

Medicaid and State Budgets: Looking at the Facts

Medicaid covered 60.5 million people in 2007, including 29.5 million children and 5.6 million adults over age 65.¹ Over the years as more states have turned to Medicaid to cover residents who lack other affordable options, and as health care costs have risen, Medicaid costs have grown. In addition, when the economy weakens more people become uninsured. Many will turn to Medicaid for coverage. The value of Medicaid's coverage role is unmistakable, but 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. Additionally, it is important to consider the positive impact the federal share of Medicaid funds has on a state's ability to finance services and to balance its budget.

This brief examines the different measures of Medicaid spending and provides data on how much each state spends on Medicaid. Table 1 (page 6) shows state and federal Medicaid spending as a share of state expenditures for all states.²

Key Findings

- It is often reported that states spend, on average, almost 22 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 56.2 percent of all Medicaid spending. Average *state* spending on Medicaid as a share of *state general fund* budgets is actually 16.8 percent, and, just 13.4 percent as a share of spending from *all state funds*.
- 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 total Medicaid spending. For example, using the measure commonly cited, Medicaid accounts for 22.4 percent of total spending in Mississippi, but when only state general funds are counted and federal funds are excluded, Medicaid's share of the Mississippi budget drops to just 7.8 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 special education services for children and covers the cost of services, such as community mental health care, that states or localities would pay for in the absence of Medicaid; this helps stretch their state and local 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.

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, namely the elderly and people with disabilities – nearly half of all nursing home care in the country is financed by Medicaid.³

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.⁴ As the economy has weakened, however, Medicaid costs can again be expected to grow because as people lose their jobs, they lose their health insurance and many will turn to Medicaid.⁵ The federal and state governments fund Medicaid jointly; states finance about 40 percent of Medicaid spending, on average.⁶ 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.⁷

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 add to a state's budget woes, nor do they 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.

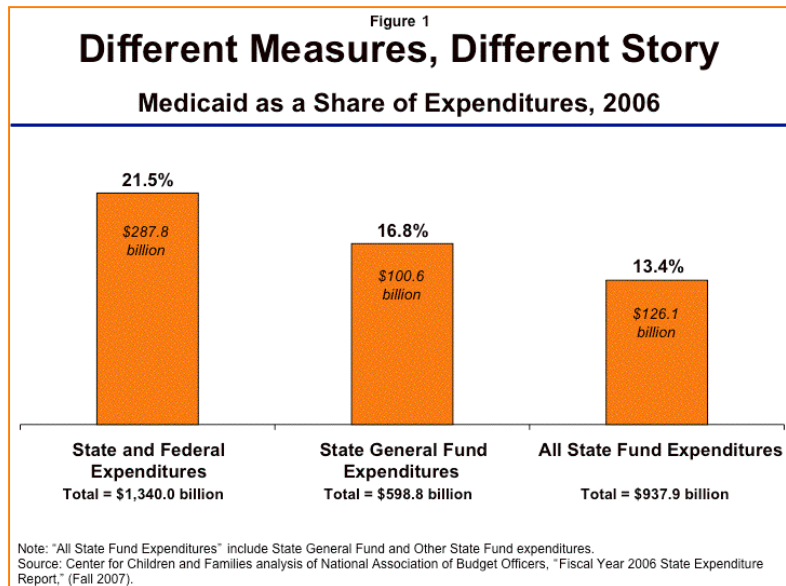
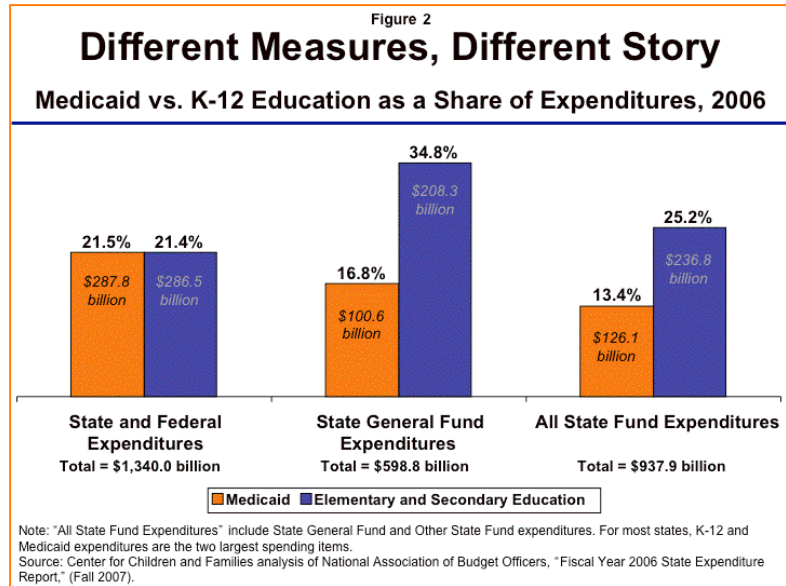


