in per capita personal income (which can have large changes each year) to the U.S. per capita personal income, this comparison can result in significant state FMAP changes.

In addition to annual revisions of per capita personal income data, comprehensive NIPA revisions undertaken every four to five years may also influence FMAPs (for example, because of changes in the definition of personal income). The impact on FMAPs will depend on whether the changes are broad (affecting all states) or more selective (affecting only certain states or industries).

As noted earlier, statutory changes may also affect FMAPs.

Recent Issues and Legislation

108th Congress

In the 108th Congress, the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA, P.L. 108-27) provided temporary fiscal relief for states and local governments through a combination of $10 billion in FMAP increases and $10 billion in direct grants. Medicaid FMAPs for the last two quarters of FY2003 and the first three quarters of FY2004 were held harmless from annual declines and were increased by an additional 2.95 percentage points, so long as a state did not restrict eligibility after a specified date (none did) and met certain other requirements.[13] To accommodate the FMAP increase, caps that apply to federal Medicaid spending in the territories were raised by 5.9%. JGTRRA also provided states with an additional $10 billion in direct grants based on population.[14]

109th Congress

In the 109th Congress, the Deficit Reduction Act of 2005 (P.L. 109-171) included provisions to exclude certain Hurricane Katrina evacuees and their incomes from FMAP calculations, prevent Alaska's FY2006-FY2007 FMAPs from falling below the state's FY2005 level, and provide $2 billion to help pay for (among other things) the state share of certain Katrina-related Medicaid and CHIP costs. Other provisions that would have temporarily increased FMAPs for states affected by Hurricane Katrina, limited FY2006 FMAP reductions for all states, and disregarded certain employer contributions toward pensions from the calculation of Medicaid FMAPs were debated but not included in the final bill.

110th Congress

In the 110th Congress, a temporary FMAP increase was included in economic stimulus legislation that was debated but not adopted at the end of 2008.[15] One bill failed a motion to proceed in the Senate (S. 3604), another passed the House (H.R. 7110), and a third was introduced in the Senate (S. 3689). Over five years, the bills would have increased federal Medicaid spending by an estimated $19.6 billion,[16] $14.7 billion,[17] and $37.8 billion,[18] respectively.

For FY2009 and the first quarter of FY2010, S. 3604 would have held all states harmless from any decline in their regular Medicaid FMAPs and provided all states and territories with an additional increase of four percentage points. S. 3689 was similar, except that it would have provided an increase of eight percentage points instead of four.

For FY2009 and the first two months of FY2010, H.R. 7110 would have held all states harmless, provided all states and territories with an additional increase of one percentage point, and provided qualifying states with an additional increase of up to three percentage points based on employment, food stamp, and foreclosure data. Separate from the temporary Medicaid FMAP increase, the House bill would have excluded certain employer pension and insurance fund contributions from the calculation of Medicaid FMAPs beginning with FY2006; as noted below,

[13] For a discussion, see Department of Health and Human Services, Centers for Medicare and Medicaid Services, Dear State Medicaid Director letter, June 13, 2003, http://www.cms.hhs.gov/smdl/downloads/smd061303.pdf.

[14] See http://www.treas.gov/press/releases/js453.htm.

[15] Additional legislation that would have provided a temporary Medicaid FMAP increase was introduced earlier in 2008 (S. 2586, H.R. 5268, S. 2620, S. 2819).

[16] U.S. Congress, Senate Committee on Appropriations, *Byrd Statement in Support of Economic Recovery and Stimulus Package,* September 26, 2008, at http://appropriations.senate.gov/news.cfm.

[17] Congressional Budget Office, *Estimated Cost of H.R. 7110, The Job Creation and Unemployment Relief Act of 2008, as Introduced on September 26, 2008*, at http://cbo.gov/ftpdocs/98xx/doc9816/hr7110.pdf.

[18] Congressional Budget Office, letter to the Honorable Robert C. Byrd, November 18, 2008, at http://www.cbo.gov/ftpdocs/99xx/doc9918/SenateStimulusInfrastructureByrdLtr.pdf.

this provision was included in the Children's Health Insurance Program Reauthorization Act of 2009 (P.L. 111-3).

