



Medicaid and State Budgets: Looking at the Facts

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Medicaid covered 60.9 million people in 2006, including 29.5 million children and 5.5 million people over 65.¹ As more states have turned to Medicaid to cover residents, and as health care costs have risen, Medicaid costs have grown. Since Medicaid is funded by states as well as the federal government, it has a considerable impact on state budgets. Medicaid's role in state budgets, however, is more nuanced than the headlines frequently suggest. When considering Medicaid's impact on state budgets and other state spending priorities, it is important to distinguish between *total* spending on Medicaid and spending with *state funds*. Often this distinction is not made. This brief examines the different measures and provides data on how much each state spends on Medicaid.

Key Findings:

- It is often reported that states spend, on average, almost 23 percent of their state budgets on Medicaid, but this figure can be misleading because it considers *federal* as well as *state* funds. On average, federal funds account for 56.7 percent of all Medicaid spending. Average *state* spending on Medicaid as a share of *state general fund* budgets is actually 17.9 percent, and, just 14.4 percent as a share of *total* state spending.
- In some states with more favorable federal Medicaid matching rates, the different measures can result in dramatically different stories because federal funds can account for as much as two-thirds to three-quarters of Medicaid spending. For example, using the measure commonly cited, Medicaid accounts for 30.4 percent of total spending in Mississippi, but when state general funds are counted and federal funds are excluded, Medicaid's share of the Mississippi budget drops to just 6.1 percent.
- Rather than preventing states from spending on other priorities, federal funds coming into a state to pay for Medicaid services actually help states finance other priorities. For example, Medicaid often pays for the medical services associated with child welfare programs or special education services for children; this helps those programs stretch their state dollars. In addition, federal dollars to states for Medicaid services free up state dollars for other priorities that would otherwise have been spent on health care.

Table 1 (page 6) shows state and federal Medicaid spending as a share of state expenditures for all states.²



Introduction

Medicaid is the largest single source of health care coverage in the nation. About half of its enrollees are children, but the lion's share of the costs are for adults with significant health and long term care needs – the elderly and people with disabilities. Nearly half of all nursing home care in the country is financed by Medicaid.

Growth in Medicaid costs is due primarily to the generally rising cost of health care, the role Medicaid plays in addressing the growing problem of the uninsured, and Medicaid's largely unrecognized responsibility filling in the gaps in Medicare coverage. In response to growing costs, states have adopted a number of cost containment mechanisms and over the past few years Medicaid cost growth has slowed.³ While this, along with an improved economic climate, has created fewer pressures for state budgets in recent years, states do face challenges, especially in the long term as the population ages. Medicaid is funded jointly by the federal and state governments; currently states finance, on average, 43.3 percent of Medicaid spending.⁴ While Medicaid constitutes a significant portion of state budgets, discussions about Medicaid are often confused or misleading because inappropriate measures are sometimes used to explain Medicaid's impact on state budgets.⁵

Measuring the Squeeze: Different Numbers, Different Story

Data collected by the National Association of State Budget Officers (NASBO) show how states spend their funds and provide insight into the different ways that Medicaid affects state budgets. The numbers often cited show Medicaid's share of *total* expenditures for each state – including spending that

is financed with *federal* dollars. However, when the question is, “How does Medicaid spending affect states' budgets and/or their ability to finance other state priorities, such as education?” it is more appropriate to consider the level and percent of *state* funds that are spent on Medicaid.

Payments that a state receives from the federal government to help finance Medicaid-covered health care do not squeeze out state spending for education, corrections or other state priorities. Federal Medicaid funds must be spent on Medicaid services. Indeed, as discussed below, federal Medicaid funds help relieve state financing pressures by freeing up state and local funds that would otherwise be spent on health care, allowing those freed-up funds to be spent on other programs and services.

