

# Increasing Federal Matching Rates in Medicaid in An Economic Downturn

**John Holahan**  
**The Urban Institute**

AcademyHealth Annual Research Meeting  
Chicago, IL

June 29, 2009

# Effect Of Economic Downturn On Health Coverage

- Unemployment causes many workers and dependents to lose employer-sponsored insurance (ESI)
- People who lose ESI either:
  - ❖ Become uninsured, increasing state and local uncompensated care costs
  - ❖ Enroll in Medicaid or SCHIP
  - ❖ Enroll in another source of private coverage (spousal ESI or non-group coverage)
- States experience revenue declines which affect ability to fund Medicaid and pay for uncompensated care.

# The Impact Of A 1 Percentage Point Increase In The Unemployment Rate On The Number Of Children And Non-Elderly Adults With Various Types Of Health Coverage:2008

	<b>Children</b>	<b>Non-elderly adults</b>	<b>Total</b>
<b>ESI</b>	<b>-700,000</b>	<b>-1.7 million</b>	<b>-2.5 million</b>
<b>Medicaid/ SCHIP</b>	<b>+600,000</b>	<b>+400,000</b>	<b>+1.0 million</b>
<b>Uninsured</b>	<b>No statistically significant change</b>	<b>+1.1 million</b>	<b>+1.1 million</b>
<b>Non-group coverage</b>	<b>No statistically significant change</b>	<b>+300,000</b>	<b>+400,000</b>

Source: Urban Institute, February 2008. Notes: (1) ESI is employer-sponsored insurance. (2) Totals may not add because of rounding.

# Impact Of Economic Downturn On State Revenue

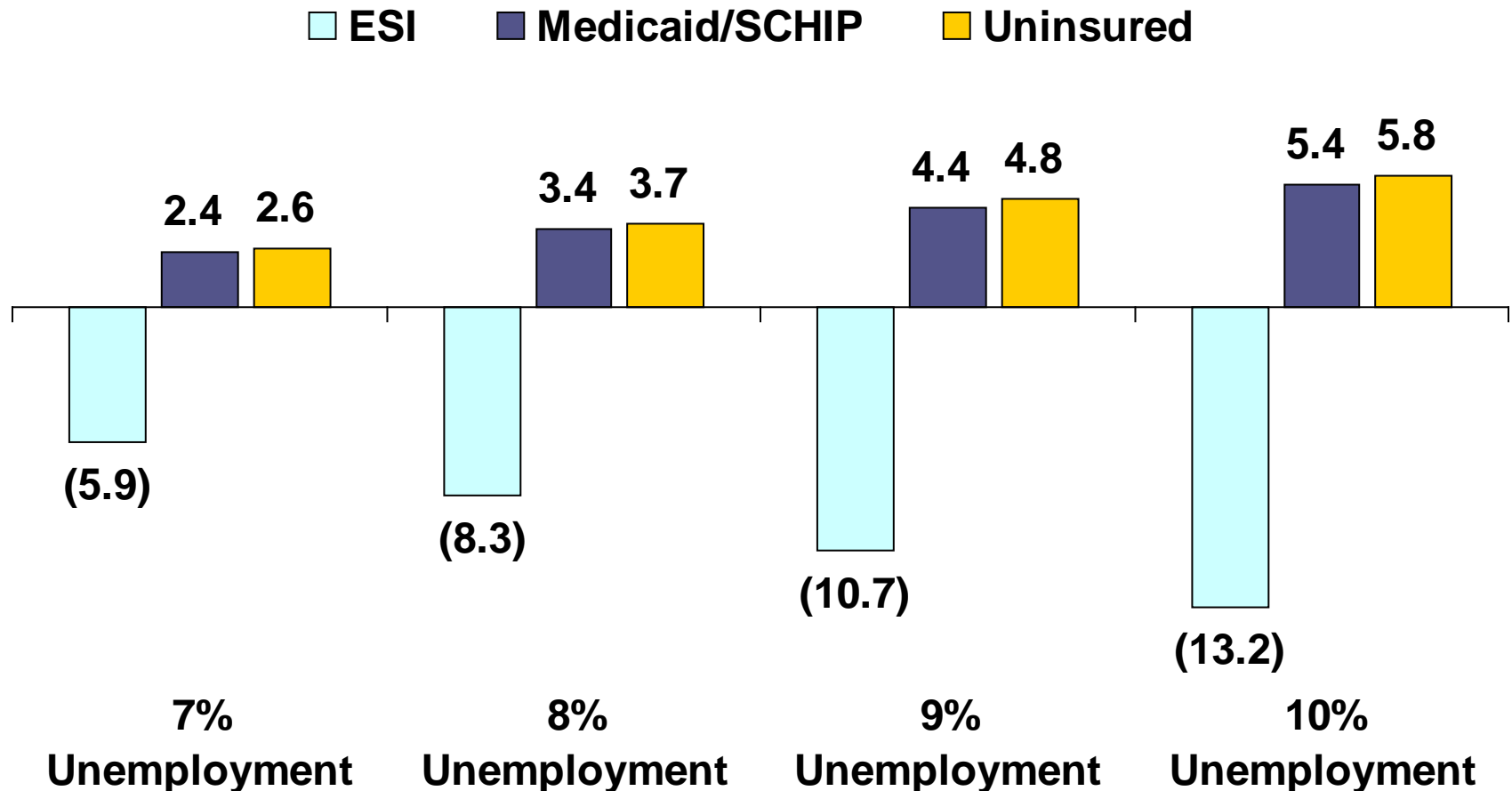
- A one percentage point increase in the unemployment rate leads to a 3 to 4 percent decline in state revenues, (unpublished results, Kim Rueben, Urban Institute)
  - ❖ Assuming states must balance their budgets and that all state spending would be cut proportionately, Medicaid and SCHIP would face 3-4 percent cuts
- Revenue loss is thus a bigger fiscal problem than increased enrollment

