



Section 6

FINANCING

How Do Medicaid and CHIP Dollars Flow?

The Medicaid and Children’s Health Insurance Program (CHIP) programs account for over 15% of total U.S. health care spending.³⁶ Medicaid expenditures nationally amounted to over \$405 billion in fiscal year 2010, while CHIP expenditures amounted to over \$11 billion.³⁷ Medicaid usually consumes the largest or second-largest share of state budgets, ranging from a high of slightly over 30% of state budgets in Missouri, Illinois, and Pennsylvania, to a low of around 7% of state budgets in Texas, Wyoming, and Alaska.³⁸

Medicaid’s State and Federal Funding

The federal government pays for at least half of the cost that states pay to purchase health care services under their Medicaid program. The federal contribution to Medicaid is called the federal medical assistance percentage, better known as FMAP or the “federal match.” The FMAP ranges from 50 to 75% in FY 2011 for medical services, with most states receiving more than 50%. Under the funding formula, states with lower per capita incomes receive higher FMAP rates than states with higher per capita incomes. A state with 75% matching rate receives three dollars from the federal government for every dollar the state spends on Medicaid services.

States also receive 50% matching federal funds for the *administration* of their Medicaid programs (as opposed to the cost of health services, mentioned above). These administrative dollars can be spent to conduct outreach and provide education for families of children with special health care needs (CSHCN). Efforts to improve enrollment such as translating the application, enrollment, and Medicaid benefit materials into other languages, developing web-based application systems, and providing consumer-assistance helplines are all eligible for federal matching dollars. For every dollar the state spends reaching out to enroll people in Medicaid, the federal government contributes another dollar.

The Medicaid and CHIP programs account for over 15% of total U.S. health care spending.³⁶ Medicaid expenditures nationally amounted to over \$405 billion in fiscal year 2010, while CHIP expenditures amounted to over \$11 billion.³⁷

³⁶Medicaid and CHIP Payment and Access Commission (MACPAC). (2011, March). *Report to the Congress on Medicaid and CHIP March 2011*, Figure 1-1. Retrieved Dec. 21, 2011 from http://www.macpac.gov/reports/MACPAC_March2011_web.pdf

³⁷Medicaid and CHIP Payment and Access Commission (MACPAC). (2011, March). *Report to the Congress on Medicaid and CHIP March 2011*, Table 6 Medicaid and Table 8 CHIP. Retrieved Dec. 21, 2011 from http://www.macpac.gov/reports/MACPAC_March2011_web.pdf

³⁸Medicaid and CHIP Payment and Access Commission (MACPAC). (2011, March). *Report to the Congress on Medicaid and CHIP March 2011*, Table 15. Retrieved Dec. 21, 2011 from http://www.macpac.gov/reports/MACPAC_March2011_web.pdf

State agencies such as Title V may engage in these outreach or consumer assistance activities and thus may be able to claim federal Medicaid matching dollars. These activities and Medicaid payment for them can be built into cooperative agreements between Medicaid and the Title V program.³⁹

While the federal matching dollars are crucial, states still make a large financial contribution to the Medicaid program. The state share ranges from \$20 billion in New York to \$215 million in Wyoming in FY 2010.⁴⁰ This wide variation stems from differences in population size, eligibility criteria for Medicaid coverage, the scope of Medicaid coverage, and state-specific health care costs and provider practices. To find out how much your state spends on the Medicaid program, look at the tables in the *Report from the Medicaid and CHIP Payment and Access Commission (MACPAC)*:
http://healthreform.kff.org/-/media/Files/KHS/docfinder/MACPAC_March2011_web.pdf.

The state share of Medicaid is usually financed by state general funds, most of which are raised from personal income, sales, and corporate income taxes.⁴¹ Medicaid spending tends to rise in tough economic times when states suffer from declining revenue and budget deficits. When unemployment rises and employers cut back on insurance coverage, more people become eligible to enroll in Medicaid or CHIP, leading to increased expenditures. States may be hard-pressed to cover these costs, especially with shrinking revenues. As a result, states often seek opportunities to scale back Medicaid and CHIP spending in difficult budget climates.

