

CRS Report for Congress

Received through the CRS Web

Budget Reconciliation FY2006: Provisions Affecting the Medicaid Federal Medical Assistance Percentage (FMAP)

April Grady
Analyst in Social Legislation
Domestic Social Policy Division

Summary

The federal medical assistance percentage (FMAP) is the rate at which states are reimbursed for most Medicaid service expenditures. The FY2006 budget reconciliation bills passed by the House (H.R. 4241) and Senate (S. 1932) include provisions that would affect state FMAPs for Medicaid in a number of ways. This report describes these provisions and estimates their impact on FY2006 FMAPs. It will be updated as legislative activity warrants.

Background

The federal medical assistance percentage (FMAP) is the rate at which states are reimbursed for most Medicaid service expenditures. It is based on a formula that provides higher reimbursement to states with lower per capita incomes relative to the national average (and vice versa); it has a statutory minimum of 50% and maximum of 83%.¹ An enhanced FMAP is available for both services and administration under the State Children's Health Insurance Program (SCHIP), subject to the availability of funds from a state's SCHIP allotment.²

When FMAPs are calculated by the Department of Health and Human Services (HHS) for an upcoming fiscal year (usually in the preceding November), the state and U.S. per capita personal income amounts used in the formula are equal to the average of the three most recent calendar years of data available from the Department of Commerce's Bureau of Economic Analysis (BEA). For example, to calculate FMAPs for FY2006, HHS used per capita personal income data for 2001, 2002, and 2003 that became available from BEA in October 2004.

¹ For more detailed information, see CRS Report RL32950, *Medicaid: The Federal Medical Assistance Percentage (FMAP)*, by Christine Scott.

² The impact of reconciliation provisions on SCHIP FMAPs is not addressed in this report.

BEA revises its most recent estimates of state per capita personal income on an annual basis to incorporate revised Census Bureau population figures and newly available source data. It also undertakes a comprehensive data revision — reflecting methodological and other changes — every few years that may result in upward and downward revisions to each of the component parts of personal income, which include:

- wages and salaries;
- supplements to wages and salaries (such as employer contributions for employee pension and insurance funds);
- proprietors' income; and
- dividends, interest, and rent.

As a result of these annual and comprehensive revisions, it is often the case that the value of a state's per capita personal income for a given year will change over time. For example, the 2001 per capita personal income data published by BEA in October 2003 (used in the calculation of FY2005 FMAPs) differed from the 2001 per capita personal income published in October 2004 (used in the calculation of FY2006 FMAPs).

Reconciliation Proposals

In the FY2006 budget resolution adopted by the House and Senate on April 28, 2005 (H.Con.Res. 95), reconciliation instructions directed the two committees with jurisdiction over Medicaid to reduce mandatory FY2006-FY2010 outlays by \$10 billion (Senate Finance) and \$14.734 billion (House Energy and Commerce). While the budget resolution did not instruct the two committees on how to achieve these savings targets, Medicaid is one of the larger mandatory spending programs that falls under their jurisdictions.³

On November 3, 2005, the Senate approved a budget reconciliation bill (S. 1932) that proposes changes to various aspects of the Medicaid program. It includes FMAP provisions that would:

- temporarily increase FMAPs for states affected by Hurricane Katrina;
- prevent FY2006 and FY2007 FMAPs for Alaska from falling below the state's FY2005 level; and
- limit FY2006 FMAP reductions for all states.

The House reconciliation bill (H.R. 4241) passed on November 18, 2005, also includes FMAP provisions that would:

- temporarily increase FMAPs for states affected by Hurricane Katrina;
- exclude certain Hurricane Katrina evacuees and their income for purposes of calculating state FMAPs; and
- disregard employer contributions toward pensions in the calculation of FMAPs if they exceed a certain threshold.

³ For more information on Medicaid and budget reconciliation, see CRS Report RL33131, *Budget Reconciliation FY2006: Medicaid, Medicare, and State Children's Health Insurance Provisions*, by Evelyne Baumrucker et al.

Table 1 provides more information on these provisions. **Table 2** shows the estimated impact of selected provisions on FY2006 FMAPs.

