Considerations for Designing Automatic Medicaid Financing Changes in Times of Crisis

Medicaid and CHIP Payment and Access Commission

Moira Forbes

Overview

- Refresher on the federal medical assistance percentage (FMAP)
- Medicaid as a countercyclical financing mechanism
  - Automatic stabilizer
  - Fiscal stimulus
- Design considerations
- 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 2020 is 76.98 percent

Medicaid as an Automatic Stabilizer

- Automatic stabilizers are fiscal policies that offset cyclical changes in economic activity without additional governmental intervention
- Demand for Medicaid is countercyclical to economic growth
  – Enrollment and spending increase when there is a downturn in the economic cycle

Medicaid as an Automatic Stabilizer

- Medicaid functions as an automatic stabilizer
  - Federal spending automatically increases in proportion to increases in state spending
- Financing rules limit its effectiveness
  - States must continue to contribute, have less revenue in a downturn but cannot run deficits
  - Annual FMAP updates do not take into account recent changes in per capita income

Medicaid as a Fiscal Stimulus

- Fiscal stimulus is the use of specific policy changes to encourage economic growth during a recession
- Enacted in response to present economic conditions and can be designed to address particular needs or goals
- Requires legislative consensus on need for action, time to enact law and distribute funds

Examples of Fiscal Stimulus

- March 2001– November 2001 recession
  - Increased each state's FMAP by 2.95 percent for 5 quarters beginning in June 2003
- December 2007 – June 2009 recession
  - Increased each state's FMAP by 6.2 percent for 9 quarters beginning in October 1, 2008, with additional increases for states with high unemployment
- Disaster Adjusted Recovery FMAP
  - Adjusts a state's FMAP upward if the state experienced a statewide, major disaster and the annual FMAP calculation results in a decrease in FMAP of 3 percentage points or more

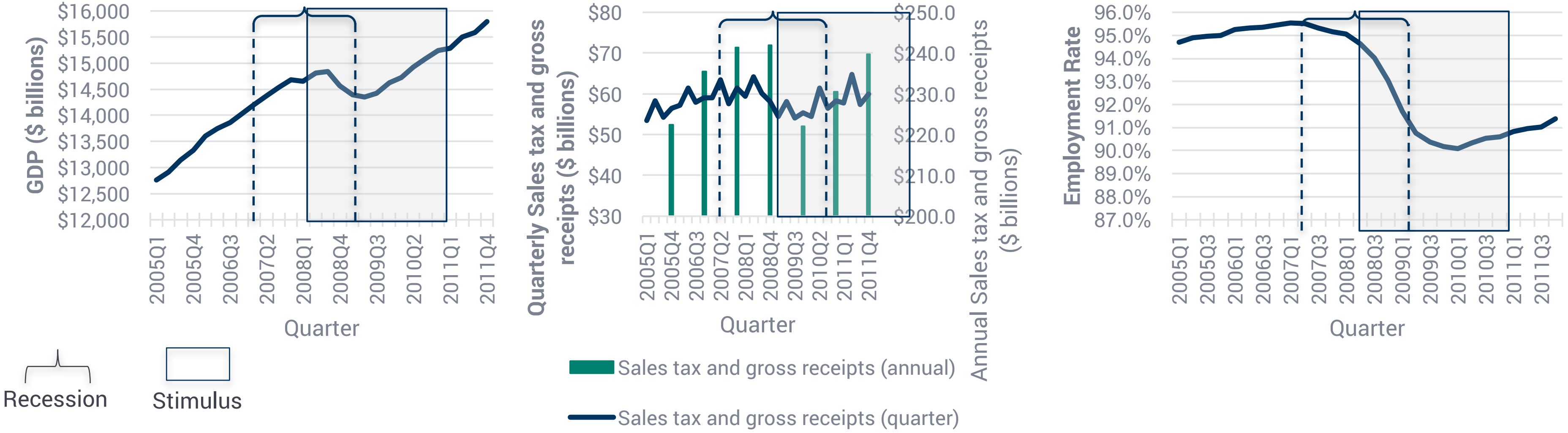
Design Considerations for Creating an Automatic FMAP Adjustment

- Policy choices affect technical design considerations
  - Whether to trigger an increase based on national conditions or state-level factors
  - Whether an increase should be the same for all states or vary based on state-level factors
  - Whether an increase should be based on robust data (automatic stabilizer) or activate quickly (stimulus)

