

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

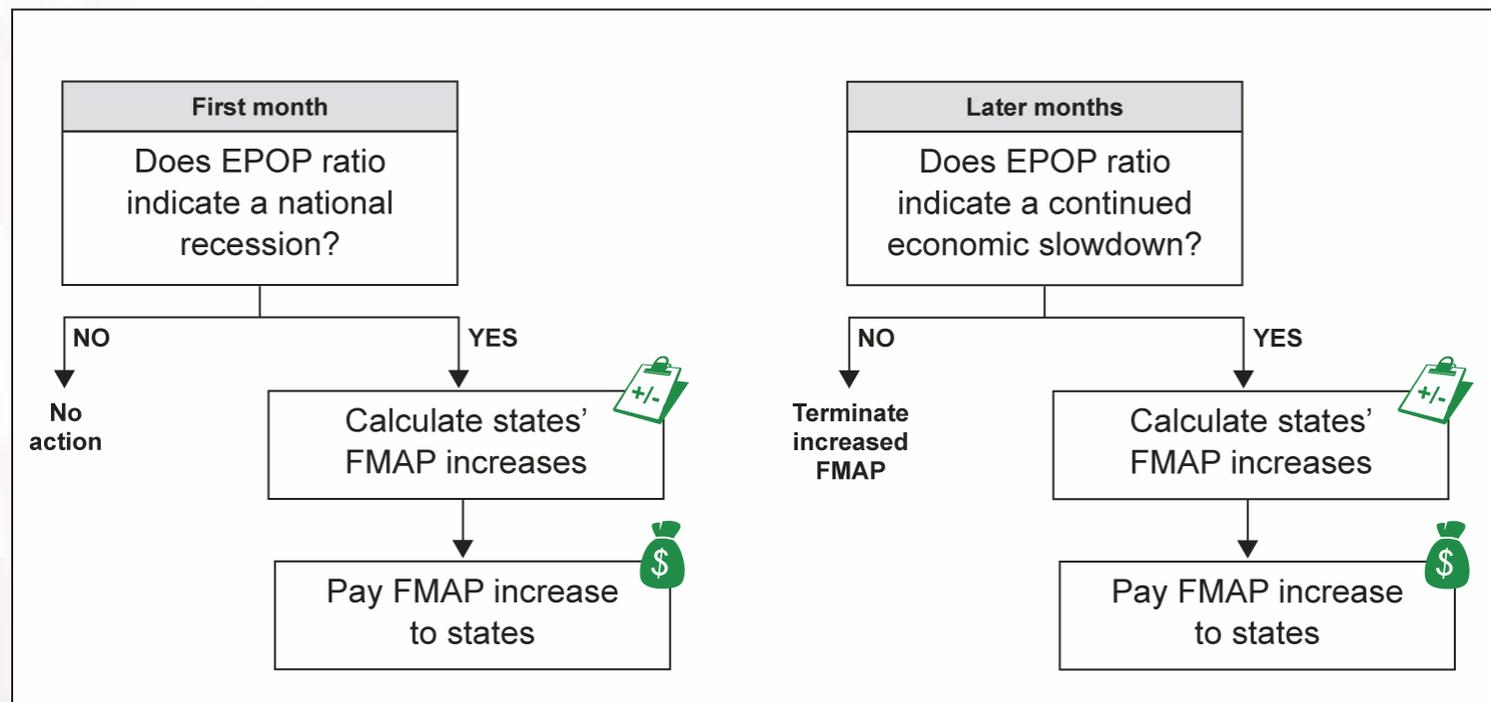
Why use an automatic trigger?

- 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

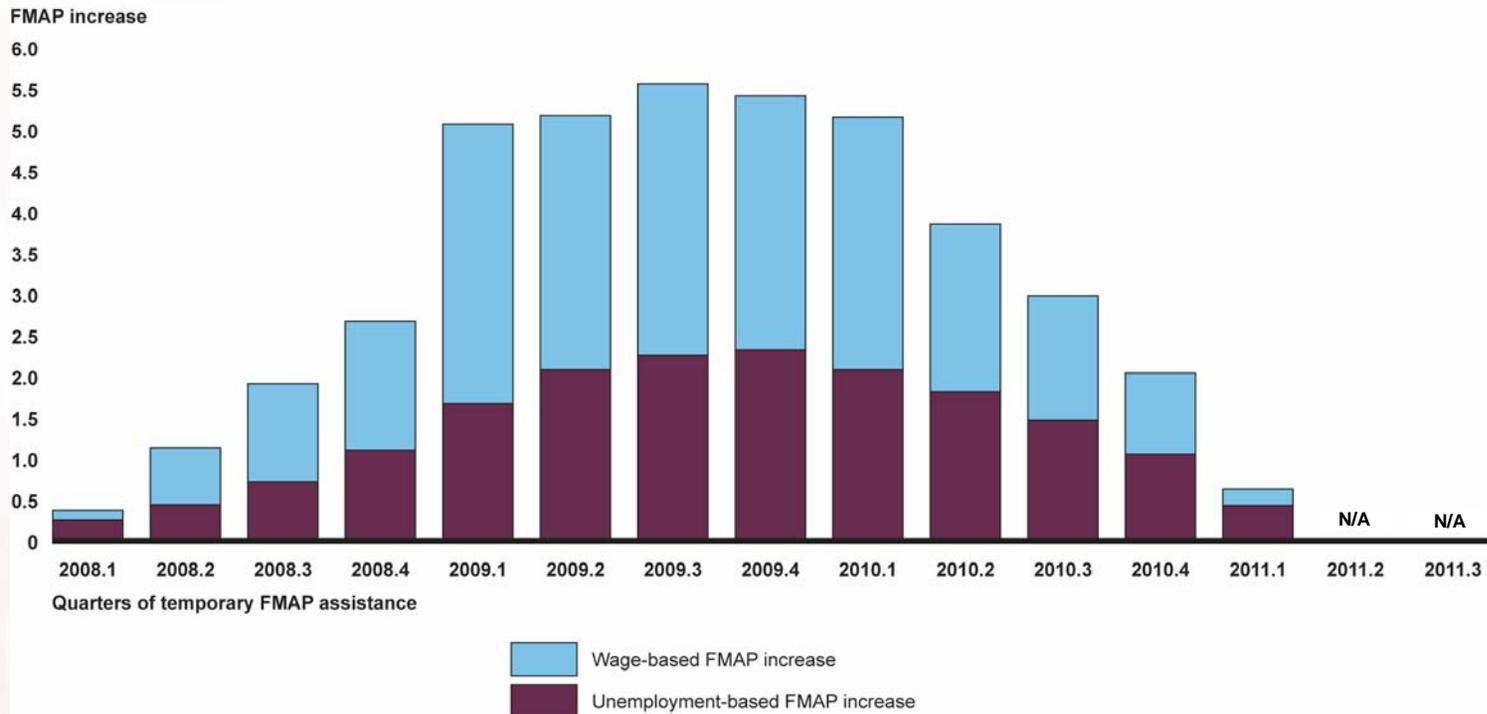
- Triggering on occurs once a threshold number of states show a sustained decrease in their employment-to-population (EPOP) ratio over two consecutive months
 - GAO prototype uses 26 states
 - Other choices possible
- The prototype formula has no hold-harmless provision or across-the-board increase
- 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



