GAO’s Prototype Formula for an Increased FMAP

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Recessions and the FMAP

• During economic downturns, states’ employment and tax revenues typically fall as Medicaid enrollment tends to increase.

• Congress has passed legislation that temporarily increased states’ Federal Medical Assistance Percentage (FMAP)
  • The 2001 recession, Congress provided an across-the-board increase in the FMAP for all states
    ▪ Funds came well after the recession ended
    ▪ Assistance did not target state needs
  • Second occasion was the American Recovery and Reinvestment Act (Recovery Act) of 2009
Recovery Act

• The Recovery Act provided states with $89 billion through a temporary increase of the FMAP that used three components
  1. A hold-harmless provision
  2. An across-the-board increase of 6.2 percentage points
  3. An additional increase based on a qualifying increase in the state’s rate of unemployment

• The act also mandated that GAO provide recommendations for modifying the increased FMAP formula to make it more responsive to state Medicaid needs during future downturns
  • Recommendations to improve the starting and ending of assistance
  • Account for variations in state economic conditions
Recessions and the FMAP

• GAO reported that federal assistance is most effective when it takes into account each state’s fiscal circumstances, as well as when and how severely each state is affected

• How to measure states’ fiscal circumstances (targeting)?
  • Increased unemployment as a proxy for increased Medicaid enrollment
  • Decreased wages and salaries as a proxy for states’ revenue losses during a downturn

• Assistance needs to be responsive in terms of timing
Why use an automatic trigger?

- Legislative action at the time of a recession has not been as timely as an automatic response to the economic conditions.

- An automatic trigger would
  - reduce the time between the start of the economic downturn and the beginning of assistance
  - help eliminate the lag between recognition of the economic downturn and congressional action to authorize assistance
  - provide predictability to states to facilitate budget planning and stability
GAO’s automatic trigger

- Triggering on occurs once a threshold number of states show a sustained decrease in their employment-to-population (EPOP) ratio over two consecutive months
  - GAO prototype uses 26 states
  - Other choices possible

- The prototype formula has no hold-harmless provision or across-the-board increase

- The prototype formula would end assistance once fewer than the threshold number of states show a decline in their EPOP ratio over two consecutive months
GAO prototype formula for temporary increased FMAP assistance to states

First month
- Does EPOP ratio indicate a national recession?
  - NO
    - No action
  - YES
    - Calculate states’ FMAP increases
      - Pay FMAP increase to states

Later months
- Does EPOP ratio indicate a continued economic slowdown?
  - NO
    - Terminate increased FMAP
  - YES
    - Calculate states’ FMAP increases
      - Pay FMAP increase to states

Source: GAO.
FMAP increase by component, GAO formula assistance period, by quarter, 2008-2011

![Bar chart showing FMAP increase by component from 2008.1 to 2011.3, with data for each quarter indicated by the height of the bars, and the source cited as GAO.]
Triggering the assistance off

• Triggering the assistance off is more complex
  • Prototype triggers off when fewer than the threshold number of states show a decline in their monthly EPOP ratio over two consecutive months
  • Lack of hold-harmless and across-the-board components reduces the chance of abrupt declines in assistance
  • Calculation of the unemployment-based and wage-based increases results in a general decline toward the end of the assistance period
  • The result is a gradual transition back to states’ regular FMAPs
Alternatives

• Prototype uses 26 states, but alternatives exist
  • The threshold number of states could be set higher
    ▪ Could delay the triggering of assistance
    ▪ Likely mean fewer quarters of assistance
  • The number of consecutive months with a declining EPOP could be increased
    ▪ Delay the start of assistance
    ▪ Provide somewhat greater assurance that state economies are improving
Automatic trigger in relation to last recessions

Number of states with declining EPOP

Year

Additional information

• GAO reports on FMAP
  • MEDICAID: Prototype Formula Would Provide Automatic, Targeted Assistance to States during Economic Downturns, GAO-12-38, Nov. 10, 2011
  • MEDICAID: Improving Responsiveness of Federal Assistance to States during Economic Downturns, GAO-11-395, March 31, 2011
  • MEDICAID: Strategies to Help States Address Increased Expenditures during Economic Downturns, GAO-07-97, Oct. 18, 2006