Figure 1 compares spending on Medicaid looking at state general fund spending, all state source spending (that is, state general funds and state special funds but excluding federal funds) and spending including federal funds. (See text box below for an explanation of these terms.) Often, the figure cited is the 22.9 percent figure, which represents total Medicaid expenditures – both state *and* federal. When state general funds are considered and federal funds are excluded, Medicaid's share of spending drops to 17.9 percent, still considerable, but much less than the commonly cited figure. If all state spending is considered, Medicaid's share drops to 14.4 percent.⁶

Figure 2 looks at these same Medicaid spending figures and compares them to spending for education, another key state spending priority. While it appears that Medicaid spending outpaces spending on K-12 education, this is the case only when federal funds are considered. When federal funds are

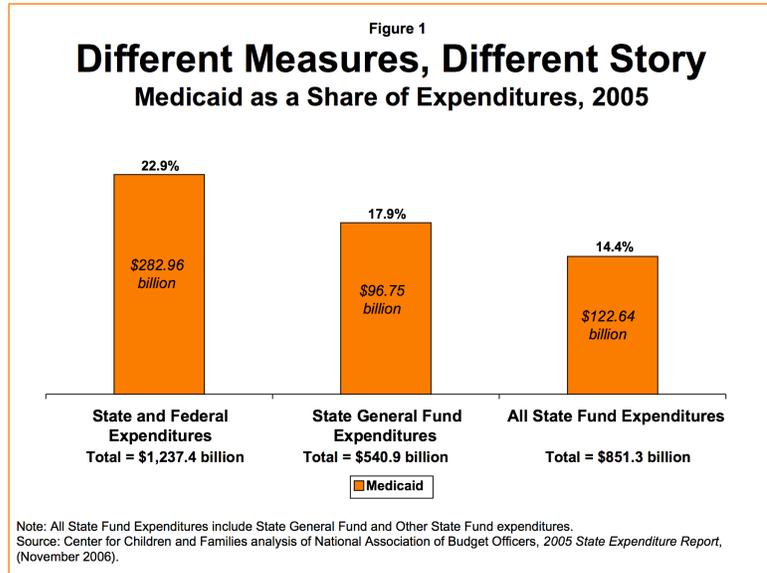


excluded, K-12 education accounts for a significantly greater share of state spending than Medicaid (Figure 2).⁷

Different States, Different Story

The figures discussed above are for the nation as a whole. The different measures will produce even more dramatically different results in some states, particularly those with higher-than-average federal Medicaid matching rates. For example, in Mississippi, where the federal matching rate is 77.08 percent,⁸ Medicaid (federal funds, state general funds and other state funds) accounts for 30.4 percent of total spending, but when federal funds are excluded, Medicaid's share of state spending drops to 6.1 percent (considering state general funds only) or 13.7 percent (considering state general funds and other state funds). The comparison with education spending also becomes more stark. When federal and state funds are considered, education spending falls far short of Medicaid spending (30.4 percent compared with 22.4 percent in Mississippi), but when only state funds are considered, the share of funds spent on education is more than double the share spent on Medicaid (28.6 percent compared to 13.7 percent; Figure 3).

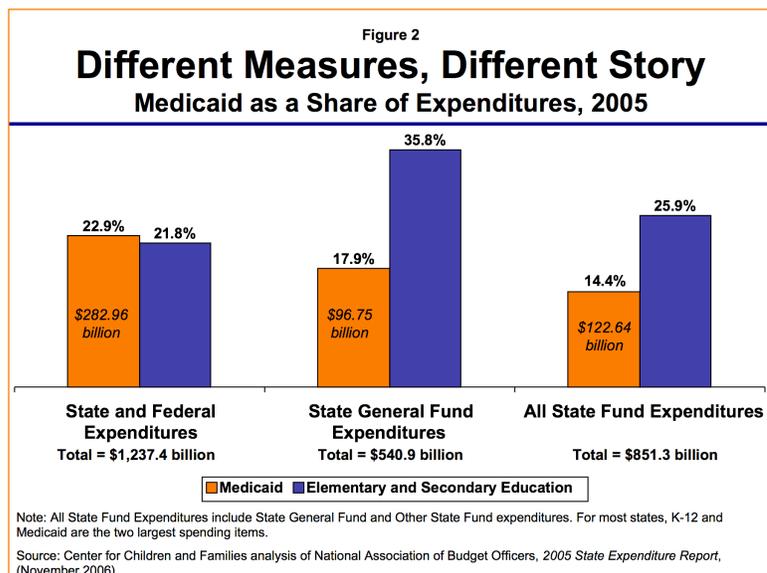
Similarly, in New Mexico, Medicaid spending accounts for 23 percent of total spending, but only 10.7 percent of state general fund spending. When state general funds and other state funds are considered, Medicaid accounts for only 9.4 percent of state spending.



