

### Key Findings:

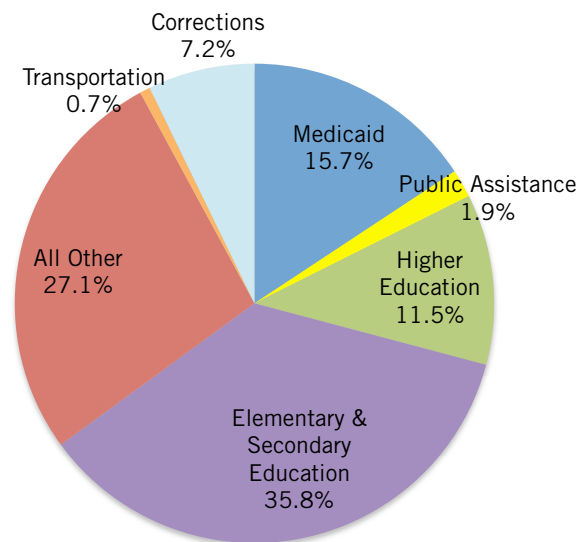
- In 2009, Medicaid constituted 15.7 percent of state general fund spending, far less than what was spent on elementary and secondary education.
- While total spending on Medicaid increased by 7.8 percent in 2009, due to increased enrollment during the recession, state spending on Medicaid declined as a result of federal fiscal relief.
- Over the last fifteen years, Medicaid spending as a share of state general funds has remained relatively constant, increasing by about one percentage point.

**Introduction.** The worst recession since the Great Depression has left states with declining revenues and large budget deficits. As unemployment increased, a record number of people were living in poverty and more than 50 million people were uninsured in 2009. In the midst of this bleak economic situation, Medicaid and the Children's Health Insurance Program (CHIP) continued to fulfill their historic roll, stepping in to fill the gap in coverage for low- and moderate-income children and families as people lost coverage when they became unemployed.

Largely as a result of the increased enrollment, in 2009 total spending on Medicaid increased by 7.8 percent. However, during this time, the American Recovery and Reinvestment Act (ARRA) helped states cope with increased Medicaid costs by providing much needed fiscal relief, and little of the increase in spending was born by the states. In fact, state spending on Medicaid actually declined by three percent in 2009. Despite this decline in state spending, Medicaid continues to make up a large share of state budgets, but its role is far more nuanced than is frequently portrayed. This fact sheet is designed to provide a short overview of the role of Medicaid, the sources of spending, the impact of fiscal relief, and historic trends.

**Medicaid's Role in Coverage.** Since 1965, Medicaid has been a vital source of insurance, providing affordable, comprehensive coverage to low- and moderate-income children and families, as well as seniors and people with disabilities. It is the nation's number one source of funding for long-term care services and is an essential component of our health care system. As of June 2010, more than 50 million people were enrolled in Medicaid,<sup>1</sup> including one-third of all chil-

Figure 1  
General Fund Expenditures,  
Fiscal Year 2009



dren and more than half of all low-income children.<sup>2</sup> Because of poor economic conditions, Medicaid enrollment rose by nearly six million between December 2007 and December 2009, which largely accounts for growth in program spending during the recession.<sup>3</sup>

**Sources of Spending.** Financing for Medicaid is shared between the states and the federal government, with the federal government covering, on average, 57 percent of the costs (see Table 1 for state matching rates). It is often misleadingly suggested that Medicaid consumes a larger share of state budgets than any other item because the numbers cited to make this point include the federal Medicaid matching funds states receive. However, when considering how Medicaid spending impacts state budgets and other priorities for state dollars, it is more accurate to

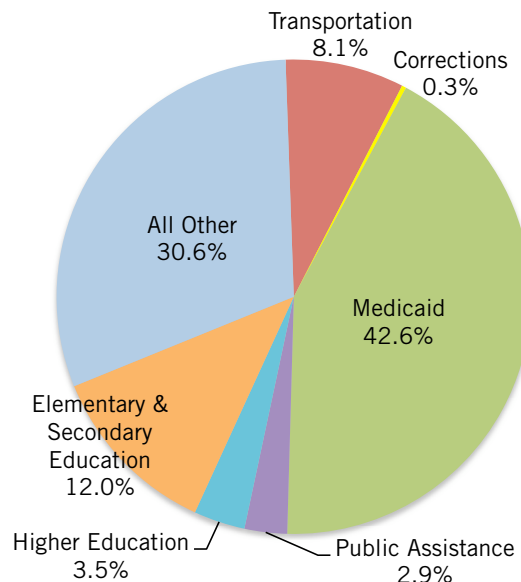
examine state spending, rather than total (state and federal) spending

In 2009, Medicaid constituted 15.7 percent of state general fund spending, leaving it well behind elementary and secondary education (see Figure 1 on page 1). In fact, as shown above, states spent nearly twice as much of their own money on elementary and secondary education (35.8 percent) as on Medicaid (for state-specific data, see Table 2).<sup>4</sup> When federal matching funds are included, however, the share of spending shifts with total (state and federal) spending in Medicaid accounting for 21.1 percent of total state spending, which is just slightly less than total (state and federal) spending on elementary and secondary education (21.7 percent).<sup>5</sup>