Table 1. FY2006 Budget Reconciliation Provisions Affecting Medicaid FMAPs

FMAP provision	S. 1932	H.R. 4241
Increase for Katrina relief	Section 6032. For items and services furnished during the period of August 28, 2005 through May 15, 2006, states would receive 100% FMAP reimbursement for Medicaid and SCHIP assistance provided to individuals who resided during the week preceding Hurricane Katrina in one of the parishes of Louisiana or counties of Mississippi and Alabama specified in the bill. Costs directly attributable to related administrative activities would also be reimbursed at 100%. ^a	Section 3021. For items and services furnished during the period of August 28, 2005 through May 15, 2006, states would receive 100% FMAP reimbursement for Medicaid and SCHIP assistance provided to (1) any individual residing in a parish of Louisiana, a county of Mississippi, or a major disaster county of Alabama and (2) individuals who resided during the week preceding Hurricane Katrina in a parish or county for which a major disaster has been declared as a result of the hurricane and for which the President has determined, as of September 14, 2005, that individual assistance under the Stafford Act is warranted. Costs directly attributable to related administrative activities would also be reimbursed at 100%. ^b
Adjustment related to Hurricane Katrina evacuees	No provision.	Section 3205. In computing FMAPs for Medicaid and SCHIP for any year after 2006 for a state that the Secretary of HHS determines has a significant number of individuals who were evacuated to and live in the state as a result of Hurricane Katrina as of October 1, 2005, the Secretary of HHS would disregard such evacuees and their incomes. ^c
Alaska	Section 6032. If Alaska's calculated FMAP for FY2006 or FY2007 is less than its FY2005 FMAP, the FY2005 FMAP would apply.	No provision.
Limitation on FY2006 reduction	Section 6037. FY2006 FMAPs would be re-computed so that no FY2006 FMAP would be less than the greater of (1) a state's FY2005 FMAP minus 0.5 percentage points (0.1 in the case of Delaware and Michigan, 0.3 in the case of Kentucky), or (2) the FY2006 FMAP that would have been determined for a state if per capita incomes for 2001 and 2002 that were used to calculate the state's FY2005 FMAP were used.	No provision.

FMAP provision	S. 1932	H.R. 4241
Employer pension contributions	No provision.	Section 3148. For purposes of computing state FMAPs beginning with FY2006, employer contributions toward pensions would be disregarded in computing a state's per capita income (but not U.S. per capita income) if they exceed 50% of the state's total increase in personal income for a period.

Source: Congressional Research Service.

Note: S. 1932 passed the Senate on November 3, 2005. H.R. 4241 passed the House on November 18, 2005.

- a. The parishes (31 in Louisiana) and counties (47 in Mississippi, 11 in Alabama) specified in the bill appear to be those that had been designated for individual assistance following Hurricane Katrina as of the date the Senate Finance Committee approved its reconciliation proposal (October 25, 2005). On October 27, two additional counties in Mississippi were designated for individual assistance. These counties are not listed in the bill.
- b. According to *Federal Register* notices from the Federal Emergency Management Agency (FEMA), 31 parishes in Louisiana, 47 counties in Mississippi, and 10 counties in Alabama had been designated for individual assistance following Hurricane Katrina as of September 14, 2005.
- c. It is unclear whether the intent of this provision (described in the bill as "FMAP hold harmless for Katrina impact") is to prevent both increases *and* decreases in state FMAPs that may result from the presence of Hurricane Katrina evacuees. States with lower per capita incomes relative to the national average receive higher FMAPs (and vice versa). In theory, if Hurricane Katrina evacuees have low incomes, they could have a dampening effect on a state's per capita income, which could serve to increase the state's FMAP. As written, the provision would require evacuees and their incomes to be disregarded even if their inclusion would *increase* a state's FMAP.

