

CRS Report for Congress

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Federal Medical Assistance Percentage (FMAP) for Medicaid

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Summary

Medicaid is a health insurance program jointly funded by the federal government and the states. Generally, eligibility for Medicaid is limited to low-income children, pregnant women, parents of dependent children, the elderly, and people with disabilities. The federal government's share of a state's expenditures for Medicaid is called the federal medical assistance percentage (FMAP). Determined annually, the FMAP is designed so that the federal government pays a larger portion of Medicaid costs in states with lower per capita income relative to the national average (and vice versa for states with higher per capita incomes). For FY2004, state FMAPs range from 50% to 77%; that is, the federal government's share of Medicaid costs for FY2004 ranges from 50% to 77% depending on the state.

The current fiscal situation of the states has focused attention on Medicaid costs. In the 107th Congress legislation to increase the FMAP passed the Senate. Legislation was introduced in the House but did not pass. In the 108th Congress legislation has been introduced to increase the FMAP for FY2003 and FY2004 (H.R. 816, H.R. 1593, H.R. 2000, S. 10, S. 106, S. 138, S. 414, S. 565, and S. 1012), or alter specific state FMAPs (H.R. 675, H.R. 2716, and S. 294). The budget reconciliation bill, H.R. 2 (P.L. 108-27) contained a provision for temporary fiscal relief to states that includes increased payments under Medicaid. H.R. 2854 (P.L. 108-74) clarified the reinstatement requirements for states related to the higher FMAP payments under P.L. 108-27. This report will be updated as legislative activities warrant.

Introduction

Medicaid is a health insurance program jointly funded by the federal government and the states. While states have considerable flexibility to design and administer their Medicaid programs, certain groups of individuals must be covered for certain categories of services. Generally, eligibility is limited to low-income children, pregnant women, parents of dependent children, the elderly, and people with disabilities. The federal

government's share of Medicaid costs is determined by a formula included in statute; states must contribute the remaining portion of costs in order to qualify for federal funds.

Federal Medical Assistance Percentage (FMAP)

The federal government's share of a state's expenditures for Medicaid is called the federal medical assistance percentage (FMAP). The FMAP for each of the 50 states and the District of Columbia is determined annually based on a statutory formula that uses the average per capita income of each state and the United States for the three most recent calendar years for which data are available from the Department of Commerce. This formula is designed to pay a higher FMAP to states with lower per capita income relative to the national average (and vice versa for states with higher per capita incomes). The Secretary of Health and Human Services (HHS) must promulgate the FMAP between October 1 and November 1 of each year. This FMAP is in effect for the 1-year period beginning the following October. Thus, the FMAP for FY2003, the year beginning October 2002, was promulgated in 2001. FMAPs must not fall below 50% or exceed 83%.¹ Overall, the federal government finances about 57% of all Medicaid costs annually.

In the 50 states and the District of Columbia, Medicaid is an individual entitlement. There are no limits on the federal payments for Medicaid as long as the state is able to contribute its share of the matching funds. In contrast, Medicaid programs in the territories are subject to spending caps. The spending caps for FY2003 are \$201.4 million for Puerto Rico, \$6.14 million for Guam, \$6.35 million for the Virgin Islands, \$3.62 million for American Samoa, and \$2.19 million for the Northern Mariana Islands. For subsequent fiscal years, these caps are increased by the percentage change in the medical care component of the Consumer Price Index for All Urban Consumers (as published by the Bureau of Labor Statistics). The FMAP is statutorily set at 50% for the territories. Therefore, the federal government pays 50% of the cost of Medicaid items and services in the territories up to the spending caps. In addition, for disproportionate share to hospital (DSH) adjustments, the federal government matches state payments using the FMAP, but the total DSH adjustment payments in a state are subject to an annual limit at the state and facility level.

