FamiliesUSA
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SPECIAL REPORT

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States in Need:
Congress Should Extend Temporary Increase in Medicaid Funding

Introduction

Despite signs that the nation may be on the verge of emerging from the recession, the economic forecast for state budgets remains grim. For the third consecutive year, states are experiencing deteriorating tax revenues even as they face greater demands for social services. Although states have already closed budget gaps totaling more than $184 billion in fiscal years 2009 and 2010, as governors prepare their budgets for the 2011 fiscal year, 41 states expect additional budget gaps that total upwards of $102 billion.[1]

In any recession, demand for social services increases as families lose jobs and their incomes plummet. Because most people who have health insurance get it through their employer, families are also likely to lose their health insurance when they lose their jobs. If they can't afford to buy insurance in the private market, these families often turn to the critical safety net programs, Medicaid and the Children's Health Insurance Program (CHIP). Indeed, research has shown that, for every 1 percentage point increase in the national unemployment rate, an estimated 1 million people (400,000 adults and 600,000 children) become eligible for Medicaid or CHIP.[2]

. . . demand for social services increases as families lose jobs . . . .

Between January 2008 and January 2010, the nation's unemployment rate nearly doubled, rising from 5 percent to 9.7 percent.[3] This means that approximately 5 million more people became eligible for Medicaid or CHIP over the last two years. While these programs provide a lifeline for struggling families, rising Medicaid and CHIP enrollment means higher program costs when states can least afford them. The fiscal crisis is thus leading many states to consider drastic Medicaid and CHIP cuts at a time when people need these programs more than ever.

In addition to depriving families of much-needed access to health care, Medicaid cuts would also work against state and federal government efforts to bolster state economies. Because Medicaid is jointly funded by the states and the federal government, cutting state Medicaid spending means fewer federal dollars will flow into state economies. And because federal matching funds for Medicaid and CHIP support jobs, wages, and business activity in the states, cutting Medicaid and CHIP means that states will lose out on those economic benefits as well.

Last year, Congress passed the American Recovery and Reinvestment Act (ARRA), which included $87 billion in increased federal funding for Medicaid to help offset the added costs of new enrollment and to help states avoid making harmful program cuts. This relief, which helped prevent severe Medicaid cuts in state fiscal year 2010 budgets, is scheduled to end on December 31, 2010—right in the middle of state fiscal year 2011 (which will run from July 1, 2010, through June 30, 2011, in most states). The sudden end to ARRA's increased federal Medicaid funding while states are still grappling with budget crises will force states to once again consider making draconian cuts to Medicaid in an effort to balance their budgets.

Both President Obama and the leadership in the House of Representatives have recognized the tremendous need for a six-month extension of the increased federal Medicaid assistance. This extension would help states protect their Medicaid programs through fiscal year 2011 (June 30, 2011). The House of Representatives included a provision to extend this assistance in both their version of the health reform bill (H.R. 3200) and their Jobs for Main Street Act of 2010 (H.R. 2847). And President Obama called for its extension in his 2011 budget. However, the Senate has yet to offer legislation that includes an extension of the federal Medicaid assistance.

Discussion

Fiscal Relief Has Softened the Blow

The fiscal relief that was already provided through ARRA helped to soften the blow of the recession and to protect the health of low-income families. ARRA included $87 billion in federal funds to bolster state Medicaid funds over a period of 27 months (from October 2008 to December 2010). This money was distributed to states through a temporary increase in the federal share of the cost of the Medicaid program (called the Federal Medical Assistance Percentage, or FMAP). In order to qualify for the enhanced FMAP, states are required to maintain the Medicaid eligibility levels and enrollment policies that were in effect on July 1, 2008. They are also restricted from making cuts that make it more difficult to enroll in the program (this is known as a "maintenance of effort" requirement, or MOE), such as requiring more frequent recertifications or increasing premiums.