The education spending comparison also changes dramatically depending upon the spending sources that are considered (Figure 4).

The Value of Federal Funds

Rather than being a drain on state budgets, the federal Medicaid funds spent by each state make a significant contribution to that state's ability to provide its residents access to health care. In 2005, federal Medicaid payments to states totaled \$160.3 billion;

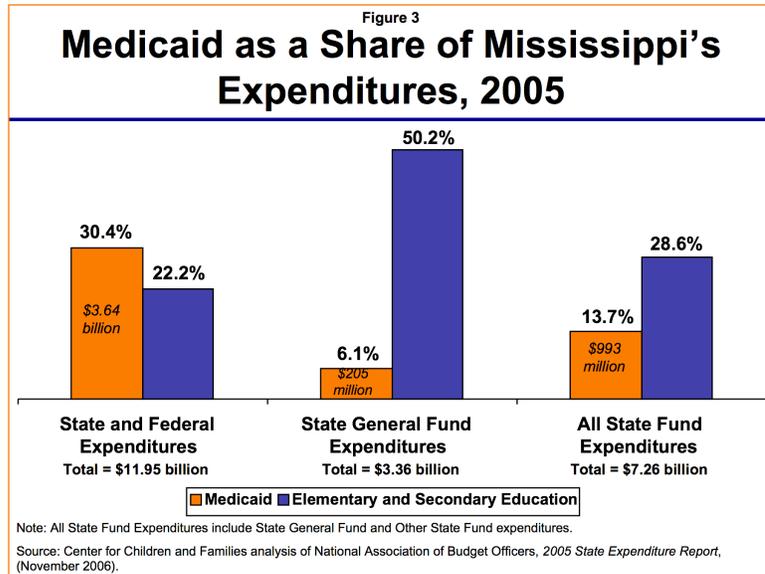




Medicaid was the single largest source of federal grants to states (Figure 5).

In addition to helping states provide coverage and long-term care services to their residents, federal Medicaid funds provide direct and indirect help to states in a number of ways:

- Federal Medicaid funds directly support priorities often cited as competing with Medicaid. For example, Medicaid strengthens and supports educational opportunities for children by funding the health care components of early intervention services, Head



Start, and special education. Medicaid also helps finance child welfare services

State Funds—Explaining the Terms

The NASBO data divides state funds into two broad categories: “state general funds” and “other state funds.” The “general fund,” according to NASBO, is the “predominant fund for financing a state’s operations.” It is where broad-based state taxes (e.g., income and sales taxes) are deposited. By contrast, “other state funds” are from restricted revenue sources, such as gas taxes earmarked for highway construction and tobacco settlement funds used for health care and public health initiatives.

All states rely on their general fund to finance Medicaid, but some states use special fund dollars as well. Nationwide, 9.1 percent of “other state funds” were used for Medicaid in 2005, but the pattern varies widely; nine states spent no “other state funds” on Medicaid in 2005. The sources for each state’s spending should be examined to determine whether it is more appropriate for that state to look only at state general funds or at all state sources of funds.

