Issues for a Countercyclical Federal Medical Assistance Percentage

Medicaid and CHIP Payment and Access Commission

Moira Forbes

Overview

- Background on the federal medical assistance percentage (FMAP) and Medicaid financing
- FMAP adjustments in response to prior recessions
- Design considerations
- Other policy issues
- Discussion

Federal Medical Assistance Percentage

- Federal share for most health care services is determined by the FMAP (adjusted annually)
- Higher reimbursement to states with lower per capita incomes relative to national average
  - Intended to reflect states' differing abilities to fund Medicaid from their own revenues
  - Averages three years of data to minimize fluctuations
  - Alternatives to per capita income have been suggested
- Statutory minimum of 50 percent and maximum of 83 percent; highest FMAP in fiscal year (FY) 2020 is 76.98 percent

Demand for Medicaid is Countercyclical to Economic Growth

- Enrollment and spending increase when there is a downturn in the economic cycle
  - decrease in number of employers offering health benefits
  - increase in number of unemployed people
- States have less revenue to pay for coverage during a recession but cannot run deficits
- Annual FMAP updates do not take into account recent changes in per capita income

Temporary Increases to FMAP in Response to Past Downturns

- During the past two major recessions, Congress has enacted stimulus packages that included additional FMAP
  - help support the additional demand for Medicaid
  - direct federal funds into local economies quickly via provider payments
- States did not need to make programmatic adjustments in order to access federal funds
- Need for congressional action meant stimulus funds were not available until months after recession began

Design Considerations for Creating an Automatic FMAP Adjustment

- Specific economic indicator to trigger an increase
- When to start and end the increase
- Whether increase should be standard or vary by state
- Whether to pair other program changes with FMAP adjustment
- Each choice affects the timing and magnitude of changes in federal expenditures and state stimulus

Choosing a Measure to Identify an Economic Downturn

- Recession generally defined as declining gross domestic product (GDP) across two or more quarters
- Important factors for measure include timeliness and availability of data, correlation to changes in state revenue and Medicaid enrollment
- Per capita income, GDP, sales tax collections, and unemployment measures have all been proposed
  – could be used alone or in combination

Threshold for Starting and Stopping an Increase

- Automatic FMAP adjustment needs threshold to trigger and to stop/ resume regular FMAP
  - should be able to respond to changing conditions in a timely way but not trigger frequently
- Return to regular FMAP can happen at once or phase in over time
- Key decision is whether FMAP adjustments will be made on a national or state level

Structuring FMAP Increases

- Flat increase for all states, variable increase depending on state-level factors (e.g., unemployment rate), or a combination/stacked increase
- Upper bound or cap, regardless of formula (e.g. 90 percent)
- Mechanisms to ensure that funds are used for intended purposes (e.g., maintenance of effort, reporting requirements)

Other Considerations

- Treatment of FMAP for childless adults
  - Adult expansion group receives 90 percent FMAP
  - Coverage available through state plan and provides countercyclical option not previously offered
- Treatment of CHIP
  - CHIP enhanced FMAP (E-FMAP) based on Medicaid FMAP; Congress has not raised E-FMAP in past recessions
  - Unlike Medicaid, CHIP has fixed annual allotments and an FMAP increase would result in faster drawdown
- Problems with FMAP formula
  - Countercyclical FMAP adjustment would not address concerns with base formula

Discussion

- Questions about policy and design issues
- Commissioner discussion
- Next steps

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