Legislative Developments

The recent fiscal crisis for states has focused attention on the impact of Medicaid spending on state budgets.²

During the 107th Congress, the Senate passed legislation (S. 812) which would have provided fiscal relief to the states through a temporary increase in the federal government's share of Medicaid program costs by increasing each state's FMAP. The Senate-passed bill would have maintained a state's FY2002 FMAP for FY2003 if the

¹ For the District of Columbia, the FMAP is permanently set to 70.00% starting in FY1998. For Alaska, the state percentage is calculated using the 3-year average per capita income for the state divided by 1.05, for FY2001 through FY2005 only.

² For more information on the role of Medicaid in state budgets see CRS Report RL31773, *Medicaid and the Current State Fiscal Crisis*, by Christine Scott.

FY2003 FMAP was lower (“hold-harmless”). In addition, each state would have received an increase in their FMAP of 1.35 percentage points for FY2003. Although bills were introduced in the House to also provide a temporary increase in the FMAP, no further action occurred. Other proposals were considered that would have provided grants to states for general fiscal relief but did not specify that funds would be for Medicaid purposes.

In the 108th Congress, a number of bills have been introduced and referred to committee, which would change the FMAPs. H.R. 1593, S. 138 and S. 565 would increase the FMAP for each state in the last two quarters of FY2003 and for all of FY2004 by 2.45 percentage points respectively. The bills also provide a hold-harmless provision for these 2 years to prevent declines in the FMAP (from the prior year) before the 2.45 percentage point increase. S. 138 provides an additional \$10 billion for the Social Services Block Grant. H.R. 1593 and S. 565 provides \$30 billion in grants to states and local governments for budget crisis relief and \$10 billion in homeland security grants. The spending caps for the territories would be increased by 4.9% for the last 2 quarters of FY2003 and all of FY2004. The bills do not alter the DSH allotments (limits) for the states.

S. 10 would increase the FMAP for each state in the last 2 quarters of FY2003 and for all of FY2004 by 2.38 percentage points. The bill provides a hold-harmless provision for both years to prevent declines in the FMAP (from the prior year) before the 2.38 percentage point increase. The spending caps for the territories would be increased by 4.76% for the last 2 quarters of FY2003 and all of FY2004. Other provisions in S. 10 include: providing an FMAP of 90% for costs associated with language services for individuals with limited English proficiency; expanding the authority for states to use certain funds (State Children’s Health Insurance Program) for Medicaid expenditures and receive the enhanced FMAP (the FMAP for SCHIP expenditures is referred to as an “enhanced FMAP”); and providing states with the option of allowing families of disabled children to purchase Medicaid coverage.

S. 106 would increase the FMAP for each state in the last two quarters of FY2003 and for all of FY2004 by 1.35 percentage points respectively. The bill also provides a hold-harmless provision for these 2 years to prevent declines in the FMAP (from the prior year) before the 1.35 percentage point increase, and an additional \$3 billion in temporary grants to states. The spending caps for the territories would be increased by 2.7% for the last 2 quarters of FY2003 and all of FY2004. The bill does not alter the DSH allotments (limits) for the states. The bill also provides tax cuts and \$5 billion for Workforce Investment Act activities in FY2003.

HR. 816 would increase the FMAP for each state in the last two quarters of FY2003 and for all of FY2004 by 2.0 percentage points respectively. There is also an additional 2.5 percentage point increase for high unemployment states. The bill also provides a hold-harmless provision for these 2 years to prevent declines in the FMAP (from the 2002 level) before the percentage point increases. The spending caps for the territories would be increased by 9.0% for the last 2 quarters of FY2003 and all of FY2004. The bill does not alter the DSH allotments (limits) for the states.

S. 414 would increase the FMAP for each state in the last two quarters of FY2003 and the first quarter of FY2004 by 3.76 percentage points respectively. The bill also

provides a hold-harmless provision for these 2 years to prevent declines in the FMAP (from the prior year) before the 3.76 percentage point increase. The spending caps for the territories would be increased by 7.52% for the last 2 quarters of FY2003 and the first quarter of FY2004. The bill does not alter the DSH allotments (limits) for the states. The bill also provides tax cuts and additional funding to states for homeland security and education.

