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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 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.

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 that 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 eould 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 states 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 phaseout the reduction to provide continuing federal aid to states to offset declining state revenues as their Medicaid caseloads continue to rise.

Michigan's Regular FMAP Will Increase with the Lagging Economy

The FMAP calculation is based on a three-year average of state per capita personal income compared to the national average. The lowest federal matching share is 50 percent, with states with personal incomes about the national average receiving a 55 percent federal share.

Michigan historically hovered around 55 percent to 56 percent, but in FY2008, the FMAP increased to 58.10 percent and has continued to climb in the face of stagnant or declining personal income growth. The following table provides an historical perspective of Michigan s federal matching rates.

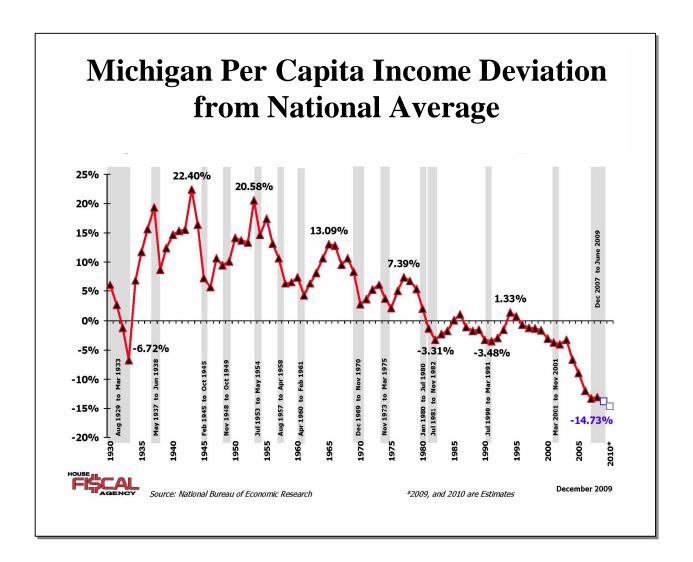
Federal Medical Assistance	ce Percentage
for Michigan FY1996	FY2011*

Fiscal Year	Regular Percentage	Enhanced Percentage**
1996	56.77%	
1997	55.20%	
1998	53.58%	
1999	52.72%	
2000	55.11%	
2001	56.18%	
2002	56.36%	
2003	55.42%	59.31%
2004	55.89%	58.84%
2005	56.71%	
2006	56.59%	
2007	56.38%	
2008	58.10%	
2009	60.27%	70.13%
2010	63.19%	73.27%
2011*	65.79%	
* Projected.	**Federal Increases Provided.	

Michigan s'per capita income, compared with the national average, began to slide in the early 2000s, and according to the House Fiscal Agency, is projected to be nearly 15 percent below the national average by 2010. Over the 2000 2008 period, Michigan lost the greatest share of national personal income at 16 percent. Ohio had the next greatest loss at 11 percent. Because the three-year rolling average per capita income, used to compute the FMAP, lags several years behind the year being computed, when economic conditions in a state change for the worse, it takes several years before it is reflected in the state s'federal matching percentage.

The FY2010 FMAP is based on average per capita incomes from calendar years 2005 – 2007, a lifetime ago in terms of Michigan s' escalating unemployment and declining revenues. The initial projection for the FY2011 regular FMAP is 65.79 percent, a remarkable increase from just 5 years ago when Michigan s' matching percentage was 56.38.

The chart on the next page, prepared by the House Fiscal Agency, depicts Michigan s per capita income decline compared to the national average for the period 1969—2008. From 1969—4980, Michigan s per capita income exceeded the national average. From 1981—2001, Michigan s per capita income bounced around the national average, some years a little (1.3%) above, some years a little (3.5%) below. Since 2002, however, there has been a steady decline, leading to the current projection of 15 percent below the national average in 2010.



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.