111th Congress

Temporary FMAP Increase

In the 111th Congress, a temporary FMAP increase was included in the American Recovery and Reinvestment Act of 2009 (ARRA, P.L. 111-5). States will receive the increase for nine quarters, subject to certain requirements. Although House-passed and Senate-passed versions were broadly similar, one difference was the degree to which funds would be targeted at states experiencing unemployment rate increases. The enacted version reflects a middle ground on this issue.[19] The Congressional Budget Office has estimated that the provision will increase federal spending by $87.2 billion over five years.[20]

Details of the ARRA provision are as follows:

- For a recession adjustment period that begins with the first quarter of FY2009 and runs through the first quarter of FY2011, the provision holds all states harmless from any decline in their regular FMAPs, provides all states with an across-the-board increase of 6.2 percentage points, and provides qualifying states with an unemployment-related increase.[21] It allows each territory to choose between an FMAP increase of 6.2 percentage points along with a 15% increase in its spending cap, or its regular FMAP along with a 30% increase in its cap.
- The full amount of the temporary FMAP increase only applies to Medicaid, excluding disproportionate share hospital payments and expenditures for individuals who are eligible for Medicaid because of an increase in a state's income eligibility standards above what was in effect on July 1, 2008. A portion

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[19] According to statements made during a Senate Finance Committee markup on January 27, it was estimated that the House-passed version would provide about half of its spending via hold harmless and across-the-board increases, and about half via an unemployment-related increase. In contrast, the Senate-passed version was estimated to provide an 80%/20% split. The enacted version reflects a 65%/35% split.

[20] Congressional Budget Office, *Estimate of Division B of H.R. 1 (ERN09560.LC, February 12, 2009)*. An estimate for the entire bill does not break out the Medicaid provisions separately; see Congressional Budget Office, letter to the Honorable Nancy Pelosi, February 13, 2009, http://www.cbo.gov/ftpdocs/99xx/doc9989/hr1conference.pdf.

[21] States are evaluated on a quarterly basis for the unemployment-related FMAP increase, which equals a percentage reduction in the state share. The percentage reduction is applied to the state share after the hold harmless increase and after one-half of the 6.2 percentage point increase (i.e., 3.1 percentage points). For example, after applying the across-the-board increase, a state with a regular FMAP of 50% would have an FMAP of 56.20%. If the state share (after the hold harmless and one-half of the across-the-board increase) were further reduced by 5.5%, the state would receive an additional FMAP increase of 2.58 percentage points (46.9 state share * 0.055 reduction in state share = 2.58). The state's total FMAP increase would be 8.78 points (6.2 + 2.58 = 8.78), providing an FMAP of 58.78%. A state is evaluated based on its unemployment rate in the most recent 3-month period for which data are available (except for the first two and last two quarters of the temporary FMAP increase, for which the 3-month period is specified) compared to its lowest unemployment rate in any 3-month period beginning on or after January 1, 2006. The criteria are as follows: unemployment rate increase of at least 1.5 but less than 2.5 percentage points = 5.5% reduction in state share; increase of at least 2.5 but less than 3.5 percentage points = 8.5% reduction; increase of at least 3.5 percentage points = 11.5% reduction. A state's percentage reduction could increase over time as its unemployment rate increases, but it would not be allowed to decrease until the fourth quarter of FY2010 (for most states, this corresponds with the first quarter of SFY2011).

of the temporary FMAP increase (hold harmless plus across-the-board) applies to Title IV-E foster care and adoption assistance.

