MACPAC

# A Countercyclical Medicaid Financing Adjustment: Moving towards Recommendations


## Medicaid and CHIP Payment and Access Commission

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# Overview

- Background
  - Permanent countercyclical financing mechanisms
  - GAO countercyclical prototype formula
- Comparison of statutory and automatic FMAP approaches
- Takeaways
- Options for recommendations
- Next steps

# 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

# Objectives for a Permanent Financing Mechanism

- Commissioners identified several objectives for an automatic countercyclical financing mechanism:
  - It should be automatic, with objective, timely indicators that trigger changes in federal assistance without the need for additional Congressional intervention
  - It should have a trigger or threshold that can signal the beginning or end of an economic downturn quickly, but not be so sensitive that small fluctuations trigger frequent adjustments
  - Additional financing for states should be targeted based on state-level factors

# GAO Countercyclical Model Features

- Following the 2008 recession, GAO proposed a formula to trigger a temporarily enhanced FMAP
- We compared key features of the GAO model to Commissioners' objectives:
  - automatic: starts and ends FMAP increase based on changes in state-level economic conditions in more than half the states
  - sensitive: uses three-month averages and year-over-year comparisons to balance timeliness and robustness
  - targeted: FMAP increase varies based on state-level factors

# Applying the GAO Model to the Real World

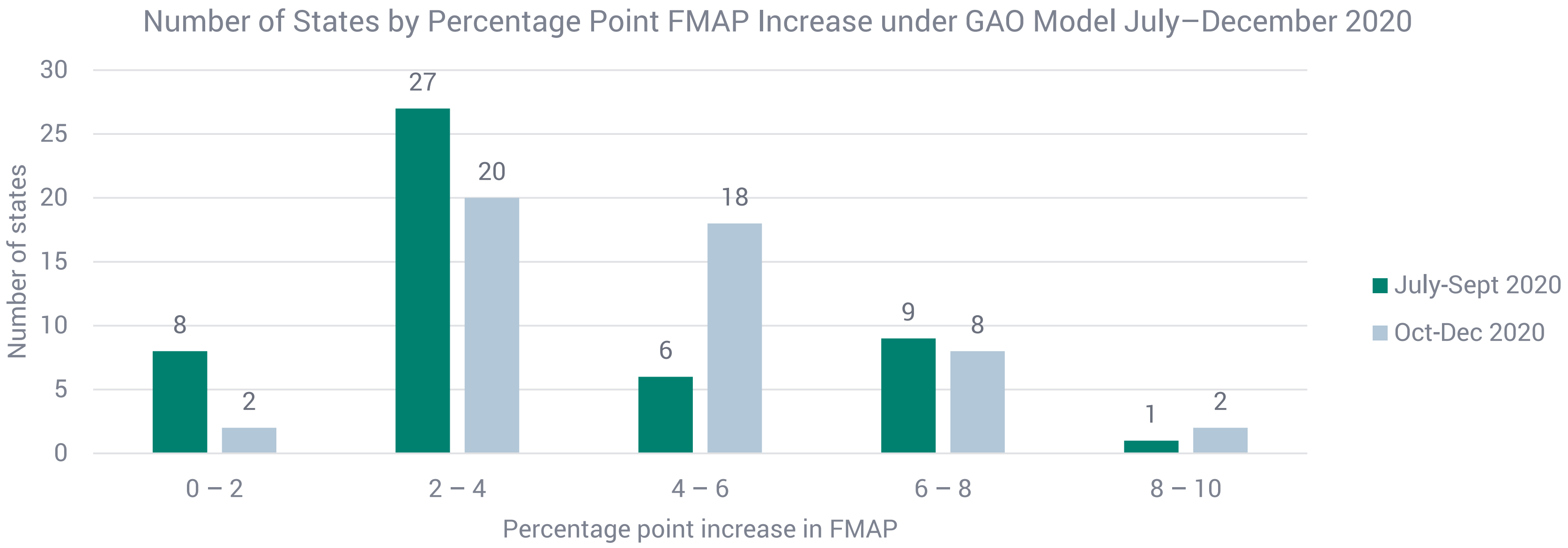
- There have been four major recessions since 1990 (July 1990–March 1991, March 2001–November 2001, December 2007–June 2009, and February 2020 to the present)
- Congress authorized temporary Medicaid FMAP increases starting in 2003, 2009, and 2020
- GAO model would have triggered assistance only during these recessions and not during other times