**Table 2. Medicaid FMAPs Under Current Law
and Under Selected Provisions of S. 1932 and H.R. 4241**

State	Medicaid FMAP under current law					FMAP under Section 6037 of S. 1932 (limitation on FY2006 reduction) ^a		FMAP under Section 3148 of H.R. 4241 (disregard of extraordinary employer pension contribution) ^b	
	FY05	FY06	FY07 estimate ^c	FY05-FY06 actual change	FY06-FY07 estimated change ^c	FY06 estimate	Estimated change from current law	FY06 estimate	Estimated change from current law
Alabama	70.83	69.51	68.85	-1.32	-0.66	70.33	0.82	69.51	0.00
Alaska ^d	57.58	50.16	51.07	-7.42	0.91	57.08	6.92	50.16	0.00
Arizona	67.45	66.98	66.47	-0.47	-0.51	67.35	0.37	66.98	0.00
Arkansas	74.75	73.77	73.37	-0.98	-0.40	74.25	0.48	73.77	0.00
California	50.00	50.00	50.00	0.00	0.00	50.00	0.00	50.00	0.00
Colorado	50.00	50.00	50.00	0.00	0.00	50.00	0.00	50.00	0.00
Connecticut	50.00	50.00	50.00	0.00	0.00	50.00	0.00	50.00	0.00
Delaware	50.38	50.09	50.00	-0.29	-0.09	50.28	0.19	50.11	0.02
District of Columbia	70.00	70.00	70.00	0.00	0.00	70.00	0.00	70.00	0.00
Florida	58.90	58.89	58.76	-0.01	-0.13	58.92	0.03	58.89	0.00
Georgia	60.44	60.60	61.97	0.16	1.37	60.84	0.24	60.60	0.00
Hawaii	58.47	58.81	57.55	0.34	-1.26	58.81	0.00	58.81	0.00
Idaho	70.62	69.91	70.36	-0.71	0.45	70.44	0.53	69.91	0.00
Illinois	50.00	50.00	50.00	0.00	0.00	50.00	0.00	50.00	0.00
Indiana	62.78	62.98	62.61	0.20	-0.37	62.98	0.00	63.04	0.06
Iowa	63.55	63.61	61.98	0.06	-1.63	63.61	0.00	63.61	0.00
Kansas	61.01	60.41	60.25	-0.60	-0.16	60.54	0.13	60.56	0.15
Kentucky	69.60	69.26	69.58	-0.34	0.32	69.30	0.04	69.26	0.00
Louisiana	71.04	69.79	69.69	-1.25	-0.10	70.54	0.75	69.79	0.00
Maine	64.89	62.90	63.27	-1.99	0.37	64.39	1.49	62.90	0.00
Maryland	50.00	50.00	50.00	0.00	0.00	50.00	0.00	50.00	0.00
Massachusetts	50.00	50.00	50.00	0.00	0.00	50.00	0.00	50.00	0.00
Michigan	56.71	56.59	56.38	-0.12	-0.21	56.61	0.02	56.88	0.29
Minnesota	50.00	50.00	50.00	0.00	0.00	50.00	0.00	50.00	0.00
Mississippi	77.08	76.00	75.89	-1.08	-0.11	76.58	0.58	76.00	0.00
Missouri	61.15	61.93	61.60	0.78	-0.33	61.93	0.00	61.93	0.00
Montana	71.90	70.54	69.11	-1.36	-1.43	71.40	0.86	70.60	0.06
Nebraska	59.64	59.68	57.93	0.04	-1.75	59.68	0.00	59.82	0.14
Nevada	55.90	54.76	53.93	-1.14	-0.83	55.89	1.13	54.76	0.00
New Hampshire	50.00	50.00	50.00	0.00	0.00	50.00	0.00	50.00	0.00
New Jersey	50.00	50.00	50.00	0.00	0.00	50.00	0.00	50.00	0.00
New Mexico	74.30	71.15	71.93	-3.15	0.78	73.80	2.65	71.15	0.00
New York	50.00	50.00	50.00	0.00	0.00	50.00	0.00	50.00	0.00
North Carolina	63.63	63.49	64.52	-0.14	1.03	63.77	0.28	63.50	0.01
North Dakota	67.49	65.85	64.72	-1.64	-1.13	66.99	1.14	65.87	0.02
Ohio	59.68	59.88	59.66	0.20	-0.22	59.88	0.00	59.92	0.04