Figure 1 compares spending on Medicaid looking at state general fund spending, all state spending (that is, state general funds and state special funds but excluding federal funds) and spending including federal funds. (See page 5 for an explanation of these terms.) Often, the figure cited is the 21.5 percent figure, which represents total Medicaid expenditures, that is, both state *and* federal. When

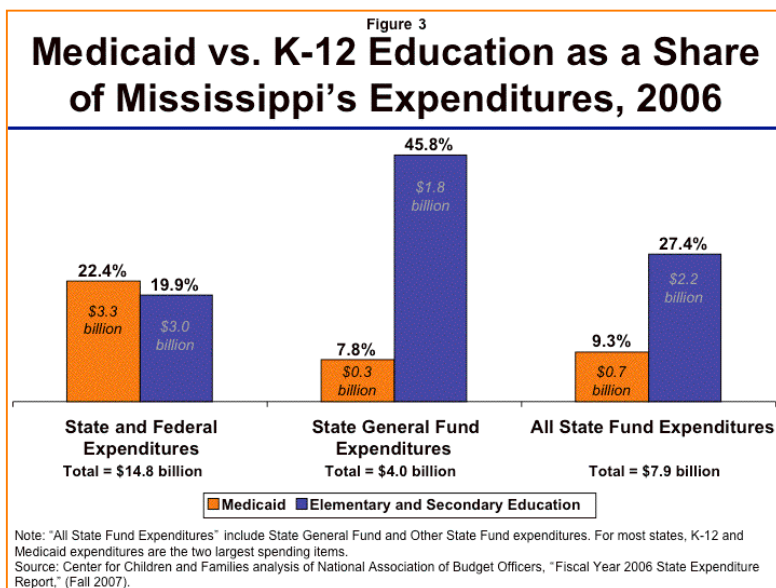
only state general funds are considered and federal funds are excluded, Medicaid's share of spending drops to 16.8 percent, still considerable, but much less than the commonly cited figure. If all state spending is considered, Medicaid's share drops to 13.4 percent.⁸

Figure 2 looks at these same Medicaid spending measures and compares them to similar spending measures 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.⁹



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 was 76 percent in 2006 (Table 2, page 7), Medicaid (federal funds, state general funds and other state funds) accounts for 22.4 percent of total spending, but when federal funds are excluded, Medicaid's share of state spending drops to 7.8 percent (considering state general funds only) or 9.3 percent (considering state general funds and other state funds). The comparison with education spending is also starker in Mississippi than in the U.S. as a whole. When federal and state funds are considered, education spending falls short of Medicaid spending (19.9 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 (27.4 percent compared to 9.3 percent; Figure 3).



Similarly, in New Mexico, Medicaid spending accounts for 21.5 percent of total spending, but only 10.9 percent of state general fund spending. When state general funds and other state funds are considered, Medicaid accounts for only 8.5 percent of state spending. The education spending comparison also changes dramatically depending upon the spending sources 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 2006, federal Medicaid payments to states totalled \$161 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 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.

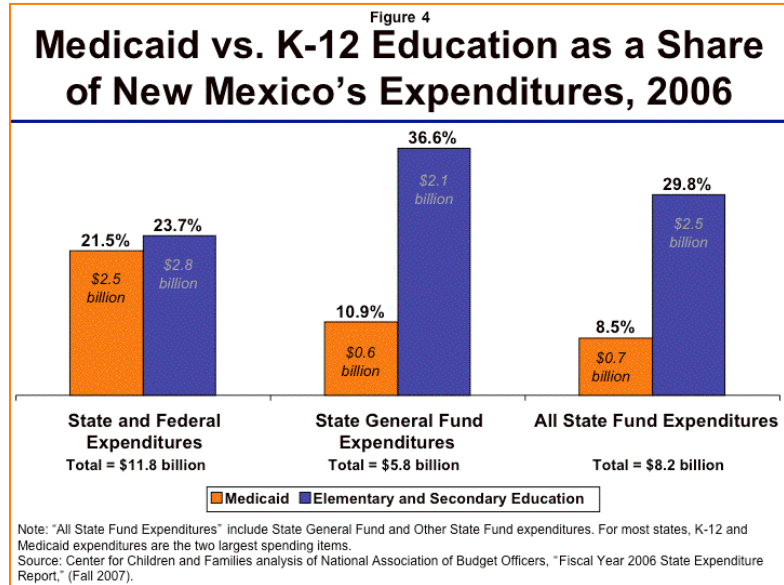
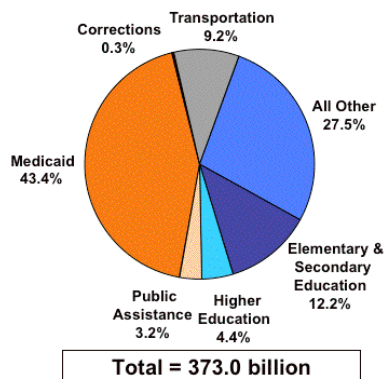


Figure 5

Federal Medicaid Payments as a Share of Total Federal Funds to States, FY 2006



Source: Center for Children and Families analysis of National Association of Budget Officers, "Fiscal Year 2006 State Expenditure Report," (Fall 2007).

