

THE MEDICAID MATCHING FORMULA: RESPONDING TO STATES IN TIMES OF NEED

States and the federal government share the cost of serving Medicaid beneficiaries. The specific percent that the federal government reimburses a state is referred to as the federal medical assistance percentage (FMAP) and is calculated for each state according to a formula which is based on the per capita income. The average FMAP is 57 percent, but it ranges from 50 percent (one federal dollar for each state dollar spent) to almost 80 percent (four federal dollars for each state dollar).¹

FMAPs are recalculated and published annually (between October 1 and November 30) in the Federal Register. Thus, FMAPs for fiscal year 2007 (which began October 1, 2006), were published on November 30, 2005.² The FMAP for each state is based on the squared value of state per capita income (PCI) relative to the U.S. average.³ The formula is designed to give relatively poor states (as measured by per capita personal income) more federal dollars than wealthier states. The federal matching rate for each state is calculated on the basis of its PCI in relation to national PCI and is expressed as follows:⁴

$$\text{FMAP} = 100 - .45 \times [(\text{State PCI}) / (\text{U.S. PCI})]$$

The personal income data used to develop the FMAPs are based on a three-year average of data published by the Department of Commerce. One often cited shortcoming associated with the use of three year old data is that it results in FMAPs that do not necessarily respond to changes in individual state economic circumstances.⁵ For example, states facing fiscal problems in 2007 may have low FMAPs because the calculation is based on PCI data from 2002 to 2004, when the state economies may have been stronger. Conversely, states may have higher FMAPs during better economic times because the data used is from a period when the state economy

was weaker. This phenomenon is known as countercyclical FMAP.

During economic downturns, high rates of unemployment, public health emergencies, or other unexpected events (such as hurricanes or terrorist attacks), more people depend on Medicaid. Yet under the program's current financing mechanism, Medicaid can be most vulnerable to funding shortfalls when circumstances create the greatest need.⁶ Many policymakers believe that the federal government should share a greater burden of these costs with the states and local governments.

Examples of ways in which the formula could be revised to make FMAPs more responsive to changes in states' fiscal circumstances include the following:

- Shorten the time period on which average per capita income is based.
- Apply FMAPs in the same fiscal year in which they are published.
- Increase the FMAP by 1 percentage point in states with high unemployment.⁷

¹ Cindy Shirk, Issue Brief No. 3: *Making Medicaid Work for the 21st Century* (National Academy for State Health Policy, Portland, ME, November 2004).

² Vic Miller and Andy Schneider. *The Medicaid Matching Formula: Policy Considerations and Options for Modification* (AARP Public Policy Institute, Washington, DC, September 2004).

³ The .45 multiplier, established in statute, determines the average state share of total Medicaid expenses. A smaller multiplier would increase the federal share of program costs and a larger one would reduce the federal share. The statute also stipulates that no state shall bear more than 50 percent of total costs, regardless of the result of applying the formula. *Supra*, notes 1 & 2.

⁴ *Supra*, note 1.

⁵ It is worth noting that the current three-year average of PCI data helps to improve the stability and predictability of each state's FMAP over time. This is useful for states because they are able to better predict the amount of federal funding they will receive and they are better able to plan their budgets. *Supra*, notes 1 & 2.

⁶ Community Health Forum Magazine. *The Future of the Medicaid Program* (National Governors Association, Washington, DC, January 2005).

⁷ *Supra.* note 2.

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