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Estimating the Effects of a Prototype Countercyclical Financing Adjustment for Medicaid

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Medicaid and CHIP Payment and Access Commission

Moira Forbes and Chris Park

Overview

- Background
- GAO countercyclical prototype formula
- Applying the GAO formula
- Effects of the GAO formula

Countercyclical Program Financing

- Medicaid is a countercyclical program
  - Enrollment and spending increase during economic downturns due to growth in low-income population, loss of employer-sponsored insurance
- Medicaid spending automatically adjusts in response to economic fluctuations but the FMAP formula does not
  - States may vary in their ability to generate revenue to finance the state share of increased Medicaid expenditures, particularly during a recession
- An automatic countercyclical adjustment to the FMAP formula could account for both increased enrollment in Medicaid and decreased state revenue, each of which may vary by state

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Automatic FMAP Adjustments

- Many policy choices in structuring an automatic FMAP adjustment:
  - whether to provide an increase to all states, base it on national or state-level economic conditions
  - if an increase goes to all states, whether it should vary based on state-level factors
  - whether an increase should be triggered easily or whether it should be based on robust trend data
- Policy preferences influence technical design decisions
  - What economic indicators to use
  - How to determine the starting point and duration of a change in the federal share

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GAO Countercyclical Prototype Formula

GAO Prototype Countercyclical Financing Model

- Following the 2008 recession, GAO proposed a countercyclical FMAP formula that would use national indicators to trigger a temporarily enhanced FMAP
- GAO proposal makes the following policy choices:
  - starting an increase based on national economic conditions
  - varying assistance based on state-level factors
  - using data that is available more quickly than that used in the FMAP formula, to allow a faster response to state Medicaid needs

Trigger to Start Assistance

- Need an indicator to identify the start of an economic downturn
  - Signal a downturn quickly but not be so sensitive that small changes trigger frequent adjustments
  - Correlate to state need, demand for Medicaid
- GAO prototype uses unemployment data
  - Compares each state's three-month average employment-to-population ratio to the prior year
  - Triggers an FMAP increase if there is a decline over two consecutive months in 26 states or more

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Targeting Assistance

- Need to decide whether assistance should vary by state and how much to provide
- GAO prototype uses a formula with two state-specific factors:
  - increases in state unemployment (as a proxy for increased Medicaid enrollment)
  - reductions in total wages and salaries (as a proxy for decreased revenues to support state Medicaid programs)
- GAO formula decreases state share by the corresponding increase in the unemployment rate or decrease in state wages and salaries
  - E.g., 10 percent increase in unemployment = 10 percent decrease in state share, or 4 percentage points for a state with a 60 percent FMAP

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Ending Assistance

- Need an indicator to determine when to return to regular FMAPs
  - Factors for consideration are similar to those that would trigger an FMAP increase (e.g., sensitivity, correlation to state need)
  - States benefit from time to plan for changes in the financing formula
- GAO prototype uses the inverse of the starting trigger
  - Compares each state's three-month average employment-to-population ratio to the prior year
  - Triggers an end to the FMAP increase if there is no longer a decline over two consecutive months in fewer than half the states

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Applying the GAO Prototype Formula to the Current Situation

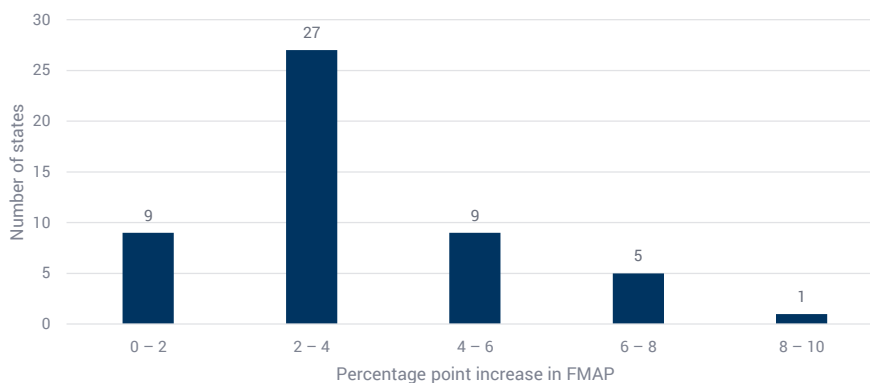# Modeling GAO Prototype Formula

- Prospective calculation using most recent data available at the beginning of an assistance quarter
  - State-level employment and unemployment data from the Bureau of Labor Statistics (BLS) through June 2020
  - State-level quarterly personal income data from the Bureau of Economic Analysis (BEA) through January–March 2020
- Majority of states experienced a decrease in the average employment-to-population ratio in March and April 2020
  - Assistance period would go into effect for the quarter beginning on July 1