The 2009 ARRA relief came at a critical time—just as states were planning their 2010 fiscal year budgets. As a result, several states were able to roll back their most devastating proposed cuts, while others used the boost in federal funds to stabilize their Medicaid programs as demand rose. For example:

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- **Arizona** rolled back a proposal that would have required adults to reapply for Medicaid benefits every six months rather than every year. This would have affected more than 4,500 adults enrolled in Medicaid.[4]
- **Nevada** rolled back a proposed reduction in the income limit for parents in Medicaid, which would have eliminated 7,100 parents from the program.[5]
- **Rhode Island** scaled back its premiums to July 2008 levels, including eliminating a previously enacted $45 premium for families with incomes between 133 and 150 percent of the federal poverty level (between $24,352 and $27,465 a year for a family of three in 2009).[6]
- **Utah** used the additional FMAP funds to restore Medicaid eligibility for aged, blind, and disabled individuals. Prior to ARRA, income eligibility for these individuals had been cut from 100 percent to 75 percent of poverty.[7]

States Still Need Relief

As governors prepare their budgets for the 2011 fiscal year, once again, they face unprecedented increases in Medicaid enrollment concurrent with serious budget shortfalls. Forty-one states have already estimated that they will have budget gaps for 2011 totaling $102 billion.[8] While many governors have recognized the importance of preserving health care for low-income families in times of economic crisis, the current fiscal situation means that no program is safe. What's more, the increased FMAP for Medicaid ends on December 31, 2010—halfway through states' 2010-2011 fiscal years.

At this critical juncture, governors and state policy makers are being forced to craft their 2011 budgets without knowing whether they will receive additional assistance from the federal government. Democratic and Republican governors across the country are calling on Congress to extend the temporary increase in federal Medicaid funding so they can continue to protect low-income families' access to care (see "Governors—In Their Own Words," on page 10). However, states have already proposed harmful cuts to Medicaid eligibility and enrollment, benefits, cost-sharing, and provider payment rates for the 2010-2011 budget year. Delaying the passage of federal legislation could well be catastrophic for the states.

The following list highlights some of the most severe Medicaid program cuts that have been proposed in states' fiscal year 2011 budgets. The cuts are grouped by how they will affect the people who rely on Medicaid:

- "Eligibility" cuts eliminate coverage altogether for certain groups of people or make it more difficult to enroll in the program,
- "Benefit" cuts eliminate coverage of certain services in Medicaid for adults enrolled in the program.
- "Provider Reimbursement Rate" cuts reduce the amount that providers are paid for the services they deliver to enrollees.

An extension of ARRA's increase in federal Medicaid funding would prevent many of these cuts from being enacted. And extending ARRA's "maintenance of effort" requirement would prohibit states from cutting eligibility or making it harder to enroll or stay enrolled in Medicaid while they are receiving fiscal relief. While an extension of the ARRA fiscal relief provision would not prohibit cuts to benefits or provider reimbursement rates, it would help offset state costs, easing the pressure on states to make these and other cuts in Medicaid.

- **Eligibility:**
  - **Arizona**'s Governor Brewer is proposing to eliminate coverage for 310,500 adults in the state's AHCCCS (Medicaid) program. In 2000, Arizona voters passed an AHCCCS expansion that raised the eligibility levels to 200 percent of the federal poverty level for parents and 100 percent of poverty for childless adults. The pending proposal would eliminate all coverage for childless adults, and it would roll back eligibility for parents to a level that can be supported solely by tobacco settlement revenue.[9]
  - **California**'s Governor Schwarzenegger is proposing to reduce Medi-Cal (Medicaid) eligibility for parents from 133 percent to approximately 72 percent of poverty, and to reduce Medi-Cal eligibility for children and pregnant women from 200 percent to 133 percent of poverty. As a result, in the first six months after the reduced eligibility levels go into effect, 250,000 people would lose their health coverage.[10]
  - **Florida** is proposing sweeping cuts to Medicaid after the ARRA funding ends on December 31, 2010. Without an extension of the temporary increase in federal Medicaid funding, Florida may eliminate Medicaid coverage for 19- and 20-year-olds and for pregnant women with incomes between 150 and 185 percent of poverty.[11]

- **Vermont**'s Governor Douglas is proposing to increase premiums for most adults in Medicaid by nearly 70 percent beginning on January 1, 2011. Premiums currently range from $7 a month for people with incomes up to 75 percent of poverty to $49 a month for people with incomes up to 185 percent of poverty. The proposed new premiums would range from $12 a month to $82 a month.[12] The ARRA maintenance of effort requirement would prohibit this premium increase because it could result in loss of coverage for those who cannot afford to pay the higher premiums.

