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Impact of the Recession on Medicaid

Medicaid is a means-tested entitlement program that finances the delivery of primary and acute medical services as well as long-term services and supports. Medicaid is a federal and state partnership that is jointly financed by both the federal government and the states.

The federal government's share for most Medicaid expenditures is called the federal medical assistance percentage (FMAP). Generally determined annually, the FMAP formula is designed so that the federal government pays a larger portion of Medicaid costs in states with lower per capita incomes relative to the national average (and vice versa for states with higher per capita incomes). Federal Medicaid funding to states is open-ended.

Medicaid expenditures are influenced by economic, demographic, and programmatic factors. Economic factors include health care prices, unemployment rates, and individuals' wages. In addition, state-specific factors, such as programmatic decisions and demographics, affect Medicaid expenditures and cause Medicaid spending to vary widely from state to state.

Countercyclical Program

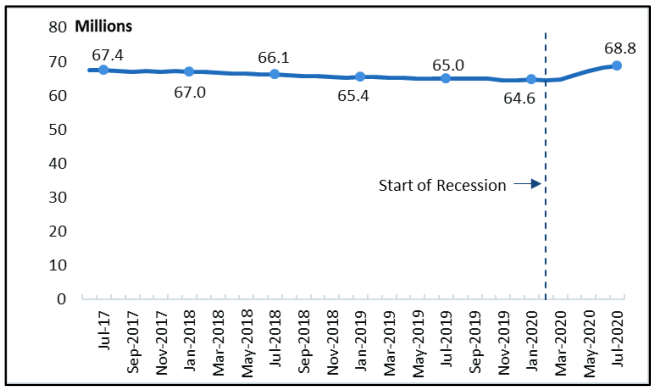
Medicaid is a countercyclical program, and during periods of economic downturn, state Medicaid programs face dual pressures. First, program enrollment usually increases when job and income losses cause more people to become eligible for Medicaid. Second, states generally have more difficulty financing the state share of Medicaid expenditures because state revenue growth tends to weaken during economic downturns.

The Medicaid program can create a problem for state budgets during economic downturns because Medicaid is one of the largest items in state budgets. When viewed nationally, Medicaid is the largest or second-largest item in state budgets, depending on how it is measured. In terms of *total* state spending (i.e., funds from all state and federal sources), according to the National Association of State Budget Officers' (NASBO's) *State Expenditure Report*, Medicaid was the largest budget item, at an estimated 28.9% of *total* state spending in state fiscal year (SFY) 2019. However, Medicaid was the second-largest component in terms of state *general fund* spending (i.e., the portion that states must finance on their own through taxes and other means). In SFY2019, Medicaid expenditures were an estimated 19.7% of state general fund spending, whereas elementary and secondary education spending was 35.6%.

Current Recession

The National Bureau of Economic Research shows the United States entered the current recession in February 2020 following the start of the Coronavirus Disease 2019 (COVID-19) pandemic. From the onset of the recession through July 2020, data from the Centers for Medicare & Medicaid Services show Medicaid enrollment increased 6.7% nationally. Prior to the recession, Medicaid enrollment decreased 1.7% in 2019. The growth in Medicaid enrollment varies by state from 2.5% to 14.9%, and one state (Montana) had an enrollment decrease of 0.7% from February through June 2020. **Figure 1** shows monthly Medicaid enrollment nationally from June 2017 through July 2020.

Figure 1. Monthly Medicaid Enrollment
June 2017-July 2020



Source: Centers for Medicare & Medicaid Services, Medicaid and CHIP Eligibility and Enrolment Performance Indicators, as of October 30, 2020.

An analysis in *Health Affairs*, a health policy publication, of state-level Medicaid enrollment data from March 1, 2020, through June 1, 2020, did not find a correlation between state-level Medicaid enrollment growth and job losses in the 26 states studied. However, the recession's effects on Medicaid enrollment could lag job losses, for example, as individuals move off COBRA continuation coverage or resume utilizing health care services.

State tax collections tend to lag in a recession, yet states already have experienced reductions in general fund revenues. According to NASBO, for SFY2020, which ended on June 30, 2020 for most states, states experienced a 6% shortfall in revenues compared with their revenue estimates prepared before the recession. States experienced strong revenue growth for the first three quarters of SFY2020, but that growth was offset in the fourth quarter, when state revenues were negatively impacted by the recession. States expect revenue declines in SFY2021.

Estimates for SFY2021

According to a Kaiser Family Foundation (KFF) survey of state Medicaid directors, the 43 responding states expect Medicaid enrollment to increase 8.2% nationally and Medicaid expenditures to increase 8.4% nationally in SFY2021, which started on July 1, 2020, for most states.