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. In 2009, of the \$457 billion in federal funds directed to the states, 42.6 percent was for Medicaid, representing the single largest source of federal grants to the states (see Figure 2).<sup>6</sup>

**The Impact of Fiscal Relief.** The recession has presented a continuing challenge to states faced with substantially diminished revenues and formidable budget deficits. As demand for services increased, ARRA has helped states cope by providing much needed fiscal relief. In fiscal year 2009, total Medicaid spending was \$327 billion, an increase of 7.8 percent from fiscal year 2008. However, while federal spending rose by 16.6 percent, state funding actually

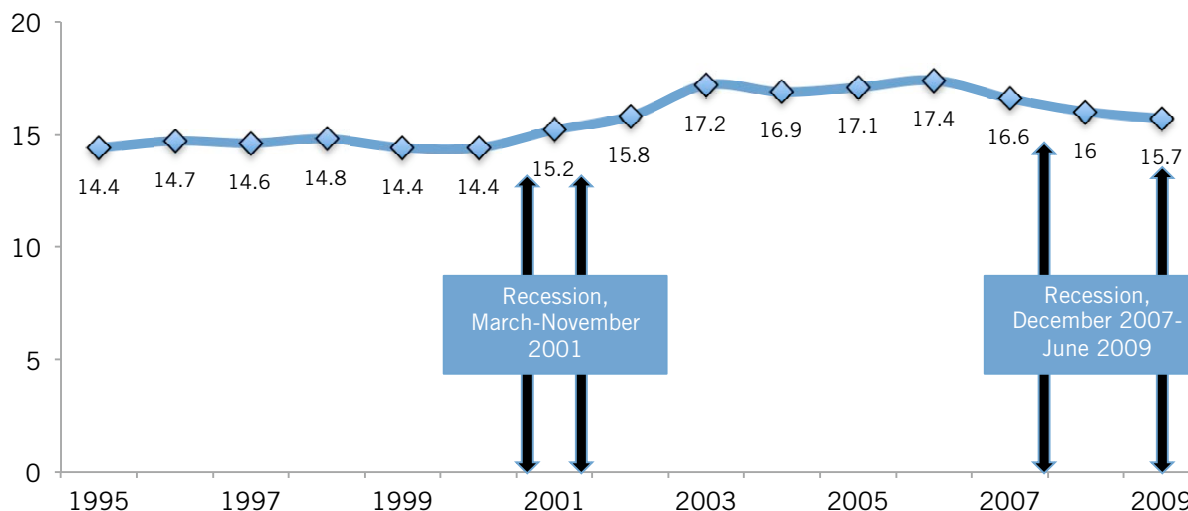
Figure 2  
Federal Fund Expenditures,  
Fiscal Year 2009



decreased by 3 percent due to increased funding from ARRA.<sup>7</sup> This significant fiscal relief allowed states to continue Medicaid coverage by providing a substantial infusion of federal funds to cover the costs associated with the recession.

**Historic Trends.** Looking back over the last fifteen years, Medicaid spending as a share of the state general funds has increased modestly (about one percentage point since 1995) (see Figure 3). The share has fluctuated slightly over time, reaching a height of 17.4 percent in 2006, before declining to the current share

Figure 3  
Share of State General Fund Spent on Medicaid



of 15.7 percent.<sup>8</sup> It is important to note, however, that during this time period, actual state spending has increased. In 1995, total general fund spending on Medicaid was \$50.1 billion;<sup>9</sup> by 2009, the total more than doubled to \$103.4 billion.<sup>10</sup> So while the share of state general fund spending on Medicaid has remained relatively consistent over time, overall state spending, both within Medicaid and in other programs, has increased.

**Conclusion.** While funding for Medicaid is a significant portion of state budgets, the true impact is often overstated. During the current recession, enrollment and spending have increased, but the majority of the cost growth has been covered by the fiscal relief provided through ARRA. Beginning July 1, 2011 (the next fiscal year), this relief will no longer be available to states. As their matching rates return to the standard levels, states may face continued enrollment growth without a full recovery in revenues. There are signs of an economic recovery, but, despite three consecutive quarters of growth, state tax revenues are still lower than two years ago.<sup>11</sup>

States legitimately face difficult decisions when it comes to the resources and tools required to deal with rising health care costs, an aging population, and the increasing demand for coverage, especially in light of their ongoing budget deficits. However, mischaracterizations of Medicaid's impact on state budgets may lead to results that are harmful not only to the program's ability to fulfill its vital role, but also to the longer term health of state and local finances.

#### Endnotes.

1. Kaiser Commission on Medicaid and the Uninsured, "Medicaid Enrollment: June 2010 Data Snapshot" (February 23, 2011).
2. Kaiser Commission on Medicaid and the Uninsured, "Health Coverage of Children: The Role of Medicaid and CHIP" (February 2011).
3. J. Holahan, et al., "Medicaid Spending Growth over the Last Decade and the Great Recession, 2000-2009," Kaiser Commission on Medicaid and the Uninsured (February 23, 2011).
4. The state general fund is the main source for financing a state's operations. All states rely on general funds to finance Medicaid, but some

states also use other state funds, which come from restricted revenue sources, such as tobacco settlement funds.