- **Benefits:**
  - **Maine** is proposing to restrict outpatient mental health visits for adult Medicaid recipients to 18 per year and outpatient hospital visits and laboratory services to 15 annually. There are currently no numerical limits on these services (the only requirement is that these services be medically necessary).[13]
  - **Michigan** made extensive cuts to Medicaid services for adults in fiscal year 2010. Among the services it eliminated were dental and vision benefits. For fiscal year 2011, there are proposals in the state legislature to cut the Medicaid benefit package even further, eliminating mental health services, prescription drug coverage, orthotics, and prosthetic services.[14]
  - **New Mexico**'s Governor Richardson is proposing to restructure the Medicaid program, which would include cutting so-called "optional" benefits for traditional Medicaid populations beginning on July 1, 2011.[15] Some of the services that may be eliminated include prescription drug coverage, vision and dental services, hospice care, and physical therapy.[16]
  - **Tennessee's** Governor Bredesen wants to place a $10,000 annual cap on inpatient hospital care for nonpregnant adults.[17]

- **Provider Reimbursement Rates:**
  - **Maine** is proposing a 10 percent cut to most provider reimbursement rates, including long-term care and mental health providers.[18]
  - **New York**'s Governor Paterson is calling for a sweeping $400 million cut to Medicaid provider reimbursement rates.[19]
  - **Georgia, Louisiana, Maryland, Missouri, Vermont,** and **Virginia**[20] have all proposed significant cuts to Medicaid provider payment rates.

Children's Access to Care Is in Danger

Although the funding mechanisms differ, Medicaid and the Children's Health Insurance Program (CHIP) are inherently linked. As with Medicaid, states have seen a precipitous increase in demand for CHIP since the start of the recession, and both programs were similarly aided by the increase in federal funds for Medicaid. While ARRA did not directly fund CHIP or place a maintenance of effort requirement on the program, the increased Medicaid funds did free up state budgets, which allowed several states to avoid significant cuts to their CHIP programs and to roll back cuts that were previously enacted. For example, Nevada was able to lift a cap on its CHIP enrollment, which will allow the state to cover an estimated 24,000 children in 2010.[21] What's more, between January and September 2009, 23 states were able to implement or enact legislation that increased the number of families receiving coverage through CHIP and Medicaid.[22]

However, this trend will likely not continue without additional federal funding. As governors struggle to balance their budgets for the current fiscal year, several are planning devastating cuts in children's coverage:

- In December 2009, **Arizona** closed its CHIP program, KidsCare, to new enrollment. Now, Governor Brewer is proposing to eliminate KidsCare altogether. The program currently covers 47,000 children.[23]
- **California**'s Governor Schwarzenegger is threatening to eliminate the Healthy Families Program if the state does not receive additional federal funds. The cut would affect all 874,762 children who are currently enrolled in the program.[24]
- On November 30, 2009, **Tennessee**'s Governor Bredesen announced a freeze on CoverKids (CHIP) enrollment.[25] Although children who are enrolled in the program will remain covered, there are still an estimated 5,000 uninsured children in Tennessee who are eligible for CHIP but who now will not be able to enroll.[26]

These cuts will harm hundreds of thousands of children and limit their access to health care at a time that is critical for their growth and development. However, state experience tells us that these cuts can be mitigated with additional federal Medicaid funding. An extension of the temporary FMAP increase through June 30, 2011, would not only protect the health of children and families in Medicaid, but it would also help states to continue providing comprehensive coverage to children in CHIP.

Sustaining the Jobs Created by ARRA

In addition to preserving state Medicaid programs that protect the health of low-income families, the FMAP extension will help bolster state economies. Every dollar a state spends on Medicaid draws down new federal dollars that would not otherwise flow into the state. These new dollars pass from one person to another in successive rounds of spending. For example, health care employees spend part of their salaries on groceries, which adds to the income of grocery store employees, enabling them to spend part of their salaries on home improvements, enabling contractors to spend money on car payments, and so on. The new dollars pass from one person to another in successive rounds of spending, generating additional business activity, jobs, and wages that would not otherwise be produced. Economists call this the "multiplier effect."