- States are required to maintain their Medicaid eligibility standards, methodologies, and procedures as in effect on July 1, 2008;[22] prohibited from receiving the temporary FMAP increase if they are not in compliance with requirements for prompt payment of health care providers under Medicaid, and required to report to the Secretary of HHS on their compliance;[23] prohibited from depositing or crediting the additional federal funds paid as a result of the increase to any reserve or rainy day fund; required to ensure that local governments do not pay a larger percentage of the state's nonfederal Medicaid expenditures than otherwise would have been required on September 30, 2008;[24] and required to submit a report to the Secretary regarding how the additional federal funds paid as a result of the temporary FMAP increase were expended.[25]

Table 2 (at the end of this report) shows estimated increases in FMAPs and federal funding for the first two quarters of FY2009 under ARRA. FMAP increases could be larger in the last two quarters of FY2009 for states whose unemployment rates continue to increase (unless the state has a current unemployment rate increase of at least 3.5 percentage points, in which case they would already be receiving the maximum FMAP increase). FMAP increases in FY2010 and the first quarter of FY2011 would differ depending on the state's current law FMAP and its unemployment rate increase. Depending on the assumptions that are made, estimated increases in federal Medicaid funding for all nine quarters (not shown here) can vary.[26]

FMAP increases will reduce the amount of state funding that is required to maintain a given level of Medicaid services. For states that are contemplating cuts in order to slow the growth of or

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[22] States that have restricted their eligibility standards, procedures, or methodologies can reinstate them in any quarter to begin receiving the temporary FMAP increase. In addition, those that reinstate them prior to July 1, 2009, can receive the increase for the first three quarters of FY2009. According to HHS, "…States will be required to attest they meet the eligibility requirements to qualify for the new funding. The FMAP increase will be available to the States once the compliance is reviewed." See http://www.hhs.gov/recovery/fmapprocess.html and http://www.hhs.gov/recovery/statefunds.html. HHS indicated that four states (MS, NC, SC, VA) were ineligible when funding estimates were first released on February 23, 2009, but those states have since been cleared to receive the increase. Additional implementation guidance is expected soon. For the temporary FMAP increase enacted in 2003, the law referred only to "eligibility" and the HHS interpretation did not include procedural changes (e.g., increasing the frequency of eligibility redeterminations was not considered an eligibility restriction); see http://www.cms.hhs.gov/smdl/downloads/smd061303.pdf. The ARRA language is more stringent.

[23] More specifically, the temporary FMAP increase is not be available for any claim received by the state from a health care practitioner subject to prompt pay requirements for such days during any period in which the state has failed to pay claims in accordance with those requirements.

[24] Some states require local governments to finance part of the nonfederal (i.e., state) share of Medicaid costs. Since a temporary FMAP increase would reduce a state's nonfederal share, a local government whose required contribution is a specified dollar amount (or some other amount that is not a fixed percentage of the nonfederal share) could pay a larger percentage of the nonfederal share than it otherwise would have without the FMAP increase.

[25] For the requirements related to rainy day funds and local governments' share of nonfederal expenditures, the law was written such that states would be denied the across-the-board and unemployment-related FMAP increases (and territories would be denied cap increases) if they are out of compliance; however, they would not be denied the hold harmless FMAP increase. In contrast, for the requirements related to maintenance of eligibility and prompt payment, states would be denied all of the temporary FMAP increases (including hold harmless) if they are out of compliance.

[26] For example, see discussion of unpublished Government Accountability Office figures cited in Iris J. Lav et al., *Recovery Act Provides Much-Needed, Targeted Medicaid Assistance to States*, Center on Budget and Policy Priorities, February 13, 2009, http://www.cbpp.org/2-13-09sfp.htm.

reduce Medicaid spending (e.g., by restricting eligibility, eliminating coverage of certain benefits, freezing or reducing provider reimbursement rates, increasing cost-sharing or premiums for beneficiaries, etc.), increased federal funding could enable them to avoid those cuts. For others, the state savings that result from an FMAP increase could be used for a variety of purposes that are not limited to Medicaid.[27] Many states implemented or planned Medicaid expansions and enhancements in SFY2008 and SFY2009.[28] However, recent information indicates that more than half of all states are experiencing Medicaid enrollment and spending trends above projected levels and that many are facing the prospect of mid-year cutbacks.[29]