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Unemployment Assistance Component

Number of States by Percentage Point Increase in FMAP Due to Unemployment Assistance Component under GAO Model, July–September 2020

Note: FMAP is federal medical assistance percentage. GAO model is the prototype formula proposed in the U.S. Government Accountability Office's (GAO) November 2011 report.
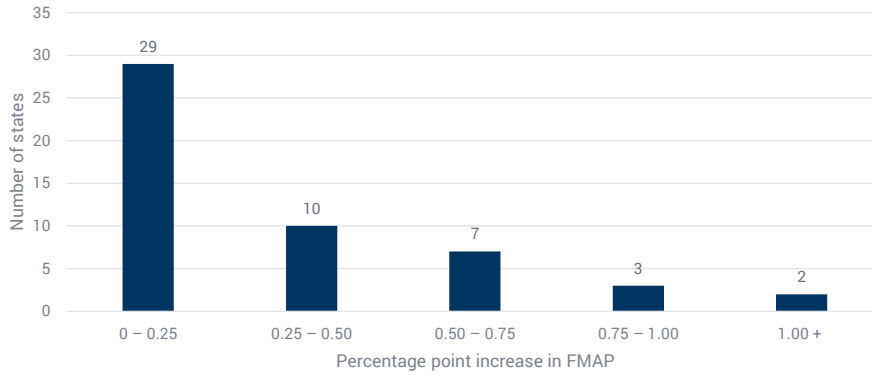**Sources:** MACPAC, 2020, analysis of Bureau of Labor Statistics Local Area Unemployment Statistics, as of July 17, 2020 and MACStats, Exhibit 6: Federal Medical Assistance Percentages and Enhanced FMAPs by State, FYs 2017–2021; GAO, 2011, Improving responsiveness of federal assistance to states during economic downturns, Report no. GAO-11-395.

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Wage and Salary Assistance Component

Number of States by Percentage Point Increase in FMAP Due to Wage and Salary Assistance Component under GAO Model, July–September 2020

Note: FMAP is federal medical assistance percentage. GAO model is the prototype formula proposed in the U.S. Government Accountability Office's (GAO) November 2011 report.
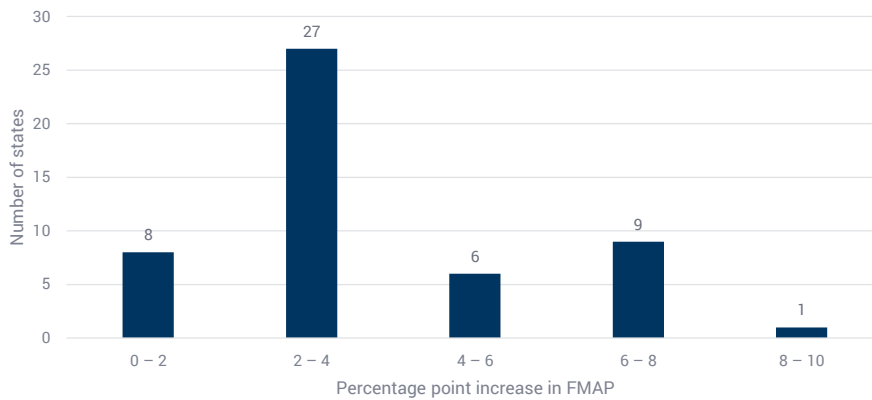**Sources:** MACPAC, 2020, analysis of Bureau of Economic Analysis state quarterly personal income data, as of June 23, 2020 and MACStats, Exhibit 6: Federal Medical Assistance Percentages and Enhanced FMAPs by State, FYs 2017–2021; GAO, 2011, Improving responsiveness of federal assistance to states during economic downturns, Report no. GAO-11-395.

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Overall FMAP Increase

Number of States by Percentage Point Increase in FMAP Under the GAO Model, July–September 2020

Note: FMAP is federal matching assistance percentage. GAO model is the prototype formula proposed in the U.S. Government Accountability Office's (GAO) November 2011 report.
Sources: MACPAC, 2020, analysis of Bureau of Labor Statistics Local Area Unemployment Statistics, as of July 17, 2020, Bureau of Economic Analysis state quarterly personal income data, as of June 23, 2020 and MACStats, Exhibit 6: Federal Medical Assistance Percentages and Enhanced FMAPs by State, FYs 2017–2021; GAO, 2011, Improving responsiveness of federal assistance to states during economic downturns, Report no. GAO-11-395.