States estimate increased Medicaid enrollment due to the impact of the recession and the continuous coverage requirement for the Families First Coronavirus Response Act (FFCRA; P.L. 116-127) FMAP increase (see "Federal Assistance to States"). Increased enrollment was the primary reason states provided for estimating increased Medicaid expenditures for SFY2021.

According to the KFF survey, almost all responding states reported that the FFCRA FMAP increase has assisted with the additional cost of the increased Medicaid enrollment. A number of states also mentioned that the FMAP increase prevented state action to reduce provider rates or cut benefits.

Potential State Budget Reductions

Even with the FFCRA FMAP increase, some states are developing budget reduction plans that could impact Medicaid programs. Usually, states' options for reducing Medicaid expenditures include no longer covering optional benefits or populations, reducing provider rates, or imposing Medicaid provider taxes. During the current recession, a couple of these options are more difficult than they have been in the past. Reducing Medicaid provider rates has been an option states have favored in the past, because the reduction does not directly affect Medicaid enrollees and the savings from provider rate reductions impact the state budget relatively quickly. However, during the pandemic, some Medicaid providers, such as physicians or clinics, have experienced revenue losses due to lower utilization of services (e.g. preventive services), as other providers, such as certain hospitals and nursing homes, have experienced increased costs during the pandemic. Reductions to Medicaid provider rates might put additional financial stress on both sets of providers.

In addition, two conditions of receiving the FFCRA FMAP increase of 6.2 percentage points (see "Federal Assistance to States") hinder states' ability to achieve budget savings through changes to Medicaid eligibility. First, states are required to ensure their Medicaid "eligibility standards, methodologies, and procedures" are no more restrictive than those that were in effect on January 1, 2020. Second, states are required to keep Medicaid enrollees continuously enrolled in the Medicaid program through the public health emergency (PHE) period, even if they experience increases in income that otherwise would make them lose eligibility.

Since the federal government reimburses states for a portion Medicaid expenditures, when states reduce the state spending on Medicaid expenditures in response to revenue losses, they also reduce the federal funding for Medicaid expenditures. In FY2021, while states are receiving the FFCRA FMAP increase of 6.2 percentage points, each $1 reduction in a state's Medicaid expenditures would reduce the federal Medicaid expenditures by $1.28 to $5.23, depending on the state's FMAP rate.

Federal Assistance to States

The federal government sometimes provides fiscal relief to states during recessions through adjustments to the FMAP rate because this process for getting federal Medicaid funding to states is already in place. Many states have indicated that past FMAP increases allowed the states to prevent further reductions to their Medicaid programs and other portions of their state budgets.

The federal government provided states with temporary FMAP rate increases to afford states fiscal relief on two past occasions in response to (1) the 2001 recession, through the Jobs and Growth Tax Relief Reconciliation Act of 2003 (P.L. 108-27), and (2) the Great Recession, through the American Recovery and Reinvestment Act of 2009 (P.L. 111-5, as amended by P.L. 111-126).

Most recently, the FFCRA added a temporary Medicaid FMAP increase of 6.2 percentage points beginning January 1, 2020, and continuing through the last day of the calendar quarter in which the COVID-19 PHE period ends. Under the current PHE declaration, the FFCRA FMAP increase is in place through March 31, 2021.

To receive this increased FMAP rate, states, the District of Columbia (DC), and the territories are required to (1) ensure their Medicaid "eligibility standards, methodologies, and procedures" are no more restrictive than those that were in effect on January 1, 2020; (2) not impose premiums exceeding the amounts in place as of January 1, 2020; (3) provide continuous coverage of Medicaid enrollees during the COVID-19 PHE period; and (4) provide coverage (without the imposition of cost sharing) for testing services and treatments for COVID-19 (including vaccines, specialized equipment, and therapies). States, DC, and the territories also cannot require local governments to fund a larger percentage of a state's nonfederal Medicaid expenditures for the Medicaid state plan or Medicaid disproportionate share hospital (DSH) payments than what was required on March 11, 2020. (See CRS Report R46346, *Medicaid Recession-Related FMAP Increases*.)

Additional Federal Assistance

A number of state organizations have requested Congress further increase the FMAP rate from 6.2 percentage points to 12 percentage points until at least September 30, 2021. After that, states are asking for the FMAP increase to stay at 12 percentage points until the national unemployment rate falls below 5%.

The Heroes Act (H.R. 6800) and a revised version of the Heroes Act (H.R. 925) include a provision that would provide a 14-percentage-point increase to Medicaid FMAP rates for FY2021 and, if the COVID-19 PHE continues after September 30, 2021, the FMAP increase would return to 6.2 percentage points through the PHE period. The House of Representatives passed H.R. 6800 on May 15, 2020, and H.R. 925 on October 1, 2020. A bill to provide COVID-19 relief (S. 4800) that includes the same FMAP provision as H.R. 6800 and H.R. 925 was introduced in the Senate on October 29, 2020.

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