In addition to avoiding cuts to Medicaid, CBO has indicated that providing additional federal aid to states that are facing fiscal pressures will probably stimulate the economy. However, the estimated effects vary.[30] Federal aid to states whose budgets are relatively healthy might provide little stimulus if it is used to build up rainy day funds (a prohibited use of the temporary FMAP increase under ARRA), rather than increase spending or reduce taxes.[31]

Exclusion of Certain Employer Contributions from FMAP Calculations

As noted earlier, a provision excluding certain employer pension and insurance fund contributions from the calculation of Medicaid FMAPs beginning with FY2006 was included in the Children's Health Insurance Program Reauthorization Act of 2009 (P.L. 111-3). For purposes of calculating Medicaid FMAPs only, the provision will have the effect of reducing certain states' per capita personal income relative to the national average, which in turn could increase their Medicaid FMAPs. HHS has yet to release estimates for this provision.

[27] For example, 27 states reported that they used funds from the FMAP increase enacted in 2003 to avoid, minimize, or postpone Medicaid cuts or freezes. However, the funds also helped many states fill shortfalls in their overall general fund budgets. See Kaiser Commission on Medicaid and the Uninsured, *Financing the Medicaid Program: The Impact of Federal Fiscal Relief*, April 2004, at http://kff.org/medicaid/upload/Financing-the-Medicaid-Program-The-Impact-of-Federal-Fiscal-Relief-April-2004.pdf and Vernon Smith et al., *States Respond to Fiscal Pressure: A 50-State Update of State Medicaid Spending Growth and Cost Containment Actions*, Kaiser Commission on Medicaid and the Uninsured, January 2004, at http://www.kff.org/medicaid/7001.cfm. For another assessment of how Medicaid was treated in FY2004 in the budgets of ten states, see James W. Fossett and Courtney E. Burke, *Medicaid and State Budgets in FY2004: Why Medicaid Is So Hard to Cut*, Rockefeller Institute of Government, July 2004, at http://www.rockinst.org/pdf/health_care/2004-07-medicaid_and_state_budgets_in_fy_2004_why_medicaid_is_hard_to_cut.pdf.

[28] Vernon Smith et al., *Headed for a Crunch: An Update on Medicaid Spending, Coverage and Policy Heading into an Economic Downturn*, Kaiser Commission on Medicaid and the Uninsured, September 2008, at http://www.kff.org/medicaid/7815.cfm.

[29] Vernon Smith et al., *Medicaid in a Crunch: A Mid-FY 2009 Update on State Medicaid Issues in a Recession*, Kaiser Commission on Medicaid and the Uninsured, January 2009, http://kff.org/medicaid/kcmu010909pkg.cfm. Additional information on state fiscal conditions is available from a number of sources, including the National Association of State Budget Officers and the National Governors Association, which jointly publish a variety of publications (http://www.nasbo.org/); the National Conference of State Legislatures (http://www.ncsl.org/summit/budgetmap.htm); and the Center on Budget and Policy Priorities (http://www.cbpp.org/pubs/sfp.htm).

[30] Congressional Budget Office, letter to the Honorable Charles E. Grassley, March 2, 2009, http://www.cbo.gov/ftpdocs/100xx/doc10008/03-02-Macro_Effects_of_ARRA.pdf.

[31] Statement of Peter R. Orszag, Director, Congressional Budget Office, before the Committee on Finance, U.S. Senate, *Options for Responding to Short-Term Economic Weakness*, January 22, 2008, at http://cbo.gov/ftpdocs/89xx/doc8932/01-22-TestimonyEconStimulus.pdf.

Table 2. Estimated Increase in FMAPs and Federal Medicaid Funding Under the American Recovery and Reinvestment Act of 2009, First Two Quarters of FY2009

(dollars in millions)