- In some states, if only general fund spending is considered, a significant amount of other state funds spent on Medicaid might be overlooked. That could understate Medicaid’s impact on state finances. Similarly, in states that do not spend much or any of their “other state funds” on Medicaid but do spend these state funds on other key priorities, it would be important to consider these sources to get a fuller picture of state spending.
- For example, in Table 1 it appears that the share of expenditures from Michigan’s general fund consumed by Medicaid is approximately equal to the share of total state and federal Medicaid expenditures as a share of total state and federal spending (21.5 percent compared to 21.4 percent). However, this anomaly occurs because Michigan funds its K-12 education through a special state education fund rather than its general fund. When total state expenditures, rather than general fund expenditures are considered, Medicaid’s share of state spending decreases dramatically, to 12.9 percent.
- Some states report federal spending in their general fund spending, which can also cause confusion. In Ohio, certain federal reimbursements and block grants (including Medicaid funds) are deposited directly into the state’s general fund. When these funds are spent on Medicaid, they are counted as state general fund expenditures rather than federal fund expenditures.* This accounting practice makes it appear that Medicaid expenditures actually take up a greater share of the state’s general fund expenditures than they do when federal revenue to the state is included.

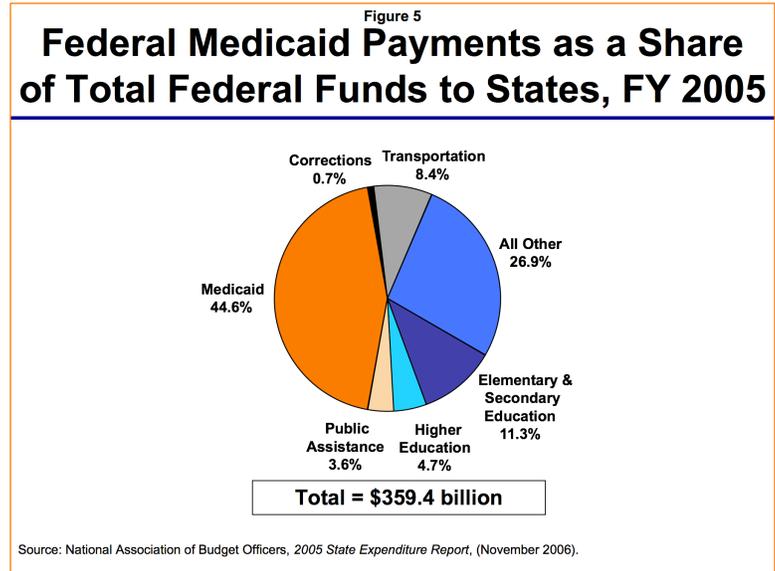
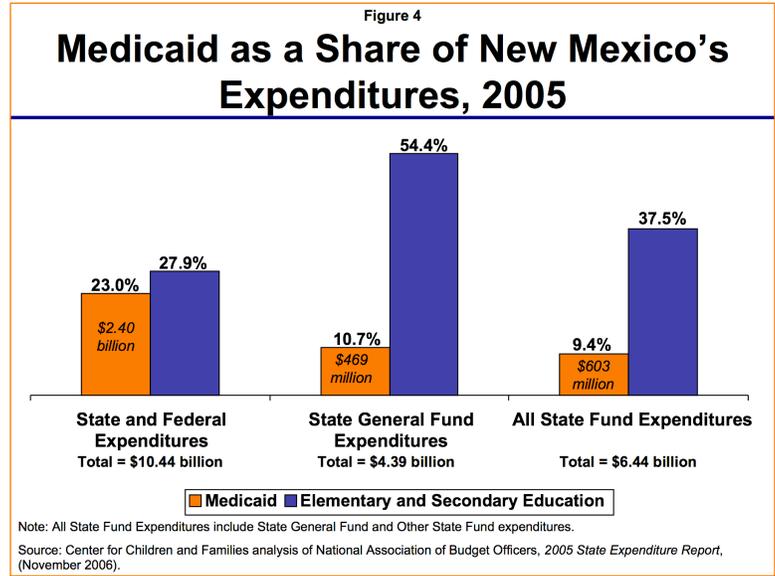
*For example, see page 12 of G. Moody, “Ohio Medicaid Basics, 2007,” The Ohio Health Policy Institute (February 2007).

and an array of public health initiatives in many states.