# Comparison of Statutory and Automatic FMAP Increases, 2001-present

| Design feature | March 2001 – November 2001 | | December 2007 – June 2009 | | March 2020 - present | |
|---|---|---|---|---|---|---|
| Model | JGTRRA, 2003 | GAO | ARRA, 2009 | GAO | FFCRA, 2020 | GAO |
| Enhanced FMAP start date | June 2003 | July 2001 | February 2009, retroactive to October 2008 | January 2008 | March 2020, retroactive to January 2020 | July 2020 |
| Enhanced FMAP end date | September 2005 (end of 27-month period) | September 2004 | December 2010 (end of 27-month period) | September 2011 | Unknown (end of quarter in which PHE expires) | Unknown |
| Base increase | 2.95 percent | None | 6.2 percentage points | None | 6.2 percentage points | None |
| State-specific Increase | No | Yes | Yes (1) | Yes | No | Yes |

**Notes:** JGTRRA is Jobs and Growth Tax Relief Reconciliation Act. ARRA is American Recovery and Reinvestment Act. FFCRA is Families First Coronavirus Response Act. FMAP is federal medical assistance percentage. PHE is public health emergency. 1) Additional increase in FMAP to hold states harmless, additional increase in FMAP for states with higher unemployment rates.

# GAO Approach Adjusts FMAP Increase by State and by Quarter




**Sources:** For July to September 2020: 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. For October to December 2020: MACPAC, 2020, analysis of Bureau of Labor Statistics Local Area Unemployment Statistics, as of October 20, 2020, Bureau of Economic Analysis state quarterly personal income data, as of September 24, 2020. MACStats, Exhibit 6: Federal Medical Assistance Percentages and Enhanced FMAPs by State, FYs 2018–2021; GAO 2011c.

# Takeaways: Challenges for Congress

- Congress acted during each of the last three nationwide recessions to provide additional federal funds to states in the form of enhanced FMAP
- The gradual nature of each economic downturn made it difficult for Congress to be proactive in identifying state need and take action early
- It was also hard for Congress to anticipate how long to leave an FMAP increase in place or how to target assistance to states

# Takeaways: GAO Prototype

- The GAO prototype adjusts the amount of federal relief to state-level conditions
- In an economic downturn caused by the regular business cycle, the GAO model triggers assistance months before Congress acts
- The GAO prototype seems sufficiently sensitive to respond to major recessions but not minor economic fluctuations

# Estimating the Fiscal Effects

- To estimate the cost of a legislative proposed, the Congressional Budget Office (CBO) compares projections of proposed spending with current law for a budget period, usually 5 or 10 years
- To estimate the cost of a policy that is affected by a large uncertainty (such as when a recession might occur) the CBO estimates the probability of an event happening at different times, then averages the estimated costs to calculate an expected value
- We hope to have an estimate from CBO in January

# Options for Recommendations

Option 1: Congress should adopt an automatic Medicaid countercyclical financing model, using the GAO prototype as the basis

# Options for Recommendations

Option 2: Congress should adopt an automatic Medicaid countercyclical financing model, using the GAO prototype as the basis with additional policy modifications, such as:

- a maintenance of effort provision (similar to that used in the ARRA or FFCRA) be coupled with any enhanced FMAP: ensures that states do not cut eligibility
- a cap or ceiling on additional FMAP: would create an upper bound as the GAO formula does not have an upper limit
- additional FMAP be applied only to expenditures eligible for regular FMAP: would exclude services and populations that already have higher FMAPs

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