- 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.¹⁰

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.

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, 7.5 percent of “other state funds” were used for Medicaid in 2006, but the pattern varies widely; six states spent no “other state funds” on Medicaid in 2006. 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 (page 6) it appears that the share of expenditures from Michigan's general fund consumed by Medicaid is similar to the share of total state and federal Medicaid expenditures as a share of total state and federal spending (24.0 percent compared to 20.1 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 12.4 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).

Table 1: Medicaid as a Percent of State Expenditures, FY 2006

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	3.9%	5.3%	12.6%
Alaska	11.1%	6.1%	11.1%
Arizona	15.8%	11.5%	24.0%
Arkansas	14.8%	7.9%	20.5%
California	13.3%	12.1%	18.0%
Colorado	20.1%	11.1%	17.0%
Connecticut	21.7%	19.8%	17.4%
Delaware	14.4%	10.6%	16.6%
Florida	16.1%	13.9%	22.5%
Georgia	12.0%	11.9%	20.2%
Hawaii	8.3%	5.2%	10.3%
Idaho	13.9%	12.1%	21.8%
Illinois	19.4%	18.6%	26.2%
Indiana	11.8%	9.8%	21.6%
Iowa	12.0%	10.5%	18.1%
Kansas	14.8%	10.5%	18.9%
Kentucky	11.6%	9.5%	21.4%
Louisiana	10.3%	7.9%	21.7%
Maine	24.0%	18.0%	32.0%
Maryland	19.0%	12.5%	19.0%
Massachusetts	15.9%	11.2%	17.6%
Michigan	24.0%	12.4%	20.1%
Minnesota	16.8%	13.8%	21.5%
Mississippi	7.8%	9.3%	22.4%
Missouri	18.6%	17.8%	32.9%
Montana	10.7%	6.9%	16.3%
Nebraska	19.9%	10.5%	18.2%
Nevada	13.4%	8.9%	15.7%
New Hampshire	29.4%	18.5%	24.7%
New Jersey	15.2%	13.6%	21.2%
New Mexico	10.9%	8.5%	21.5%
New York	17.8%	17.0%	29.0%
North Carolina	14.6%	13.8%	25.1%
North Dakota	16.8%	8.4%	15.4%
Ohio	40.2%	26.4%	25.1%
Oklahoma	15.6%	9.6%	18.4%
Oregon	14.7%	7.8%	15.5%
Pennsylvania	24.8%	22.6%	31.9%
Rhode Island	23.5%	15.9%	23.3%
South Carolina	12.3%	10.4%	21.6%
South Dakota	20.8%	11.7%	21.5%
Tennessee	21.8%	17.5%	29.3%
Texas	17.3%	17.9%	25.9%
Utah	7.1%	7.5%	17.0%
Vermont	14.8%	9.4%	18.0%
Virginia	16.1%	9.6%	14.8%
Washington	21.7%	14.4%	21.8%
West Virginia	8.9%	3.4%	10.4%
Wisconsin	11.1%	6.8%	13.4%
Wyoming	5.5%	2.8%	6.6%
ALL STATES	16.8%	13.4%	21.5%

Source: Center for Children and Families analysis of National Association of Budget Officers, "Fiscal Year 2006 State Expenditure Report," (Fall 2007). See "Medicaid Notes" on pages 52-53 regarding how federal and state funds are deposited/reported. Comparisons across states can be misleading (e.g., some states include local funds and others do not).