State	Current law FMAPs for FY09[a]	Current percentage point increase in unemployment rate[b]	Estimated increase in FMAPs for first two quarters of FY09[a]				Projected Medicaid expenditures for FY09[c]	Estimated increase in federal funding for first two quarters of FY09[d]
			Hold harmless	Across-the-board	Unemployment-related[e]	Total		
Alabama	67.98	2.7%	0.00	6.20	2.46	8.66	$3,829	$170
Alaska	50.53	1.3%	1.95	6.20	0.00	8.15	$1,002	$42
Arizona	65.77	2.8%	0.43	6.20	2.61	9.24	$8,160	$351
Arkansas	72.81	1.0%	0.13	6.20	0.00	6.33	$3,595	$110
California	50.00	3.8%	0.00	6.20	5.39	11.59	$40,480	$1,992
Colorado	50.00	2.2%	0.00	6.20	2.58	8.78	$3,415	$141
Connecticut	50.00	2.5%	0.00	6.20	3.99	10.19	$4,970	$275
Delaware	50.00	2.5%	0.00	6.20	3.99	10.19	$1,190	$61
District of Columbia	70.00	2.4%	0.00	6.20	1.48	7.68	$1,501	$59
Florida	55.40	4.1%	1.43	6.20	4.61	12.24	$15,057	$817
Georgia	64.49	3.2%	0.00	6.20	2.75	8.95	$7,216	$340
Hawaii	55.11	2.8%	1.39	6.20	3.43	11.02	$1,291	$71
Idaho	69.77	3.1%	0.10	6.20	2.30	8.60	$1,255	$53
Illinois	50.32	3.1%	0.00	6.20	3.96	10.16	$10,496	$471
Indiana	64.26	2.8%	0.00	6.20	2.77	8.97	$5,556	$247
Iowa	62.62	0.9%	0.00	6.20	0.00	6.20	$2,940	$89
Kansas	60.08	1.1%	0.00	6.20	0.00	6.20	$2,279	$72
Kentucky	70.13	2.0%	0.00	6.20	1.47	7.67	$4,997	$205
Louisiana	71.31	2.1%	1.16	6.20	1.34	8.70	$5,475	$230
Maine	64.41	1.9%	0.00	6.20	1.79	7.99	$2,199	$95
Maryland	50.00	1.9%	0.00	6.20	2.58	8.78	$6,265	$276
Massachusetts	50.00	1.8%	0.00	6.20	2.58	8.78	$12,540	$594
Michigan	60.27	3.1%	0.00	6.20	3.11	9.31	$9,582	$464
Minnesota	50.00	2.6%	0.00	6.20	3.99	10.19	$7,353	$356
Mississippi	75.84	1.5%	0.45	6.20	1.13	7.78	$3,776	$137
Missouri	63.19	2.2%	0.00	6.20	1.85	8.05	$6,836	$271
Montana	68.04	1.9%	0.49	6.20	1.56	8.25	$819	$34
Nebraska	59.54	0.9%	0.00	6.20	0.00	6.20	$1,611	$48
Nevada	50.00	4.2%	2.64	6.20	5.09	13.93	$1,323	$90
New Hampshire	50.00	1.0%	0.00	6.20	0.00	6.20	$1,122	$32
New Jersey	50.00	2.2%	0.00	6.20	2.58	8.78	$8,308	$362
New Mexico	70.88	1.3%	0.16	6.20	0.00	6.36	$3,167	$95
New York	50.00	1.9%	0.00	6.20	2.58	8.78	$49,128	$2,071
North Carolina	64.60	3.4%	0.00	6.20	2.75	8.95	$9,977	$440
North Dakota	63.15	0.3%	0.60	6.20	0.00	6.80	$557	$19
Ohio	62.14	2.1%	0.00	6.20	1.91	8.11	$13,127	$500
Oklahoma	65.90	1.5%	1.20	6.20	1.64	9.04	$3,786	$175
Oregon	62.45	3.0%	0.00	6.20	2.93	9.13	$3,538	$156
Pennsylvania	54.52	1.9%	0.00	6.20	2.33	8.53	$16,586	$680
Rhode Island	52.59	4.6%	0.00	6.20	5.10	11.30	$1,720	$94
South Carolina	70.07	2.9%	0.00	6.20	2.28	8.48	$3,873	$173