- Federal Medicaid payments indirectly help states finance other priorities by freeing up state dollars that otherwise would have been spent on health care. For example, a range of community mental health services that most states finance through Medicaid would likely be provided – but paid for with state or local dollars – if federal Medicaid funds were not available. The state (and local) funds not spent on health care as a result of the federal Medicaid funds are potentially available for other priorities, such as education.
- Federal Medicaid funding flows to local communities and contributes to local economies by creating jobs, financing the purchase of medical supplies and other goods and services, and thereby generating additional state and local tax revenues. All of the studies that have estimated the effect of federal Medicaid payments on state and local economies have found a strong, positive impact.⁹

Conclusion

States need more resources and tools to deal with rising health care costs, an aging population, and the increasing demand for long term care. Misunderstandings and mischaracterizations of Medicaid’s impact on state budgets and budget priorities, however, cloud rather than illuminate these important issues. Instead of helping to move the public debate toward workable solutions, misleading analyses of Medicaid’s role in state budgets



may lead to results that are harmful not only to the program’s ability to do its job but also to the longer term health of state and local finances.

**Table 1: Medicaid as a Percent of State Expenditures, FY 2005**

State	State Medicaid Expenditures as a Share of State General Fund Expenditures	State Medicaid Expenditures as a Share of State General Fund and Other State Fund Expenditures	State and Federal Medicaid Expenditures as a Share of Total State and Federal Expenditures
Alabama	7.4%	11.2%	23.3%
Alaska	11.3%	6.4%	11.8%
Arizona	12.2%	9.0%	19.5%
Arkansas	15.0%	7.7%	21.0%
California	15.4%	16.0%	20.6%
Colorado	20.6%	12.0%	17.6%
Connecticut	21.7%	21.3%	17.6%
Delaware	12.2%	9.4%	14.8%
Florida	17.8%	14.8%	23.8%
Georgia	12.6%	14.6%	22.2%
Hawaii	8.6%	5.4%	10.4%
Idaho	13.6%	12.2%	21.9%
Illinois	20.2%	18.3%	28.3%
Indiana	14.3%	9.1%	17.7%
Iowa	10.5%	9.3%	18.9%
Kansas	16.4%	12.4%	20.4%
Kentucky	11.0%	9.8%	22.0%
Louisiana	13.5%	15.5%	33.3%
Maine	22.2%	16.3%	31.1%
Maryland	21.7%	14.1%	20.9%
Massachusetts	14.8%	14.5%	22.8%
Michigan	21.5%	12.9%	21.4%
Minnesota	16.8%	13.6%	21.6%
Mississippi	6.1%	13.7%	30.4%
Missouri	19.0%	18.7%	34.3%
Montana	11.5%	7.4%	17.3%
Nebraska	19.8%	10.9%	19.2%

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State	State Medicaid Expenditures as a Share of State General Fund Expenditures	State Medicaid Expenditures as a Share of State General Fund and Other State Fund Expenditures	State and Federal Medicaid Expenditures as a Share of Total State and Federal Expenditures
Nevada	14.8%	9.1%	16.2%
New Hampshire	31.4%	20.7%	27.6%
New Jersey	13.4%	11.7%	18.2%
New Mexico	10.7%	9.4%	23.0%
New York	15.9%	15.4%	29.2%
North Carolina	14.2%	12.0%	23.9%
North Dakota	17.9%	8.6%	16.1%
Ohio	39.2%	26.1%	24.8%
Oklahoma	15.5%	10.3%	19.5%
Oregon	17.9%	8.0%	16.1%
Pennsylvania	23.6%	22.4%	32.4%
Rhode Island	25.5%	18.2%	27.5%
South Carolina	12.6%	11.7%	24.0%
South Dakota	20.7%	9.2%	18.5%
Tennessee	26.9%	23.8%	35.7%
Texas	24.0%	17.7%	27.3%
Utah	6.3%	7.0%	16.4%
Vermont	22.6%	12.5%	23.1%
Virginia	17.4%	8.8%	13.6%
Washington	24.6%	14.6%	22.4%
West Virginia	8.6%	3.8%	11.8%
Wisconsin	14.0%	7.1%	13.8%
Wyoming	7.9%	3.4%	7.7%
ALL STATES	17.9%	14.4%	22.9%

Source: Georgetown Health Policy Institute analysis based on "2005 State Expenditure Report." National Association of State Budget Officers, Fall 2006.