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Effects of the GAO Countercyclical Prototype Formula

# Estimating the Effects of the GAO Model on FY 2020 Spending

- We used the model from our June 2020 issue brief on *Considerations for Countercyclical Financing Adjustments in Medicaid*
- Used CMS-37 data to estimate state-level per capita costs for major eligibility groups and state share
  - These projections are from February 2020 and do not incorporate estimates of spending changes due to the pandemic
- Applied three enrollment scenarios modeled by HMA
  - Low: 5 million new enrollees by the end of FY 2020
  - Medium: 11 million new enrollees by the end of FY 2020
  - High: 16 million new enrollees by the end of FY 2020
- Focused on fiscal year (FY) 2020 and the effects due to increased FMAPs that would go into effect during the quarter beginning July 1(4th quarter)

Medicaid Benefit Spending under GAO Model

Federal and State Medicaid Benefit Spending with GAO Model Increase under Different Enrollment Growth Scenarios, Fiscal Year 2020
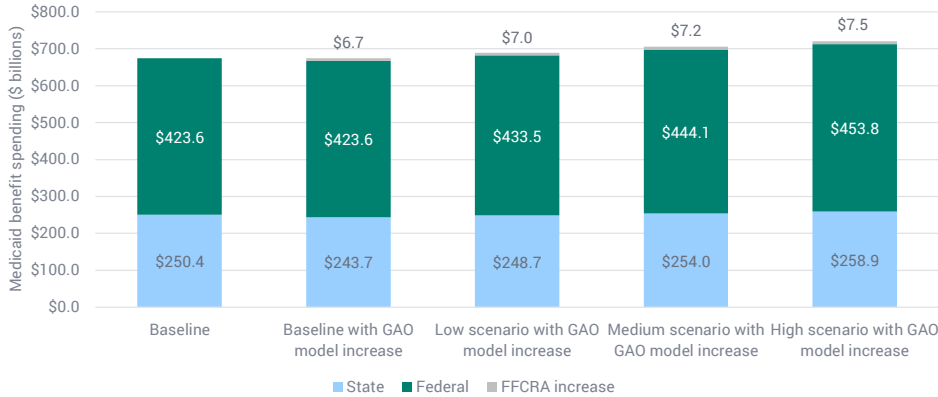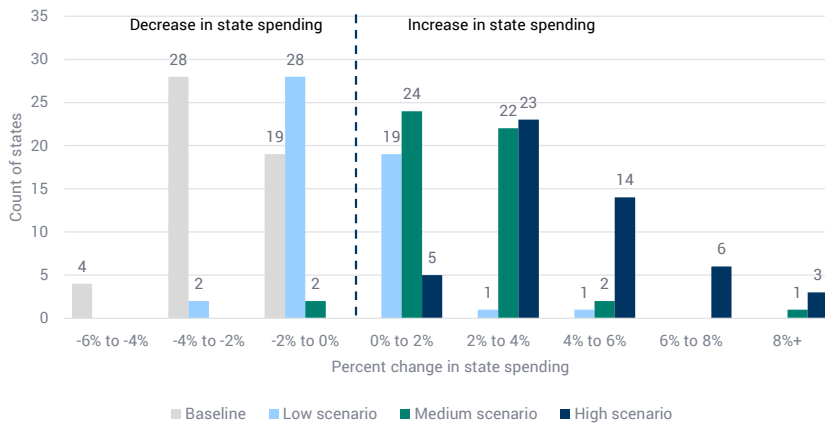

Notes and Sources (1)

Change in State Spending under GAO Model

Number of States by Percent Change in State Share with GAO Model Increase under Different Enrollment Growth Scenarios, FY 2020
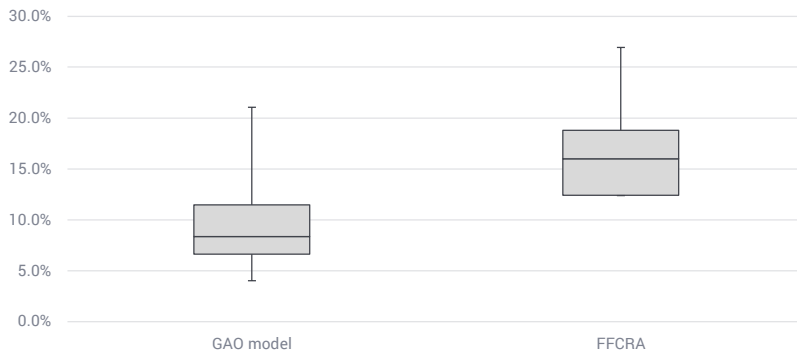

Notes and Sources (2)

Effects of GAO Model Compared to Families First Coronavirus Response Act (FFCRA)