S. 1012 and H.R. 2000 would increase the FMAP for each state in the last two quarters of FY2003 and for all of FY2004 by 3.73 percentage points respectively. The bill also provides a hold-harmless provision for these 2 years to prevent declines in the FMAP (from the prior year) before the 3.73 percentage point increase, and an additional \$15 billion in temporary grants to states. The spending caps for the territories would be increased by 7.46% for the last 2 quarters of FY2003 and all of FY2004. The bill also alter the DSH allotments (limits) for the states.

Other legislation introduced in the 108th Congress would change specific FMAPs rather than all FMAPs. The FMAP for Alaska for 2001 through 2005 is done using a 3-year per capita average income. S. 294 would make this formula permanent. H.R. 675 would increase the FMAP for the territories from 50% to 77%, and remove the spending caps. H.R. 2716 would increase the FMAP to 100% for services provided to individuals permitted to enter the United States under the Compact of Free Association, and remove payment for these services from the annual cap on payments to the territories.

The budget reconciliation bill, H.R. 2 (P.L. 108-27), contained a provision providing temporary fiscal relief for states and local governments. The bill provided \$10 billion to the states through changes in Medicaid financing. The FMAPs for the last 2 quarters of FY2003 and the first 3 quarters of FY2004 are held harmless for declines from the prior year, and 2.95 percentage points are added to the FMAPs. In addition, the spending caps for the territories are raised by 5.9% for the last 2 quarters of FY2003 and first 3 quarters of FY2004. The bill also provided \$5 billion in grants to the states (including the District of Columbia, Puerto Rico, and the territories) in both FY2003 and FY2004 based on population. The grant funds must be used for improving education or job training, health care services, transportation or other infrastructure, law enforcement or public safety, and maintaining essential government services.

P.L. 108-27 provided that to qualify for the increased FMAP payments, a state cannot have a Medicaid plan with more restrictive eligibility rules than the plan in effect on September 2, 2003. If a state restores the program eligibility to the levels in effect on September 2, 2003, then the state would qualify for increased matching payments for the entire quarter in which eligibility was reinstated. H.R. 2854 provides that if state reduces eligibility after September 2, 2003, and later restores eligibility to the September 2, 2003 levels, the state would qualify for the higher payments from the date of the eligibility restoration rather than for the entire calendar quarter.

If a state expands eligibility rules after the beginning of the higher payments (April 1, 2003) and before September 2, 2003, under P.L. 108-27 the state would not be eligible for the higher payments for the period beginning on April 1, 2003 to the date that eligibility was expanded. H.R. 2854 (P.L. 108-74) provides that under these circumstances, the state would be eligible for the higher payments.

Table 1 provides the FMAP for each state, the District of Columbia, and the territories for FY2002-FY2005, including the rates under H.R. 2 for FY2003 and FY2004.