Notes: See "Medicaid Notes" in NASBO report, pages 52-53, regarding how federal and state funds are deposited and/or reported. Comparisons across states can be misleading; for example, some states include local funds and others do not.



**Table 2: Medicaid Federal Match Rate (FMAP), FY 2008**

State	Federal Medical Assistance Percentages, FY 2008
Alabama	67.62%
Alaska	52.48%
Arizona	66.20%
Arkansas	72.94%
California	50.00%
Colorado	50.00%
Connecticut	50.00%
Delaware	50.00%
District of Columbia	70.00%
Florida	56.83%
Georgia	63.10%
Hawaii	56.50%
Idaho	69.87%
Illinois	50.00%
Indiana	62.69%
Iowa	61.73%
Kansas	59.43%
Kentucky	69.78%
Louisiana	72.47%
Maine	63.31%
Maryland	50.00%
Massachusetts	50.00%
Michigan	58.10%
Minnesota	50.00%
Mississippi	76.29%
Missouri	62.42%
Montana	68.53%
Nebraska	58.02%
Nevada	52.64%
New Hampshire	50.00%

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State	Federal Medical Assistance Percentages, FY 2008
New Jersey	50.00%
New Mexico	71.04%
New York	50.00%
North Carolina	64.05%
North Dakota	63.75%
Ohio	60.79%
Oklahoma	67.10%
Oregon	60.86%
Pennsylvania	54.08%
Rhode Island	52.51%
South Carolina	69.79%
South Dakota	60.03%
Tennessee	63.71%
Texas	60.53%
Utah	71.63%
Vermont	59.03%
Virginia	50.00%
Washington	51.52%
West Virginia	74.25%
Wisconsin	57.62%
Wyoming	50.00%
Average FMAP	58.45%
Median FMAP	60.03%

Source: Federal Register: November 30, 2006 (Volume 71, Number 230), pp. 69209-69211. Available online: <http://aspe.hhs.gov/health/fmap08.htm>.





Endnotes

¹ Congressional Budget Office, “Fact Sheet for CBO’s March 2007 Baseline: Medicare” (March 6, 2007)

² All total expenditures are capital inclusive.

³ L. Ku, “Medicaid Costs are Growing More Slowly Than Costs for Medicare or Private Insurance,” Center on Budget and Policy Priorities (November 13, 2006).

⁴ National Association of State Budget Offices, “Fiscal Year 2005 State Expenditure Report,” (Fall, 2006).

⁵ State funds spent on Medicaid are matched by the federal government, with the federal match rate (known as “FMAP”) ranging from a minimum of 50 percent up to 76 percent. (Medicaid expenditures for some selected services and supports are matched at a higher rate for all states.) As such, at least half, and in some cases, over three-quarters, of total state Medicaid expenditures are paid for with federal, and not state, dollars. See Table 2 for the federal matching rates for the 50 states and the District of Columbia.

⁶ All State funds include state general funds and other state funds but excludes federal funds.

⁷ National and state data are from the National Association of State Budget Officers, “2005 State Expenditure Report,” (Fall, 2006) available at www.nasbo.org. This analysis does not consider local spending which is far more significant for K-12 education than for Medicaid. According to the Department of Education, 37.1 percent of funding for education comes from local funds, see <http://www.ed.gov/about/overview/fed/10facts/index.html>.

⁸ This figure represents Mississippi’s match rate in 2005, the same year as the NASBO data used in this report. Mississippi’s FY 2008 match rate, the latest available, is 76.29 percent.

⁹ A. Carbaugh, “The Role of Medicaid in State Economies: A Look at the Research,” Kaiser Commission on Medicaid and the Uninsured (April 2004).



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