State	Current law FMAPs for FY09[a]	Current percentage point increase in unemploy-ment rate[b]	Estimated increase in FMAPs for first two quarters of FY09[a]				Projected Medicaid expendi-tures for FY09[c]	Estimated increase in federal funding for first two quarters of FY09[d]
			Hold harmless	Across-the-board	Unemploy-ment-related[e]	Total		
South Dakota	62.55	0.9%	0.00	6.20	0.00	6.20	$666	$20
Tennessee	64.28	2.8%	0.00	6.20	2.77	8.97	$7,024	$331
Texas	59.44	1.6%	1.09	6.20	2.00	9.29	$21,646	$952
Utah	70.71	1.4%	0.92	6.20	0.00	7.12	$1,593	$53
Vermont	59.45	2.2%	0.00	6.20	2.06	8.26	$1,127	$45
Virginia	50.00	2.0%	0.00	6.20	2.58	8.78	$5,735	$253
Washington	50.94	2.1%	0.58	6.20	2.50	9.28	$7,183	$339
West Virginia	73.73	0.3%	0.52	6.20	0.00	6.72	$2,353	$76
Wisconsin	59.38	1.2%	0.00	6.20	0.00	6.20	$5,646	$163
Wyoming	50.00	0.5%	0.00	6.20	0.00	6.20	$503	$16
American Samoa	50.00	NA	0.00	[f]	NA	[f]	$18.3	$0.7
Guam	50.00	NA	0.00	[f]	NA	[f]	$25.7	$0.9
N. Mariana Islands	50.00	NA	0.00	[f]	NA	[f]	$9.7	$0.3
Puerto Rico	50.00	NA	0.00	[f]	NA	[f]	$1,262.9	$39.1
Virgin Islands	50.00	NA	0.00	[f]	NA	[f]	$20.6	$0.6
Total							**$346,707**	**$15,247**

Source: Congressional Research Service, based on Bureau of Labor Statistics (BLS) and Department of Health and Human Services (HHS) data.

Notes: FMAP increases could be larger in the last two quarters of FY2009 for states whose unemployment rates continue to increase (unless the state has a current unemployment rate increase of at least 3.5 percentage points, in which case they would already be receiving the maximum FMAP increase). FMAP increases in FY2010 and the first quarter of FY2011 would differ depending on the state's current law FMAP and its unemployment rate increase. NA indicates that unemployment rates are not applicable for the territories. Sum of components may not equal totals due to rounding.

a. Does not reflect increases that may result from a provision that excludes certain employer contributions from the calculation of Medicaid FMAPs, included in the Children's Health Insurance Program Reauthorization Act of 2009 (P.L. 111-3). See text for details.

b. Based on Oct-Dec 2008 BLS data (seasonally adjusted) compared to lowest 3-month period since Jan 2006.

c. State projection of total (federal and state) expenditures reported to the Centers for Medicare and Medicaid Services in November 2008. Includes Medicaid services and excludes disproportionate share hospital payments, administrative costs, and the vaccines for children program (to which the temporary FMAP increase does not apply). Some territories have total expenditures exceeding the amount that can be reimbursed under their regular federal spending caps, which are as follows for FY09 (in millions): American Samoa, $9.020; Guam, $13.350; N. Mariana Islands, $4.980; Puerto Rico, $272.400; Virgin Islands, $13.620.

d. Based on information available from HHS at http://www.hhs.gov/recovery/fmapprocess.html and http://www.hhs.gov/recovery/statefunds.html. Excludes Title IV-E foster care and adoption assistance, to which the hold harmless and across-the-board FMAP increases also apply.

e. The unemployment-related FMAP increase equals a percentage reduction that is applied to the state share after the hold harmless increase and after one-half of the 6.2 percentage point increase (i.e., 3.1 percentage points). An unemployment rate increase of at least 1.5 but less than 2.5 percentage points = 5.5% reduction in state share; increase of at least 2.5 but less than 3.5 percentage points = 8.5% reduction; increase of at least 3.5 percentage points = 11.5% reduction.

f. Each territory can choose between an FMAP increase of 6.2 percentage points along with a 15% increase in its federal spending cap, or its regular FMAP along with a 30% increase in its cap.

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