Medicaid Funding and the Affordable Care Act (ACA)

When Medicaid eligibility expands in 2014, the federal share of Medicaid spending for these newly eligible individuals will rise to 100%. This will last through 2016 when the federal matching rate will phase down annually from 100% to 90% for those newly eligible by 2020. The ACA will also offer financial incentives to encourage states to improve the quality of health care and control costs. These are described in more detail in Section 9.

CHIP Funding

Unlike Medicaid, federal CHIP funds are capped and allotted for two years based on a formula that changes from year to year. States receive a federal

³⁹However, Title V dollars, being federal dollars, cannot be used as the state Medicaid share to obtain matching federal Medicaid dollars. Only state dollars can be matched by federal Medicaid dollars.

⁴⁰Medicaid and CHIP Payment and Access Commission (MACPAC). (2011, March). *Report to the Congress on Medicaid and CHIP March 2011*, Table 6. Retrieved Dec. 21, 2011 from http://www.macpac.gov/reports/MACPAC_March2011_web.pdf

⁴¹Medicaid and CHIP Payment and Access Commission (MACPAC). (2011, March). *Report to the Congress on Medicaid and CHIP March 2011*, Figure 1-1. Retrieved Dec. 21, 2011 from http://www.macpac.gov/reports/MACPAC_March2011_web.pdf

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matching rate ranging from 65% to 83% for CHIP services, which makes the state contribution to CHIP funding generally 30% less than its contribution to Medicaid funding.⁴² States that expect to exceed the targeted enrollment for the year and therefore experience a funding shortfall may access a contingency fund administered by the Centers for Medicare and Medicaid Services (CMS). The ACA extended federal funding of CHIP through 2015.

Where Are the Opportunities for Title V Programs?

Understanding the financing of Medicaid and CHIP in your state is important because it allows Title V programs to:

- Assess the financial implications of efforts to enroll more CSHCN in Medicaid or CHIP;
- Examine their own state-funded activities to determine whether they have administrative costs or medical services costs for Medicaid enrollees that could be matched with federal Medicaid dollars.

⁴²Kaiser Family Foundation. (2010). *Financing New Medicaid Coverage Under Health Reform: The Role of the Federal Government and States*. Retrieved Jan. 4, 2012 from <http://www.kff.org/healthreform/8072.cfm>

This document is part of *Public Insurance Programs and Children with Special Health Care Needs: A Tutorial on the Basics of Medicaid and the Children's Health Insurance Program (CHIP)*, available in its entirety at <http://hdwg.org/catalyst/medicaid-tutorial>

Is this tutorial helpful to you? Please take our survey at <https://www.surveymonkey.com/s/MedicaidCHIPTutorialSurvey>

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Test your knowledge

1. True or False: The percent of the Medicaid program paid for by the federal government varies from one state to another based on the number of people living in the state.
2. If a Medicaid program pays a \$100 bill from a doctor or therapist for a patient on Medicaid, the portion of that bill that is reimbursed by federal dollars (depending on the state's federal matching rate), ranges from:
 - a. \$50 to \$75
 - b. \$75 to \$95
 - c. \$25 to \$50
 - d. \$0 to \$100
3. If a state Medicaid program pays \$100 in administrative costs to provide outreach to enroll children in Medicaid, the portion of that bill that is reimbursed by federal dollars is:
 - a. \$ 0
 - b. \$ 25
 - c. \$ 50
 - d. \$75



Find Out in Your State

1. What is your state's federal match rate for Medicaid? For CHIP?
2. Does your state Title V program currently receive Medicaid reimbursement for either direct health services or administrative activities?
3. Could any of your state's Title V services or activities currently funded through state dollars be supported through federal funds by the Medicaid match?

1. False: It is based on the average per capita income in the state. 2. a. 3. c