**Table 1. Federal Medical Assistance Percentage (FMAP)
for FY2002-FY2005, by State**

State	FY2002	First 2 Quarters	FY2003 Last 2 Quarters (H.R. 2)	FY2004 First 3 Quarters (H.R. 2)	FY2004 Last Quarter	FY2005
Alabama	70.45	70.60	73.55	73.70	70.75	70.83
Alaska	57.38	58.27	61.22	61.34	58.39	57.58
Arizona	64.98	67.25	70.20	70.21	67.26	67.45
Arkansas	72.64	74.28	77.23	77.62	74.67	74.75
California	51.40	50.00	54.35	52.95	50.00	50.00
Colorado	50.00	50.00	52.95	52.95	50.00	50.00
Connecticut	50.00	50.00	52.95	52.95	50.00	50.00
Delaware	50.00	50.00	52.95	52.95	50.00	50.38
District of Columbia	70.00	70.00	72.95	72.95	70.00	70.00
Florida	56.43	58.83	61.78	61.88	58.93	58.90
Georgia	59.00	59.60	62.55	62.55	59.58	60.44
Hawaii	56.34	58.77	61.72	61.85	58.90	58.47
Idaho	71.02	70.96	73.97	73.91	70.46	70.62
Illinois	50.00	50.00	52.95	52.95	50.00	50.00
Indiana	62.04	61.97	64.99	65.27	62.32	62.78
Iowa	62.86	63.50	66.45	66.88	63.93	63.55
Kansas	60.20	60.15	63.15	63.77	60.82	61.01
Kentucky	69.94	69.89	72.89	73.04	70.09	69.60
Louisiana	70.30	71.28	74.23	74.58	71.63	71.04
Maine	66.58	66.22	69.53	69.17	66.01	64.89
Maryland	50.00	50.00	52.95	52.95	50.00	50.00
Massachusetts	50.00	50.00	52.95	52.95	50.00	50.00
Michigan	56.36	55.42	59.31	58.84	55.89	56.71
Minnesota	50.00	50.00	52.95	52.95	50.00	50.00
Mississippi	76.09	76.62	79.57	80.03	77.08	77.08
Missouri	61.06	61.23	64.18	64.42	61.47	61.15
Montana	72.83	72.96	75.91	75.91	72.85	71.90
Nebraska	59.55	59.52	62.50	62.84	59.89	59.64
Nevada	50.00	52.39	55.34	57.88	54.93	55.90
New Hampshire	50.00	50.00	52.95	52.95	50.00	50.00
New Jersey	50.00	50.00	52.95	52.95	50.00	50.00
New Mexico	73.04	74.56	77.51	77.80	74.85	74.30
New York	50.00	50.00	52.95	52.95	50.00	50.00
North Carolina	61.46	62.56	65.51	65.80	62.85	63.63
North Dakota	69.87	68.36	72.82	71.31	68.31	67.49
Ohio	58.78	58.83	61.78	62.18	59.23	59.68
Oklahoma	70.43	70.56	73.51	73.51	70.24	70.18

State	FY2002	First 2 Quarters	FY2003 Last 2 Quarters (H.R. 2)	FY2004 First 3 Quarters (H.R. 2)	FY2004 Last Quarter	FY2005
Oregon	59.20	60.16	63.11	63.76	60.81	61.12
Pennsylvania	54.65	54.69	57.64	57.71	54.76	53.84
Rhode Island	52.45	55.40	58.35	58.98	56.03	55.38
South Carolina	69.34	69.81	72.76	72.81	69.86	69.89
South Dakota	65.93	65.29	68.88	68.62	65.67	66.03
Tennessee	63.64	64.59	67.54	67.54	64.40	64.81
Texas	60.17	59.99	63.12	63.17	60.22	60.87
Utah	70.00	71.24	74.19	74.67	71.72	72.14
Vermont	63.06	62.41	66.01	65.36	61.34	60.44
Virginia	51.45	50.53	54.40	53.48	50.00	50.00
Washington	50.37	50.00	53.32	52.95	50.00	50.00
West Virginia	75.27	75.04	78.22	78.14	75.19	74.65
Wisconsin	58.57	58.43	61.52	61.38	58.41	58.32
Wyoming	61.97	61.32	64.92	64.27	59.77	57.90
America Samoa	50.00	50.00	52.95	52.95	50.00	50.00
Guam	50.00	50.00	52.95	52.95	50.00	50.00
N. Marina Islands	50.00	50.00	52.95	52.95	50.00	50.00
Puerto Rico	50.00	50.00	52.95	52.95	50.00	50.00
Virgin Islands	50.00	50.00	52.95	52.95	50.00	50.00

Source: Table prepared by the Congressional Research Service (CRS).