Table 2: Medicaid Federal Match Rate (FMAP), FY 2006 – FY 2009

State	FMAP FY 2006	FMAP FY 2007	FMAP FY 2008	FMAP FY 2009
Alabama	69.51%	68.85%	67.62%	67.98%
Alaska	50.16%	57.58%	52.48%	50.53%
Arizona	66.98%	66.47%	66.20%	65.77%
Arkansas	73.77%	73.37%	72.94%	72.81%
California	50.00%	50.00%	50.00%	50.00%
Colorado	50.00%	50.00%	50.00%	50.00%
Connecticut	50.00%	50.00%	50.00%	50.00%
Delaware	50.09%	50.00%	50.00%	50.00%
District of Columbia	70.00%	70.00%	70.00%	70.00%
Florida	58.89%	58.76%	56.83%	55.40%
Georgia	60.60%	61.97%	63.10%	64.49%
Hawaii	58.81%	57.55%	56.50%	55.11%
Idaho	69.91%	70.36%	69.87%	69.77%
Illinois	50.00%	50.00%	50.00%	50.32%
Indiana	62.98%	62.61%	62.69%	64.26%
Iowa	63.61%	61.98%	61.73%	62.62%
Kansas	60.41%	60.25%	59.43%	60.08%
Kentucky	69.26%	69.58%	69.78%	70.13%
Louisiana	69.79%	69.69%	72.47%	71.31%
Maine	62.90%	63.27%	63.31%	64.41%
Maryland	50.00%	50.00%	50.00%	50.00%
Massachusetts	50.00%	50.00%	50.00%	50.00%
Michigan	56.59%	56.38%	58.10%	60.27%
Minnesota	50.00%	50.00%	50.00%	50.00%
Mississippi	76.00%	75.89%	76.29%	75.84%
Missouri	61.93%	61.60%	62.42%	63.19%
Montana	70.51%	69.11%	68.53%	68.04%
Nebraska	59.68%	57.93%	58.02%	59.54%
Nevada	54.76%	53.93%	52.64%	50.00%
New Hampshire	50.00%	50.00%	50.00%	50.00%
New Jersey	50.00%	50.00%	50.00%	50.00%
New Mexico	71.15%	71.93%	71.04%	70.88%
New York	50.00%	50.00%	50.00%	50.00%
North Carolina	63.49%	64.52%	64.05%	64.60%
North Dakota	65.85%	64.72%	63.75%	63.15%
Ohio	59.88%	59.66%	60.79%	62.14%
Oklahoma	67.91%	68.14%	67.10%	65.90%
Oregon	61.57%	61.07%	60.86%	62.45%
Pennsylvania	55.05%	54.39%	54.08%	54.52%
Rhode Island	54.45%	52.35%	52.51%	52.59%
South Carolina	69.32%	69.54%	69.79%	70.07%
South Dakota	65.07%	62.92%	60.03%	62.55%
Tennessee	63.99%	63.65%	63.71%	64.28%
Texas	60.66%	60.78%	60.53%	59.44%
Utah	70.76%	70.14%	71.63%	70.71%
Vermont	58.49%	58.93%	59.03%	59.45%
Virginia	50.00%	50.00%	50.00%	50.00%
Washington	50.00%	50.12%	51.52%	50.94%
West Virginia	72.99%	72.82%	74.25%	73.73%
Wisconsin	57.65%	57.47%	57.62%	59.39%
Wyoming	54.23%	52.91%	50.00%	50.00%
Average FMAP	60.19%	60.06%	59.87%	59.97%
Median FMAP	60.41%	60.25%	60.03%	60.27%

Source: 69, *Fed. Reg.* 68370-68373 (24 November 2004); 70, *Fed. Reg.* 71856-71857 (30 November 2005); 71, *Fed. Reg.* 28041-28042 (15 May 2006); 71, *Fed. Reg.* 69209-69211 (30 November 2006); 72, *Fed. Reg.* 67304-67306 (28 November 2007); and 72, *Fed. Reg.* 62985 (7 December 2007); available online at <http://aspe.hhs.gov/health/fmap.htm>.

Endnotes

¹ Congressional Budget Office, “Fact Sheet for CBO’s March 2008 Baseline: Medicaid” (March 11, 2008).

² All total expenditures are capital inclusive.

³ In 2006, federal and state Medicaid funds accounted for 43 percent of all national nursing home health expenditures; A. Catlin, *et al.*, “National Health Spending In 2006: A Year of Change for Prescription Drugs,” *Health Affairs*, 24: 1-16 (January/February 2008).

⁴ L. Ku, “Medicaid Costs are Growing More Slowly Than Costs for Medicare or Private Insurance,” Center on Budget and Policy Priorities (November 13, 2006).

⁵ S. Dorn, *et al.*, “Medicaid, SCHIP, and Economic Downturn: Policy Challenges and Policy Responses,” Kaiser Commission on Medicaid and the Uninsured (April 28, 2008).

⁶ Center for Children and Families analysis of FY06 Federal Medical Assistance Percentage; see Table 2.

⁷ The federal government matches state funds spent on Medicaid, based on a state’s federal medical assistance percentage (FMAP) match rate, as shown in Table 2. The FMAP determined for each state has a statutory minimum of 50 percent and maximum of 83 percent; although 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.

⁸ “All state spending” includes state general funds and other state funds but excludes federal funds.

⁹ 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, in 2004-2005, 46 percent of K-12 education funding came from the states and 37 percent came from local funds, see <http://www.ed.gov/about/overview/fed/10facts/index.html>.

¹⁰ A. Carbaugh, “The Role of Medicaid in State Economies: A Look at the Research,” Kaiser Commission on Medicaid and the Uninsured (April 2004).

Acknowledgements

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