The magnitude of Medicaid's unique economic multiplier effect varies from state to state, based on both the size of the state's federal matching rate and the economic conditions within the state. In order to measure and quantify this state-level impact, Families USA used the U.S. Department of Commerce RIMS II economic input-output model, which was first developed in the 1970s and is regularly updated by the Bureau of Economic Analysis. The RIMS II model is built on Department of Commerce data that show the relationships among hundreds of industries in the economy. These relationships are adjusted and updated regularly to reflect a state economy's current industrial structure; trading patterns; and wage, salary, and personal income data. The respected RIMS II model is widely used to analyze the economic impact on states of projects and events such as hospital expansions, military base closings, airport construction, tourism, and a range of policy changes and regulatory effects.

Using existing estimates of how much additional federal funding each state will receive from the extension of the FMAP increase (see Table 1 on page 8), Families USA has calculated the economic benefit to states in terms of business activity, jobs, and associated wages (see Table 2 on page 9). A detailed Methodology is available upon request.

Given that so many states have already enacted or are contemplating significant Medicaid cuts, the additional federal funding for FMAP may, in effect, prevent economic losses rather than cause net economic growth. The additional funding will help states avoid Medicaid cuts that could have resulted in loss of business activity, jobs, and associated wages. It is impossible to determine just how much of the economic effect of the increased FMAP will be generating new activity as opposed to preventing losses in activity. Nonetheless, this provision of the economic recovery package will sustain at-risk jobs and help states pull out of the recession while simultaneously ensuring that the lowest-income, most vulnerable Americans continue to receive the health coverage they need.

Table 1.

Federal Support for Medicaid in the President's Budget, January 2011-June 2011 (dollars in millions)

State	Additional Federal Support for Medicaid	State	Additional Federal Support for Medicaid
Alabama	$301.4	Montana	$63.3
Alaska	$76.9	Nebraska	$112.5
Arizona	$654.5	Nevada	$108.7
Arkansas	$246.5	New Hampshire	$93.9
California	$3,070.5	New Jersey	$673.4
Colorado	$240.5	New Mexico	$241.1
Connecticut	$342.7	New York	$3,477.5
Delaware	$81.3	North Carolina	$620.9
Florida	$1,105.2	North Dakota	$44.5
Georgia	$506.0	Ohio	$976.6
Hawaii	$84.0	Oklahoma	$293.4
Idaho	$91.6	Oregon	$284.1
Illinois	$941.1	Pennsylvania	$1,164.1
Indiana	$440.2	Rhode Island	$123.1
Iowa	$206.3	South Carolina	$349.8
Kansas	$156.5	South Dakota	$48.7
Kentucky	$377.1	Tennessee	$472.6
Louisiana	$427.4	Texas	$1,696.7
Maine	$167.1	Utah	$117.4
Maryland	$474.9	Vermont	$81.6
Massachusetts	$782.2	Virginia	$435.1
Michigan	$709.7	Washington	$457.5
Minnesota	$539.3	West Virginia	$165.1
Mississippi	$294.3	Wisconsin	$409.7
Missouri	$515.3	Wyoming	$35.4

Source: Families USA estimates based on the latest state spending patterns in Medicaid, as reported in the November CMS-37.

Table 2.

Economic Impact of Six-Month Extension of Fiscal Relief for Medicaid, as Proposed in the President's Budget (dollars in millions)

State	Business Activity	Jobs	Wages
Alabama	$634.5	6,800	$231.0
Alaska	$145.3	1,400	$53.1
Arizona	$1,388.7	12,700	$522.4
Arkansas	$485.7	5,300	$177.9
California	$7,643.6	66,600	$2,716.8
Colorado	$582.1	5,400	$206.2
Connecticut	$716.7	6,300	$257.9
Delaware	$153.9	1,200	$49.4
Florida	$2,450.8	24,900	$915.4
Georgia	$1,245.2	11,400	$437.2
Hawaii	$177.1	1,700	$65.9
Idaho	$186.1	2,200	$69.5
Illinois	$2,352.2	20,800	$808.1
Indiana	$958.2	9,500	$338.8
Iowa	$418.2	4,700	$150.9
Kansas	$331.5	3,300	$112.6
Kentucky	$776.0	7,600	$268.0
Louisiana	$909.4	10,200	$329.9
Maine	$351.0	4,000	$132.8
Maryland	$1,054.9	9,000	$363.0
Massachusetts	$1,706.5	14,600	$605.3
Michigan	$1,487.8	14,800	$554.8
Minnesota	$1,197.7	11,200	$440.1
Mississippi	$580.2	6,600	$209.1
Missouri	$1,137.1	10,600	$372.6
Montana	$126.2	1,500	$47.1
Nebraska	$228.2	2,500	$82.0
Nevada	$211.3	2,000	$77.2
New Hampshire	$194.3	1,700	$66.4
New Jersey	$1,586.6	12,800	$528.1
New Mexico	$480.1	5,200	$177.1
New York	$7,233.9	60,400	$2,505.2
North Carolina	$1,359.4	14,100	$497.2
North Dakota	$84.6	900	$29.7
Ohio	$2,190.6	21,700	$782.1
Oklahoma	$661.8	7,500	$240.1
Oregon	$597.8	5,800	$214.2
Pennsylvania	$2,737.1	24,400	$939.1
Rhode Island	$247.1	2,300	$84.6
South Carolina	$779.7	8,500	$279.0
South Dakota	$93.2	1,000	$34.5
Tennessee	$1,063.4	9,400	$371.7
Texas	$4,283.9	40,700	$1,510.5
Utah	$277.8	3,000	$100.0
Vermont	$150.6	1,500	$55.7
Virginia	$944.0	8,600	$324.2
Washington	$1,023.9	9,500	$365.1
West Virginia	$301.4	3,100	$105.3
Wisconsin	$859.3	8,700	$316.8
Wyoming	$62.1	700	$23.6