Distribution of Decrease in State Spending in 50 States plus DC under GAO Model and FFCRA, July–September 2020

Notes and Sources (3)

Summary of Effects of GAO Model

- Majority of states (36) receive between a 2–6 percentage point increase in FMAP under the GAO model for fourth quarter of FY 2020
- GAO model would have reduced FY 2020 state spending for all states between 1.0 and 4.8 percent compared to the baseline
  - 30 states would still experience a decrease in state spending under the low enrollment growth scenario
- FFCRA would provide more fiscal relief to states in the aggregate than the GAO model for FY 2020
  - Under the GAO model, 42 states would receive an FMAP increase lower than the 6.2 percentage points under the FFCRA
  - The FFCRA would provide more quarters of assistance in FY 2020 than the GAO model

Pros and Cons of GAO Model

- Automatic FMAP adjustment does not depend on congressional action
    - GAO model would have provided more timely assistance during the 2007–2009 recession than the American Recovery and Reinvestment Act of 2009 (ARRA)
- GAO model maintains assistance until the majority of states show improvement in employment levels, instead of a fixed date
    - After the 2007–2009 recession, GAO model would have provided assistance for a longer period than the actual ARRA assistance period
    - In current situation, economic recovery period may extend past the end of the public health emergency
- Automatic triggers in the the GAO model require data, may not respond quickly to quick or steep economic changes due to data lags

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Wrap Up

- Questions and clarifications
- Future work
- Recommendation?

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Figure Notes and Sources (1)–(2)

Notes: Excludes territories and CHIP. GAO model is the prototype formula proposed in the U.S. Government Accountability Office's November 2011 report. The baseline represents the states' projections of Medicaid funding requirements for FY 2020 submitted on the CMS-37 in February 2020. The low, medium, and high scenarios correspond to Health Management Associates' moderate, heavy, and severe scenarios respectively. Quarterly enrollment projections were averaged to estimate average monthly enrollment for the fiscal year.

Sources: MACPAC, 2020, analyses of CMS-37 Medicaid program budget report as of February 15, 2020, CMS-64 VIII group net expenditures and enrollment reports as of April 14, 2020, 2007–2013 Medicaid Statistical Information System enrollment and spending data; MACPAC, 2020, MACStats, Exhibit 6: Federal Medical Assistance Percentages and Enhanced FMAPs by State, FYs 2017–2021; OACT, CMS, 2020, 2018 Actuarial report on the financial outlook of Medicaid, https://www.cms.gov/files/document/2018-report.pdf; Health Management Associates, 2020, *COVID-19 impact on Medicaid, Marketplace, and the uninsured, by State*, April 3, 2020; Bureau of Labor Statistics Local Area Unemployment Statistics, as of July 17, 2020; Bureau of Economic Analysis state quarterly personal income data, as of June 23, 2020; GAO, 2011, *Improving responsiveness of federal assistance to states during economic downturns*. Report no. GAO-11-395.

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Figure Notes and Sources (3)

Notes: Excludes territories and CHIP. GAO model is the prototype formula proposed in the U.S. Government Accountability Office's November 2011 report. FFCRA is Families First Coronavirus Response Act (FFCRA, P.L. 116-127). The FFCRA provides a temporary 6.2 percentage point FMAP increase during a public health emergency for each calendar quarter occurring during the period beginning on the first day of the public health emergency period, as defined in Section 1135(g)(1)(B) of the Social Security Act (the Act), and ending on the last day of the calendar quarter in which the last day of such emergency period occurs. The Secretary's determination that a public health emergency exists was issued on January 31, 2020 with an effective date of January 27, 2020, meaning the FMAP increase is effective January 1, 2020.

Sources: MACPAC, 2020, analyses of CMS-37 Medicaid program budget report as of February 15, 2020, CMS-64 VIII group net expenditures and enrollment reports as of April 14, 2020, 2007–2013 Medicaid Statistical Information System enrollment and spending data; MACPAC, 2020, MACStats, Exhibit 6: Federal Medical Assistance Percentages and Enhanced FMAPs by State, FYs 2017–2021; OACT, CMS, 2020, 2018 Actuarial report on the financial outlook of Medicaid, https://www.cms.gov/files/document/2018-report.pdf; Health Management Associates, 2020, *COVID-19 impact on Medicaid, Marketplace, and the uninsured, by State*, April 3, 2020; Bureau of Labor Statistics Local Area Unemployment Statistics, as of July 17, 2020; Bureau of Economic Analysis state quarterly personal income data, as of June 23, 2020; GAO, 2011, *Improving responsiveness of federal assistance to states during economic downturns*. Report no. GAO-11-395.

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