State	Medicaid FMAP under current law					FMAP under Section 6037 of S. 1932 (limitation on FY2006 reduction) ^a		FMAP under Section 3148 of H.R. 4241 (disregard of extraordinary employer pension contribution) ^b	
	FY05	FY06	FY07 estimate ^c	FY05-FY06 actual change	FY06-FY07 estimated change ^c	FY06 estimate	Estimated change from current law	FY06 estimate	Estimated change from current law
Oklahoma	70.18	67.91	68.14	-2.27	0.23	69.68	1.77	67.91	0.00
Oregon	61.12	61.57	61.07	0.45	-0.50	61.67	0.10	61.57	0.00
Pennsylvania	53.84	55.05	54.39	1.21	-0.66	55.05	0.00	55.05	0.00
Rhode Island	55.38	54.45	52.35	-0.93	-2.10	54.88	0.43	54.45	0.00
South Carolina	69.89	69.32	69.54	-0.57	0.22	69.46	0.14	69.32	0.00
South Dakota	66.03	65.07	62.92	-0.96	-2.15	65.53	0.46	65.07	0.00
Tennessee	64.81	63.99	63.65	-0.82	-0.34	64.31	0.32	63.99	0.00
Texas	60.87	60.66	60.78	-0.21	0.12	61.32	0.66	60.83	0.17
Utah	72.14	70.76	70.14	-1.38	-0.62	71.77	1.01	70.76	0.00
Vermont	60.11	58.49	58.93	-1.62	0.44	59.61	1.12	58.49	0.00
Virginia	50.00	50.00	50.00	0.00	0.00	50.00	0.00	50.00	0.00
Washington	50.00	50.00	50.12	0.00	0.12	50.00	0.00	50.00	0.00
West Virginia	74.65	72.99	72.82	-1.66	-0.17	74.15	1.16	72.99	0.00
Wisconsin	58.32	57.65	57.47	-0.67	-0.18	57.82	0.17	57.65	0.00
Wyoming	57.90	54.23	52.91	-3.67	-1.32	57.40	3.17	54.23	0.00

Source: FY2005-FY2006 actual FMAPs were obtained from Department of Health and Human Services (HHS) notices published in the *Federal Register*. Other figures are Congressional Research Service estimates based on analysis of data from the Department of Commerce's Bureau of Economic Analysis (BEA), *State and Regional Tables* (Oct. 2003) and *State Personal Income* (Oct. 2004 and Oct. 2005) and personal communication with BEA.

Note: Provisions affecting FMAPs for Alaska and states affected by Hurricane Katrina are not shown. See **Table 1** for more information.

- Among the 31 states with an FY2006 FMAP increase under this provision, 11 (AZ, GA, HI, ID, KS, NV, NC, OR, SC, TX, and UT) benefit most from the use of 2001 and 2002 per capita incomes used to calculate the state's FY2005 FMAP (i.e., 2001 and 2002 amounts that were available prior to BEA's most recent data revisions). The remaining 20 states have a higher FY2006 FMAP under the provision language that limits FY2006 FMAP reductions to 0.5 percentage points (0.1 in the case of DE and MI, 0.3 in the case of KY).
- As the bill language reads, *aggregate* employer contributions toward pensions would be disregarded if they exceed 50% of a state's total increase in personal income. However, the table figures assume that the intent of the provision is to disregard *increases* in such contributions. The figures also provide an overestimate of the provision's impact on FMAPs because they include employer contributions for both pension and insurance (health, life, etc.) funds, which cannot be identified separately from each other in state-level BEA data. Calculations are based on changes in employer contributions and total personal income for 2001-2002 and 2002-2003 (i.e., the three years of data used by HHS to calculate FY2006 FMAPs). Due to BEA revisions, comparable 2000 data required to calculate 2000-2001 changes are not available. As a result, the calculations disregard "extraordinary" employer contributions in 2002 and 2003, but not in 2001.
- Actual FY2007 FMAPs have yet to be published by HHS. Estimates were calculated using October 2005 BEA data.
- P.L. 106-554 (Consolidated Appropriations Act, 2001), provided that for FY2001-FY2005, Alaska's FMAP would be calculated using the state's per capita income divided by 1.05. Dividing by 1.05 lowered the state's per capita income, thereby increasing its FMAP.