Technical Design Decisions

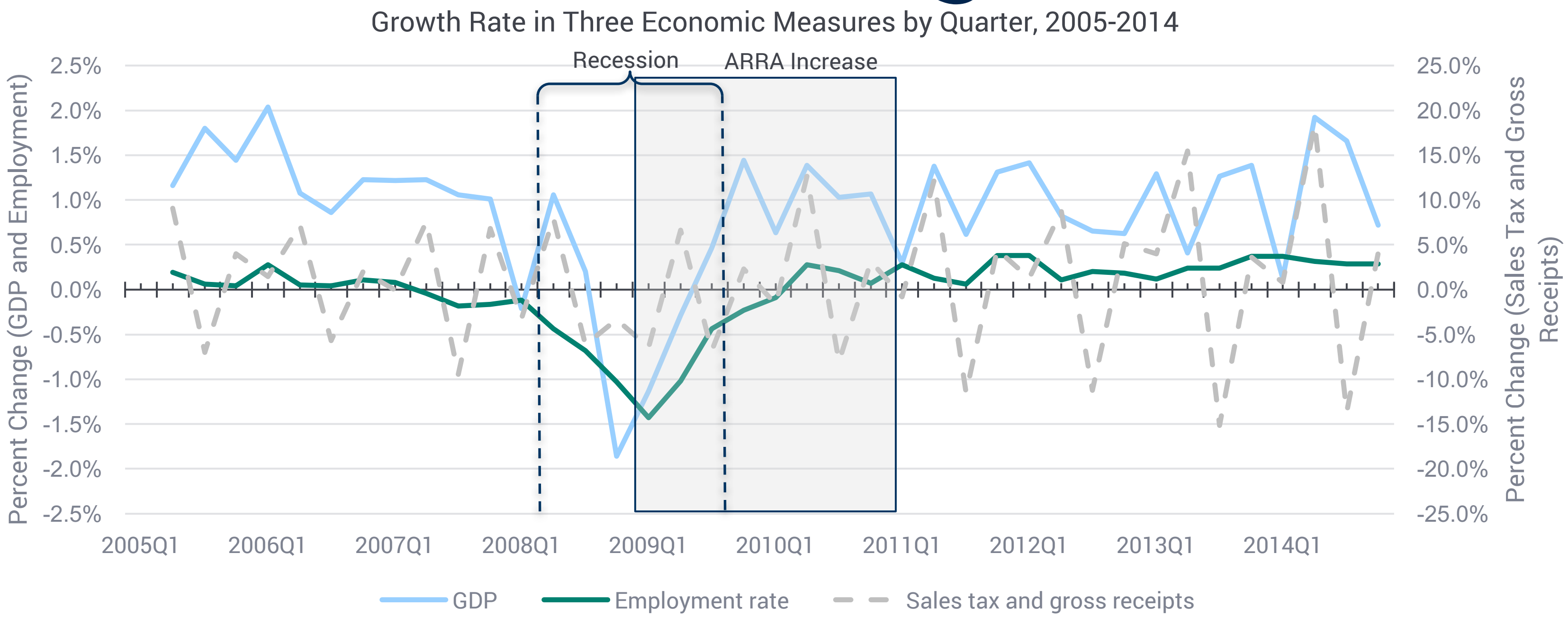
- Once policy choices are made, technical design decisions can be made to support preferred options
  - How to identify a downturn that triggers an increase
  - When to start and end an increase in federal funds
  - Whether the increase should vary by state or not
- Each decision affects the timing and magnitude of changes in federal spending, effects on the economy

Measures to Identify a Downturn



Notes: ARRA is the American Recovery and Reinvestment Act (ARRA P.L. 111-5). GDP is gross domestic product. The National Bureau of Economic Research declared a recession between December 2007—June 2009. ARRA increased states' FMAP between October 2008—December 2010.
Sources: MACPAC analysis of Bureau of Economic Analysis, 2020, SQGDP2 Quarterly GDP by state: all industry total (millions of current dollars); U.S. Bureau of Labor Statistics, 2020, Local area unemployment statistics: monthly employment status of the civilian noninstitutional population, seasonally adjusted; U.S. Census Bureau, 2020, Quarterly summary of state and local tax revenue table 3: State tax collections by state/type of tax.

