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

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Summary

The federal medical assistance percentage (FMAP) is the rate at which states are reimbursed for most Medicaid service expenditures. Provisions that (1) exclude certain Hurricane Katrina evacuees and their incomes from FMAP calculations and (2) prevent Alaska's FY2006 and FY2007 FMAPs from falling below the state's FY2005 level were included in the Deficit Reduction Act (DRA) of 2005 (S. 1932, enacted as P.L. 109-171). This report provides information on these enacted DRA provisions and on Senate-passed and House-passed FMAP provisions that were not included in the final bill. It will not be updated.

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

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

² Impacts on SCHIP are not addressed in this report. Although the FMAP is also used in determining federal share of certain child support enforcement collections, Temporary Assistance for Needy Families (TANF) contingency funds, a portion of the Child Care and Development Fund (CCDF), and foster care and adoption assistance under Title IV-E of the Social Security Act, budget reconciliation provisions did not affect FMAPs for these programs.

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 FY2007, HHS used per capita personal income data for 2002, 2003, and 2004 that became available from BEA in October 2005.

BEA revises its most recent estimates of state per capita personal income on an annual basis to incorporate revised and newly available source data on population and income. 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 (as defined in BEA's national income and product accounts, or NIPA). These components include

- earnings (wages and salaries, employer contributions for employee pension and insurance funds, and proprietors' income);
- dividends, interest, and rent; and
- personal current transfer receipts (e.g., government social benefits such as Social Security, Medicare, Medicaid, unemployment insurance, etc.).

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 2002 per capita personal income data published by BEA in October 2004 (used in the calculation of FY2006 FMAPs) differed from the 2002 per capita personal income published in October 2005 (used in the calculation of FY2007 FMAPs).

FY2006 Budget Reconciliation

The Senate initially approved a FY2006 budget reconciliation bill on November 3, 2005 (S. 1932) with FMAP provisions that would have

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

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

- temporarily increased FMAPs for states affected by Hurricane Katrina;
- excluded certain Hurricane Katrina evacuees and their incomes for purposes of calculating FMAPs; and
- disregarded employer contributions toward pensions in the calculation of FMAPs if they exceeded a certain threshold.

A conference report on S. 1932 (H.Rept. 109-362) containing some FMAP provisions was filed on December 19, 2005. The House agreed to the report that day, but the Senate passed an amended version and returned it to the House for another vote.

Ultimately, the House passed the amended bill, which was enacted as P.L. 109-171 — the Deficit Reduction Act (DRA) of 2005 — on February 8, 2006.³

Table 1 provides more information on the Senate-passed, House-passed, and enacted DRA 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, as initially passed by Senate on Nov. 3, 2005	H.R. 4241, as passed by House on Nov. 18, 2005	P.L. 109-171, enacted on Feb. 8, 2006
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	No provision. ^c
Adjustment related to Hurricane Katrina evacuees	No provision.	Section 3205. In computing Medicaid and SCHIP FMAPs 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 would disregard such evacuees and their incomes. ^d	Section 6053. Follows the House bill.
Alaska	Section 6032. If Alaska's FY2006 or FY2007 FMAP for Medicaid or SCHIP is less than	No provision.	Section 6053. Follows the Senate bill.

³ See CRS Report RL33251, *Side-by-Side Comparison of Medicare, Medicaid, and SCHIP Provisions in the Deficit Reduction Act of 2005*, by Karen Tritz, et al.

FMAP provision	S. 1932, as initially passed by Senate on Nov. 3, 2005	H.R. 4241, as passed by House on Nov. 18, 2005	P.L. 109-171, enacted on Feb. 8, 2006
	its FY2005 FMAP, the FY2005 FMAP would apply.		
Limitation on FY2006 reduction	Section 6037. FY2006 FMAPs for Medicaid and SCHIP 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.	No provision.
Employer pension contributions	No provision.	Section 3148. For purposes of computing Medicaid 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.	No provision.

Source: Congressional Research Service.

- 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. Section 6201 of the law appropriates \$2 billion for use by the Secretary of HHS to pay eligible states for, among other things, the non-federal (i.e., state) share of expenditures for Medicaid and SCHIP assistance provided to certain individuals affected by Hurricane Katrina. While FMAPs are not directly affected, the provision allows for an increase in the federal share of a state's Medicaid and SCHIP expenditures.
- d. It is unclear whether the intent of this provision (described in the bill as "hold harmless for Katrina impact") is to prevent both increases *and* decreases in FMAPs that may result from the presence of 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 to be disregarded even if their inclusion would *increase* a state's FMAP. It appears as though the first FMAP year for which the provision could apply is FY2008, when 2005 per capita personal income data (the first year for which evacuees and their incomes could be disregarded) would first be used by HHS (see text for a discussion of FMAP timing).

**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 as initially passed by Senate (limitation on FY2006 reduction) ^a	FMAP under Section 3148 of H.R. 4241 as passed by House (disregard of extraordinary employer pension contribution) ^b		
	FY05	FY06	FY07	FY05-FY06 change	FY06-FY07 change	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 ^c	57.58	57.58	57.58	0.00	0.00	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 as initially passed by Senate (limitation on FY2006 reduction) ^a	FMAP under Section 3148 of H.R. 4241 as passed by House (disregard of extraordinary employer pension contribution) ^b		
	FY05	FY06	FY07	FY05-FY06 change	FY06-FY07 change	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-FY2007 current law 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 Department of Commerce, Bureau of Economic Analysis (BEA), *State and Regional Tables* (Oct. 2003) and *State Personal Income* (Oct. 2004), and personal communication with BEA.

Note: Neither of the provisions shown here were included in the final budget reconciliation bill (DRA, enacted as P.L. 109-171). See **Table 1** for more information.

- a. Among the 31 states that would have 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 would 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).
- b. 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.
- c. Alaska's Medicaid FMAP used an alternative formula for FY2001-FY2005 and will not fall below its FY2005 level for FY2006-FY2007 as a result of DRA. Prior to DRA, Alaska had reverted to using the same FMAP calculation as other states, providing an FY2006 FMAP of 50.16% and FY2007 FMAP of 51.07%.