Source: Families USA calculations based on the Bureau of Economic Analysis Regional Input-Output Modeling System (RIMS II) and the latest state spending patterns in Medicaid, as reported in the November CMS-37.

Governors—In Their Own Words

"Timely passage of an extension of ARRA's enhanced FMAP would greatly assist us in maintaining services and further stabilizing the economy." [27]
– National Governors Association

Across the country, governors are working on their budgets for the upcoming fiscal year. With many states in the midst of some of the worst budget deficits on record, governors are calling for the extension of federal fiscal relief for Medicaid, which is currently set to expire on December 31, 2010. It is critical that states receive additional fiscal relief in order to alleviate the burden of state deficits. Some governors have already threatened to move forward with drastic cuts if their states do not get additional federal money. Meanwhile, at least 14 governors, including those of Alabama, California, Florida, Georgia, Maine, Maryland, Massachusetts, Missouri, New Mexico, Pennsylvania, Rhode Island, Vermont, Washington, and West Virginia have planned their 2011 budgets under the assumption that the funds will be extended through June 30, 2011.[28] Left with no other choice, governors accounted for the extension of federal funds in their budgets for next year, as opposed to being forced to make a long list of heavy cuts to Medicaid. Without the additional funding, states will face severe cuts that threaten the lives of millions of low-income and vulnerable Americans who rely on Medicaid for access to critical health care services.

- **Alabama:** Governor Bob Riley has filed his proposed state budget for next year. It includes federal fiscal relief that he expects Alabama to receive. He optimistically said, "We've got something here that I think is going to work."[29]
- **Florida:** In his 2011 budget, Governor Charlie Crist assumes federal aid for Medicaid will be extended. According to the governor's budget director, Jerry McDaniel, Governor Crist "believe(s) that this is the right thing to do, as opposed to proposing additional cuts."[30]
- **Pennsylvania**: In Governor Ed Rendell's 2010 State of the State Address, he stressed the importance of fiscal relief, saying "...we are able to avoid deep cutbacks in our Medicaid funded services because we expect federal action before the summer that will increase the state's ability to cut Medicaid pharmacy costs. Absent this, I believe we will need to make cuts to our Medicaid budget."[31]
- **Rhode Island:** Governor Donald Carcieri's budget anticipates additional federal Medicaid dollars for Rhode Island. Chief budget officer Rosemary Booth Gallogly said the administration has compiled a "nasty list" of budget cuts directed at human service programs in case Congress does not provide the states with money.[32]

Conclusion

Governors and state legislators face an enormous challenge in balancing their fiscal year 2011 budgets despite declining revenues. The federal government helped states in 2010 by providing state fiscal relief and a temporary increase in federal Medicaid funding that runs through December 31, 2010. This federal assistance prevented draconian proposals to cut Medicaid from becoming law, and it helped bolster state economies by supporting business activity, jobs, and wages. But to avoid severe Medicaid cuts as states enact their fiscal year 2011 budgets this spring, and to continue helping states regain their economic footing, Congress should extend the ARRA fiscal relief for an additional six months, through June 30, 2011.

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