



Michigan League FOR Human Services

January 2010

## Billions in Federal Recovery Funds Rescue Medicaid Through Increased Federal Medicaid Participation Rates

The American Recovery and Reinvestment Act (ARRA) of 2009 brought extensive federal fiscal relief to states in many forms, including an increased federal matching rate for Medicaid services. The federal matching rate, known as the Federal Medical Assistance Percentage or FMAP, is calculated annually to determine the federal government's share of the total cost of Medicaid program services (the administrative costs are generally reimbursed at 50 percent). The Recovery Act provided substantial increases to states to assist with both the rising Medicaid caseloads and the state cost of Medicaid so that states could maintain their programs during these difficult economic times.

In Michigan, the additional benefit will total over \$2.2 billion before ending in FY2011, when only one quarter of recovery funding will remain, resulting in the loss of more than \$800 million in federal funds during FY2011.

### ARRA Medicaid Match Provision

This Recovery Act provision extends from October 1, 2008 to December 31, 2010 and provides benefits to states in three different ways:

- Hold harmless provision if a state's FMAP was scheduled to decrease during

the above period, that reduction does not take effect;

- Across-the-board increase states are eligible to receive a 6.2 percentage point increase (after application of the hold harmless provision above); and
- High unemployment bonus states with high or growing unemployment are eligible to receive an additional increase based on their levels of unemployment and growth compared with January 2006. This bonus reduces the state's share of Medicaid cost (resulting in a greater federal share) from 5.5 percent to 11.5 percent, depending on the percentage increase in unemployment.

### Michigan Impact of Enhanced FMAP

Michigan's FMAP was not projected to decline, so the hold harmless provision does not apply. The other two provisions will result in billions of dollars of fiscal relief to the state. With the exception of the first two quarters of FY2009, Michigan has been at the highest unemployment bonus level, 11.5 percent. In the first two quarters of FY2009, the rate of unemployment placed the state in the middle, or 8.5 percent, state share reduction tier.

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Therefore, the adjusted federal matching percentage for FY2009 was 69.58 percent for the first two quarters and 70.68 percent for the final two quarters, a 10 percentage point increase over the pre-Recovery Act FMAP of 60.27 percent. The provisions of the Recovery Act preclude reductions in the unemployment bonus through July 1, 2010, so Michigan is guaranteed to maintain the highest possible match rate at least until July 2010 and likely through December 2010. The current federal matching percentage for FY2010 is 73.27 percent, again more than 10 percentage points above the pre-Recovery Act FMAP of 63.19 percent.

The 10 percentage point increases in federal matching funds will provide more than \$2 billion in additional federal funds over the FY2009 and FY2010 periods to provide fiscal relief to the state and to help preserve the Medicaid program in the face of rising caseloads. It is important to note that the federal Recovery Act includes restrictions on reducing Medicaid eligibility (states are precluded during the period of receipt of enhanced FMAP) and on creating barriers to the application or redetermination processes for Medicaid eligibility. It does not, however, preclude reductions in Medicaid services or payment rates (both of which were included in the FY2010 Medicaid budget).

### **Loss of Enhanced Funding**

When the Recovery Act FMAP provisions expire on December 31, 2010, the state will return to its pre-Recovery Act FMAP, resulting in a projected decline of nearly 10 percentage points in its federal matching rate for Medicaid. The loss of federal funds will occur even though the caseload is likely to continue growing due to

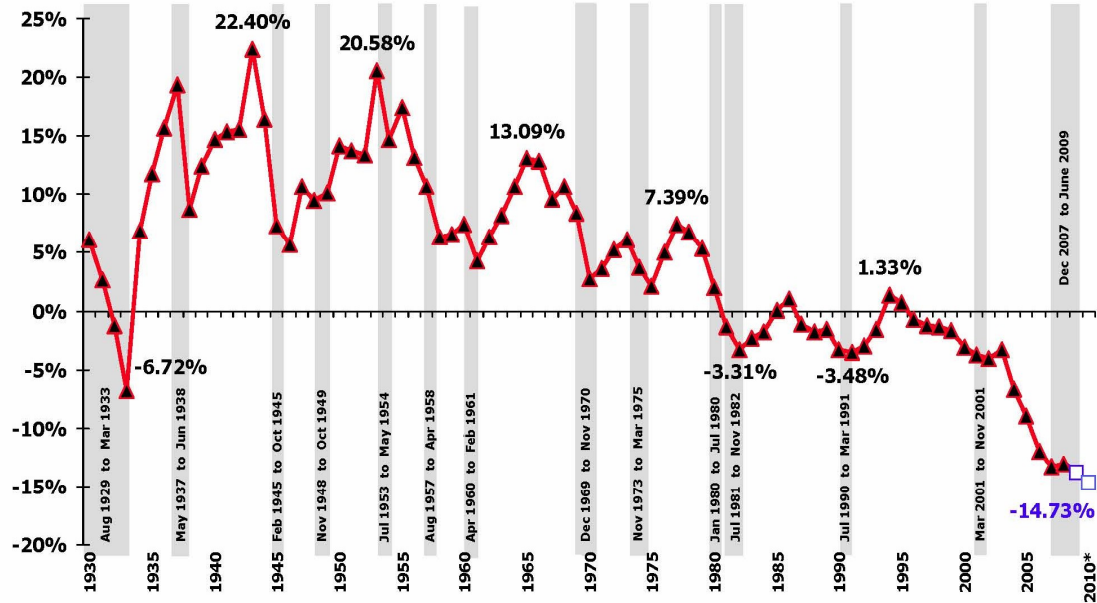
the high rate of unemployment resulting in the ongoing loss of employer-sponsored health care coverage. This 10 percentage point decline for the last three quarters of FY2011 will translate to an estimated loss of over **\$800 million** in federal funds, requiring an equal amount of state funds to offset the loss to maintain program funding.

There is a growing recognition that the elimination of this critical federal support while states' economic conditions are so tenuous – with continued growing unemployment and declining state revenues – could be devastating to critical state programs as deep cuts would likely be made to balance state budgets. Potential program reductions or eliminations would be devastating to those in need of the services, as well as to state economies as program cuts translate to job losses. Mark Zandi, Chief Economist of Moody's Economy.com, estimates that without additional federal assistance, states will need to take actions to close FY2011 budget deficits that could result in the loss of 900,000 jobs.

In Michigan, assuming a return to the "regular" FMAP, the Senate Fiscal Agency, following the January Consensus Revenue Estimating Conference, is projecting a \$1.2 billion revenue shortfall to fund the state's public programs and services. Additional federal aid could save critical programs. Preliminary discussions are under way in Washington to consider continuation of the enhanced federal matching provisions through at least June 30, 2011. Another option under consideration is to phase out the reduction to provide continuing federal aid to states to offset declining state revenues as their Medicaid caseloads continue to rise.



# Michigan Per Capita Income Deviation from National Average



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Source: National Bureau of Economic Research

\*2009, and 2010 are Estimates

December 2009

## Conclusion

The trends reflected in the above chart indicate that Michigan's federal matching percentage will continue to increase for the foreseeable future. Each percentage point increase in the FMAP provides roughly \$100 million in additional federal funds. This is good news in that it brings federal dollars to Michigan's economy, but very bad news because it means Michigan's per capita

income is in a downward slide compared to the nation.

The likely increases in the state's Medicaid federal matching rate confirm the economic importance of maintaining state funding for the Medicaid program in these unprecedented times, rather than making devastating program cuts for relatively small state savings.