Source: GAO.

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



Source: GAO.

Triggering the assistance off

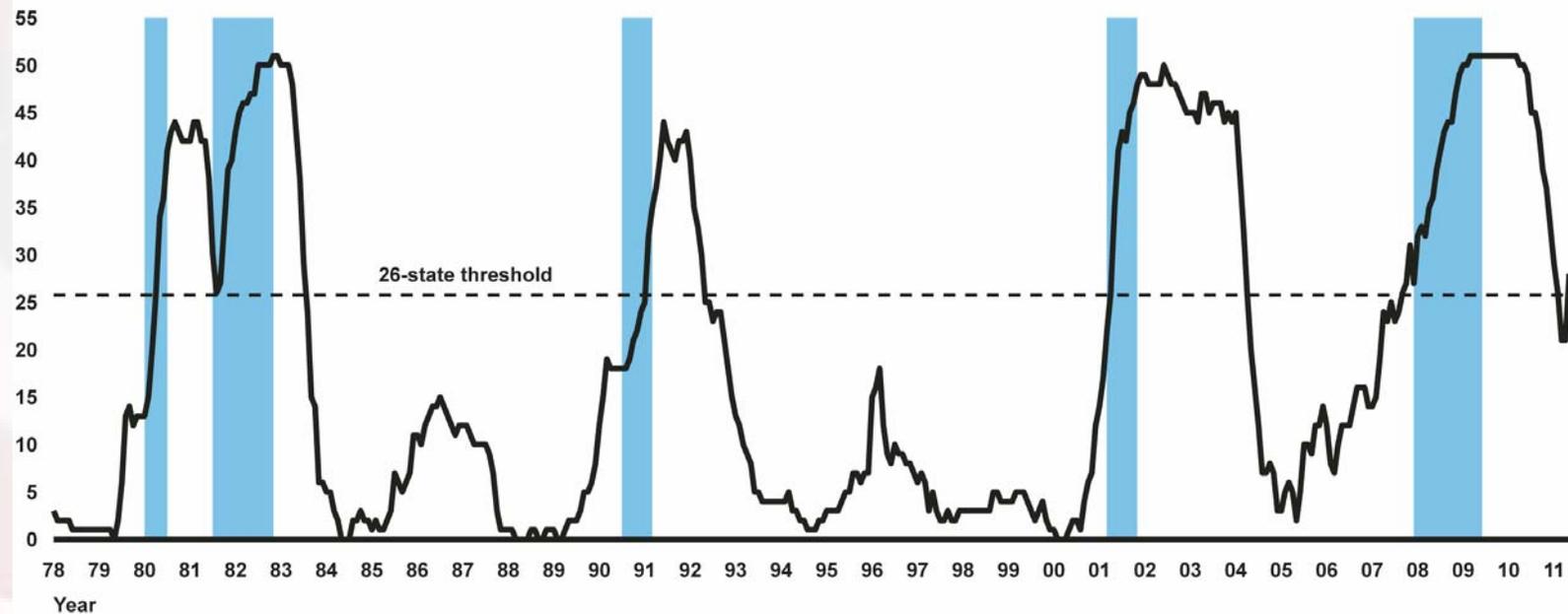
- Triggering the assistance off is more complex
 - Prototype triggers off when fewer than the threshold number of states show a decline in their monthly EPOP ratio over two consecutive months
 - Lack of hold-harmless and across-the-board components reduces the chance of abrupt declines in assistance
 - 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



NBER recession
 Number of states

Source: GAO analysis of Bureau of Labor Statistics data.

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
 - STATE AND LOCAL GOVERNMENTS: Knowledge of Past Recessions Can Inform Future Federal Fiscal Assistance, GAO-11-401, March 31, 2011

GAO on the Web

Web site: <http://www.gao.gov/>

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