# What Are Options For Providing States Fiscal Relief Through Medicaid?

- Uniform FMAP increase for all states with the amount and duration defined by Congress
- Provide federal funds based on changes in unemployment
  - ❖ Assistance varies with the depth and length of individual states economic distress
  - ❖ Funds should be sufficient to offset state costs associated with increased enrollment AND the Medicaid share of the projected revenue loss

# 2009 Changes in Coverage at Different Levels of Unemployment (Base of 4.6% in 2007)

Millions of People



# 2009 Changes in Financing for Medicaid at Different Levels of Unemployment (Base of 4.6% in 2007)

Billions of People

■ State Share    ■ Federal Share



Increased Coverage

2.4 Million

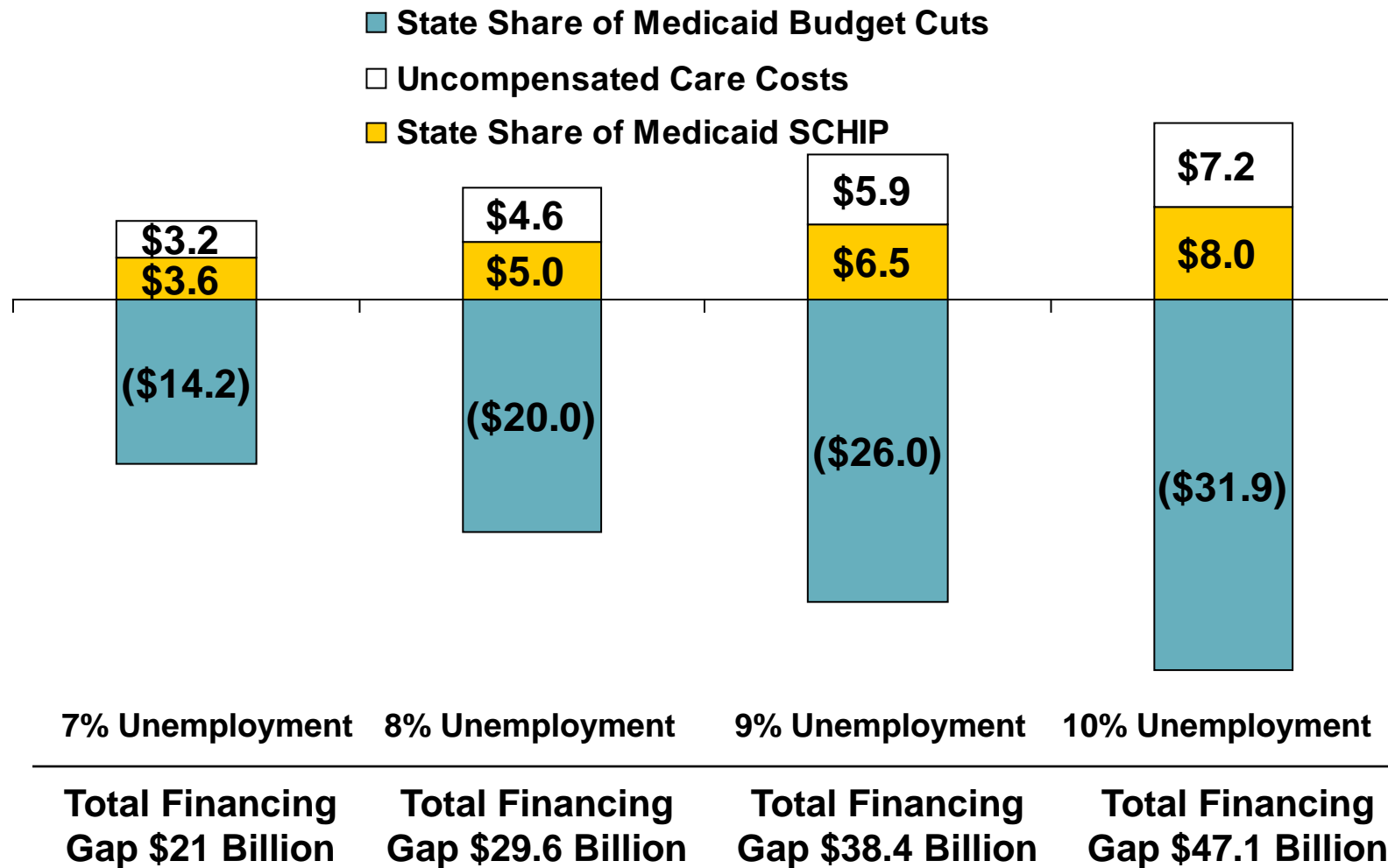
3.4 Million

4.4 Million

5.4 Million

# 2009 Changes in State Financing at Different Levels of Unemployment (Base of 4.6% in 2007)

Billions of Dollars



# Medicaid FMAP Provisions in ARRA

- Timing and amount of Medicaid FMAP relief
  - \$87 billion
  - Relief for 10/1/08 – 12/31/2010
- 3 components
  - Hold harmless (no state would see a drop in FMAP)
  - Base increase of 6.2 percentage points
  - Additional assistance based on unemployment– reduces state share if 3 month average unemployment rate exceeds January 2006 rate by
    - 1.5 – 2.5 percentage points, state share reduced by 5.5 percent
    - 2.5 – 3.5 percentage points, state share reduced by 8.5 percent
    - 3.5+ percentage points, state share reduced by 11.5 percent
- State requirements to receive the funds:
  - Cannot have more restrictive eligibility levels or standards than 7/1/2008 (or come into compliance by July 1, 2009)
  - Cannot deposit funds in a reserve or rainy day fund
  - Additional FMAP must be for eligible expenditures

# Conclusions

- ARRA Provides Significant Help to States – \$87 billion in total, \$15.2 billion allocated by March 31, 2009
- Assistance better targeted than in previous recession
- Too soon for evidence of effects
- What about 2011?