HEALTH

Medicaid and State Budgets

POLICY SNAPSHOT

When it comes to state budgets, Medicaid accounts for a significant portion of state expenditures and also the largest source of federal revenue for states. Medicaid is a "counter cyclical" program—when the economy contracts, Medicaid spending and enrollment grows. Prior to the pandemic, enrollment in Medicaid nationally has been declining, but is now on the rise due to the coronavirus pandemic and the resulting record unemployment.

Similar to the Great Recession, states are now faced with leveraging their Medicaid programs to meet increased demand for coverage and access to health services, while facing potentially significant revenue shortfalls. With Medicaid accounting for such a large amount of state spending, states have historically targeted Medicaid for reductions in economic downturns.

But unlike the Great Recession, the coronavirus pandemic brings a unique set of financial challenges—how to meet increased demand for health services during a time when fewer beneficiaries can visit certain providers due to COVID-19 restrictions. To address these challenges, states may increase spending in some areas while looking to make reductions in others.

States are using a variety of strategies to reduce spending, such as cutting provider reimbursements and imposing service limits, as well as working to increase efficiency and program performance through alternative payment models or reducing fraud and waste. This policy snapshot includes state policy options for managing a fiscal crisis with increasing Medicaid budget pressures, including relevant state examples, federal actions and additional resources.

Federal Action

The passage of the Families First Coronavirus Response Act (Families First Act) provided a temporary 6.2% increase to regular Federal Medical Assistance Percentage (FMAP) rates. In order to qualify for the increased federal matching funds, states must provide beneficiaries with COVID-19 testing and treatment with no cost-sharing requirements. In addition, the funding requires a "maintenance of effort"—to qualify for the enhanced FMAP, states are required to maintain their current eligibility standards and may not make changes that restrict or reduce eligibility. States must also maintain current enrollment, including those who enroll during the emergency period.

State Policy Options

Drawing on lessons learned from the Great Recession and other economic downturns, the enhanced FMAP included in the Families First Act is meant to provide fiscal relief to states to help address Medicaid and general budget shortfalls and minimize the need for cuts to the Medicaid program. The American Recovery and Reinvestment Act (ARRA) of 2009 included a 6.2% across-the-board increase in FMAP, with bonus rates based on state unemployment rates. This enhanced FMAP allowed states to increase over-

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all Medicaid spending to meet increased demand while also reducing state-level Medicaid expenditures. According to a 50-state survey conducted by the Kaiser Family Foundation, states used the enhanced federal funds from ARRA to:

- Close or reduce Medicaid budget shortfalls.
- Cover increased Medicaid enrollment.
- Close or reduce state general fund shortfalls.
- Avoid benefit cuts.
- Avoid or reduced provider reimbursement rates.
- Avoid or restore eligibility cuts.

At the present time, states are using the increased FMAP from the Families First Act in similar ways, though the current maintenance of effort requirements differ slightly from ARRA. The Families First Act requirement to maintain coverage for all beneficiaries throughout the emergency period may require increases in state spending. With this added pressure of continuous enrollment, states are considering policy options, legislatively and through executive action, to decrease spending in other areas as outlined in the table below.

POLICY OPTIONS	STATE EXAMPLES
Reduce provider reimbursements, including managed care organization contracts.	Nevada adopted a 6% across-the-board rate decrease. Colorado adopted a 1% across-the-board rate reduction. Michigan plans to cut $250 million from Medicaid largely by reducing rates paid to managed care organizations. Florida's governor vetoed planned increases to reimbursement for services provided to people with disabilities.
Eliminate or pause planned expansions or new initiatives.	Utah eliminated plans to extend 12 months of continuous Medicaid coverage to children. Tennessee, Virginia and Washington planned to provide one-year postpartum coverage (an expansion from current 60-day coverage) but are no longer moving forward due to budget concerns. Oklahoma withdrew plans to expand Medicaid; however, voters passed a ballot initiative to expand Medicaid in the state and the legislature is now tasked with finding funding.
Administrative cuts or freezes.	Maryland, New Mexico, Ohio, Virginia and Tennessee implemented hiring freezes. Nevada, California, New Jersey and Washington have implemented furloughs for state employees.
Pharmacy cost containment strategies.	Thirty-three out of 43 states responding to an annual Medicaid survey indicated using new or expanding cost containment strategies in FY 2021, including: • Eleven states expanding their Preferred Drug List (PDL). • Eleven states using value-based payment arrangements to tie pharmacy reimbursement to client outcomes. • Seven states implementing policies to address Pharmacy Benefit Managers (PBMs).
Eliminate or reduce coverage or benefits.	Washington and Colorado proposed reductions to adult dental benefits. New York proposed changes to eligibility criteria for personal care services.
Modify cost sharing requirements, like premiums and copayments.	Colorado proposed increasing copayments for prescriptions and physician visits and adding new copays to dental and non-emergency medical transportation.

In addition to these policy options, there is a wide array of long-term options to reduce Medicaid spending, improve care outcomes and quality, and provide states with a return on their health investments. These strategies often involve upfront investments and may take years to see results, which can make them less desirable in the short term but potentially beneficial in the long term. NCSL's Policy Report, "10 State Strategies for Improving Medicaid," details options states may consider, including adopting new payment models, decreasing fraud and waste, promoting healthy births, and improving overall performance and quality.

Additional Resources

- COVID-19: State Health Actions, including COVID-19 and Medicaid Policy Snapshot, NCSL (2020)
- Coronavirus (COVID-19): Revised State Revenue Projections, NCSL (2020)
- Database: State Actions to Close Budget Shortfalls in Response to COVID-19, NCSL (2020)
- Understanding Medicaid: A Primer for State Legislators, NCSL (2019)
- Medicaid 1115 Waivers by State, NCSL (2019)

Please note that NCSL takes no position on state legislation or laws mentioned in linked material, nor does NCSL endorse any third-party publications; resources are cited for informational purposes only.

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