5. National Association of State Budget Officers, "2009 State Expenditure Report" (December 2010).
6. Ibid.
7. Ibid.
8. Ibid.
9. National Association of State Budget Officers, "1996 State Expenditure Report" (April 1997).
10. op. cit. (5).
11. L. Dadayan & D. Boyd, "State Tax Revenues Gained New Strength in Fourth Quarter," Rockefeller Institute of Government (February 2011).

#### Acknowledgements

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CCF is an independent, nonpartisan research and policy center based at Georgetown University's Health Policy Institute whose mission is to expand and improve health coverage for America's children and families.

**Table 1.**  
**Fiscal Year 2011 Federal Medical Assistance Percentages**  
**(FMAP)**

State	FY 2011 FMAP
Alabama	68.54%
Alaska	50.00%
Arizona	65.85%
Arkansas	71.37%
California	50.00%
Colorado	50.00%
Connecticut	50.00%
Delaware	53.15%
District of Columbia	70.00%
Florida	55.45%
Georgia	65.33%
Hawaii	51.79%
Idaho	68.85%
Illinois	50.20%
Indiana	66.52%
Iowa	62.63%
Kansas	59.05%
Kentucky	71.49%
Louisiana	63.61%
Maine	63.80%
Maryland	50.00%
Massachusetts	50.00%
Michigan	65.79%
Minnesota	50.00%
Mississippi	74.73%
Missouri	63.29%
Montana	66.81%
Nebraska	58.44%
Nevada	51.61%
New Hampshire	50.00%
New Jersey	50.00%
New Mexico	69.78%
New York	50.00%
North Carolina	64.71%
North Dakota	60.35%
Ohio	63.69%
Oklahoma	64.94%
Oregon	62.85%
Pennsylvania	55.64%
Rhode Island	52.97%
South Carolina	70.04%
South Dakota	61.25%
Tennessee	65.85%
Texas	60.56%
Utah	71.13%
Vermont	58.71%
Virginia	50.00%
Washington	50.00%
West Virginia	73.24%
Wisconsin	60.16%
Wyoming	50.00%

Source: "Federal Matching Shares for Medicaid, the State Children's Health Insurance Program, and Aid to Needy, Aged, Blind, or Disabled Persons for October 1, 2010 Through September 30, 2011," *Federal Register*, 74: 62315-62317 (November 27, 2009).

**Table 2.  
Medicaid as a Percent of State Expenditures, FY 2009**

<b>State</b>	<b>State Medicaid Spending, as a Share of the State General Fund</b>	<b>State Medicaid Spending, as a Share of the State General Fund and Other State Fund Expenditures</b>
Alabama	8.54%	14.88%
Alaska	6.08%	3.31%
Arizona	13.41%	12.50%
Arkansas	15.00%	7.49%
California	12.87%	10.67%
Colorado	17.55%	8.39%
Connecticut	22.35%	24.89%
Delaware	16.32%	7.47%
Florida	14.49%	15.98%
Georgia	10.76%	8.57%
Hawaii	8.32%	4.79%
Idaho	12.15%	10.75%
Illinois	21.91%	19.92%
Indiana	9.40%	9.72%
Iowa	9.96%	10.90%
Kansas	13.52%	9.13%
Kentucky	11.29%	8.58%
Louisiana	11.80%	9.75%
Maine	16.52%	13.11%
Maryland	15.75%	11.41%
Massachusetts	28.91%	19.72%
Michigan	18.27%	10.97%
Minnesota	17.35%	14.01%
Mississippi	6.69%	11.36%
Missouri	16.98%	24.40%
Montana	8.10%	5.38%
Nebraska	17.33%	9.11%
Nevada	11.30%	7.70%
New Hampshire	29.28%	19.58%
New Jersey	13.72%	12.72%
New Mexico	10.54%	7.60%
New York	8.59%	10.15%
North Carolina	14.07%	13.22%
North Dakota	13.39%	6.62%
Ohio	38.22%	23.96%
Oklahoma	13.41%	11.70%
Oregon	12.07%	6.03%
Pennsylvania	23.30%	19.39%
Rhode Island	24.19%	15.62%
South Carolina	10.13%	9.05%
South Dakota	20.73%	11.53%
Tennessee	21.71%	16.42%
Texas	5.13%	4.09%
Utah	5.50%	5.94%
Vermont	15.10%	9.63%
Virginia	18.07%	9.30%
Washington	24.14%	15.36%
West Virginia	7.92%	3.32%
Wisconsin	8.49%	7.00%
Wyoming	5.74%	3.54%
<b>AVERAGE</b>	<b>14.73%</b>	<b>11.33%</b>

Source: Georgetown University Center for Children and Families calculations based on National Association of State Budget Officers, "2009 State Expenditure Report" (December 2010).

Note: The state general fund is the main source for financing a state's operations. All states rely on general funds to finance Medicaid, but some states also use other state funds, which come from restricted revenue sources, such as tobacco settlement funds. Comparisons across states can be misleading as a result.