Threshold for Starting an Increase



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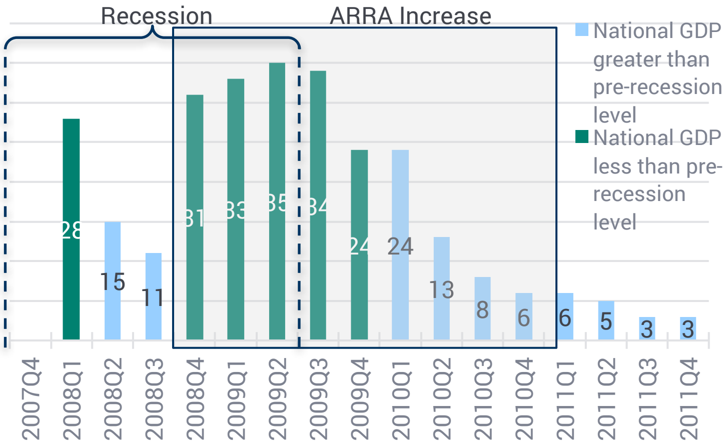
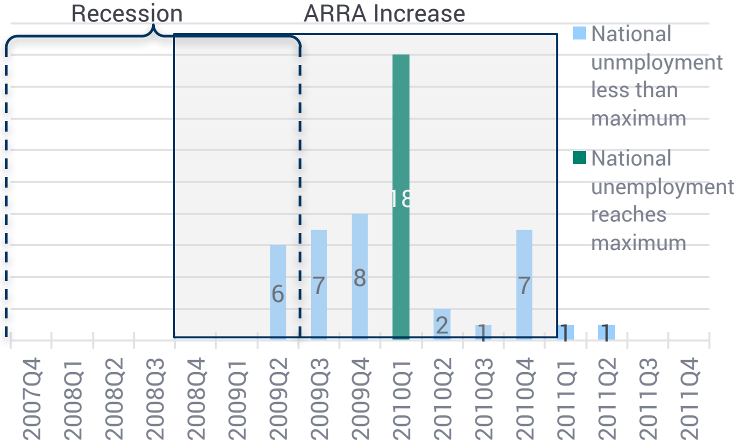
National or State-Level Indicators

Count of States with Quarterly GDP less than Pre-Recession Level, 2008–2011



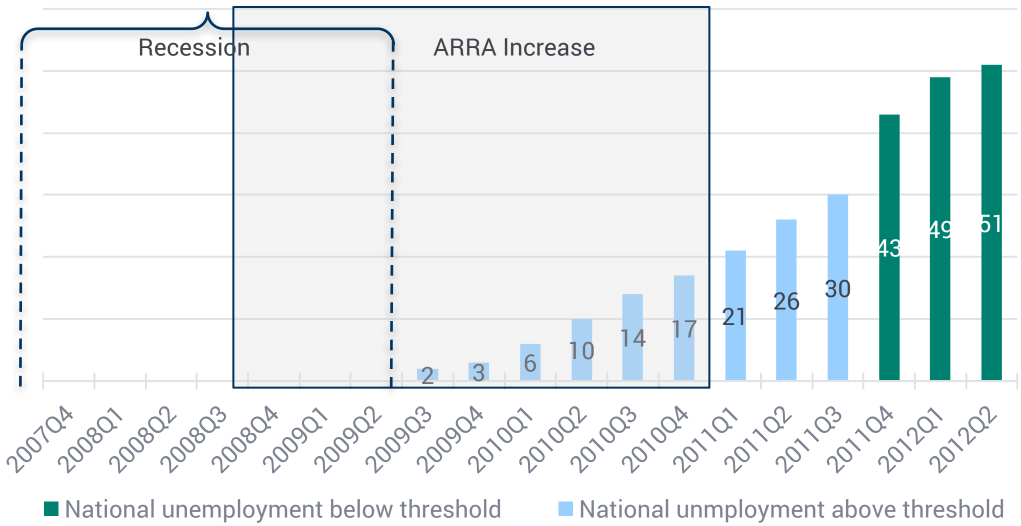
Count of States Reaching Maximum Unemployment Rate During the Quarter, 2008–2011



Notes: ARRA is the American Recovery and Reinvestment Act (ARRA P.L. 111-5). GDP is gross domestic product. The National Bureau of Economic Research declared a recession between December 2007—June 2009. ARRA increased states' FMAP between October 2008—December 2010. For purposes of this graph, pre-recession level was set at the GDP in the 4th quarter of 2007.
Source: MACPAC analysis of Bureau of Economic Analysis, 2020, SQGDP2 Quarterly gross domestic product (GDP) by state: all industry total (millions of current dollars) and U.S. Bureau of Labor Statistics, 2020, Local area unemployment statistics: monthly employment status of the civilian noninstitutional population, seasonally adjusted.

Threshold for Ending an Increase

Cumulative Number of States Below High Unemployment Threshold by Quarter, 2008–2012



Notes: ARRA is the American Recovery and Reinvestment Act (ARRA P.L. 111-5). The National Bureau of Economic Research declared a recession between December 2007—June 2009. ARRA increased states' FMAP between October 2008—December 2010. For purposes of this graph, pre-recession level was set at the GDP in the 4th quarter of 2007. The high unemployment threshold was set at the 75th percentile plus one percentage point of the state's unemployment rates between the 2005—2019.
Source: MACPAC analysis of U.S. Bureau of Labor Statistics, 2020, Local area unemployment statistics: monthly employment status of the civilian noninstitutional population, seasonally adjusted.

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