
ISSUE REVIEW

Fiscal Services Division

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Federal Medical Assistance Percentage Match Rates

ISSUE

Federal funding for state health programs is the largest source of federal revenue to the State of Iowa. The Federal Medical Assistance Percentage (FMAP) is calculated based on a formula used to distribute federal Medicaid dollars to the states. This *Issue Review* examines the history of the FMAP formula, explains how the rate is calculated, and describes some of the benefits and limitations of the formula.

AFFECTED AGENCIES

Department of Human Services

CODE AUTHORITY

Iowa Code chapter [249](#)

Iowa Code chapter [514I](#)

BACKGROUND

Medicaid is a jointly funded state and federal program that provides health and long-term care coverage to low-income and disabled Iowans. Since the Program's creation in 1965, the FMAP formula has been used to calculate the portion of the Medicaid Program that is funded by the federal government on a state-by-state basis.

The FMAP formula, as required by federal statute, is based on a rolling three-year average of per capita income for each state as calculated by the Bureau of Economic Analysis of the U.S. Department of Commerce. Per capita income is calculated by dividing the total personal income of a state, as calculated by the Bureau of Economic Analysis, by the Census Bureau's annual midyear population estimate. The metric per capita personal income represents a state's ability to tax its base and therefore fund the Medicaid Program.

Figure 1 below illustrates how Iowa's FY 2020 FMAP rate is calculated, using Iowa's per capita personal incomes for 2015, 2016, and 2017, compared to the U.S. average. The constant factor of 0.45 used in the formula is intended to guarantee that any state with per capita income equal to the U.S. average receives an FMAP rate of 55.00%. The squaring of the formula ensures higher FMAP rates to states with below-average per capita incomes, while states with higher than average per capita income receive a lower rate.

Figure 1 — FMAP Formula

Formula	
State Share	$= 0.45 \times \frac{(\text{3-Year Avg. State Per Capita Income})^2}{(\text{3-Year Avg. U.S. Per Capita Income})^2}$

Iowa — State Share FFY 2020	
0.3880	$= 0.45 \times \frac{((\$46,235 + \$46,363 + \$47,062) \div 3)^2}{((\$48,940 + \$49,831 + \$51,640) \div 3)^2}$

In Iowa, the base FMAP rate is 61.20% for FY 2020.¹ This means that for every dollar spent on the Medicaid Program, the federal government pays \$0.6120 and Iowa pays \$0.3880. The rate applies to most, but not all, Medicaid expenditures paid for by the State. Other services or programs may receive different or enhanced rates and are detailed below.

The FMAP formula is designed to provide states that have lower per capita income compared to the U.S. as a whole with a greater share of financial assistance. The federal statute contains both minimum and maximum percentages so no state pays more than 50.00% of the cost and the federal government pays no more than 83.00% of the cost.

State FMAP rates are calculated annually on a federal fiscal year (FFY) basis and vary widely from state to state, ranging in FY 2020 from a high of 76.98% in Mississippi to the 50.00% floor in a number of states. If the formula did not have a floor, Connecticut (wealthiest state per capita) would receive a federal match rate of 12.43%. Iowa's FMAP rate of 61.20% ranks in the middle (26th) of all states and the District of Columbia in FY 2020. The map and table in **Figure 2** and **Figure 3** provide FMAP rates for 2019 and 2020.

Figure 2 — FMAP Rates 2019 and 2020

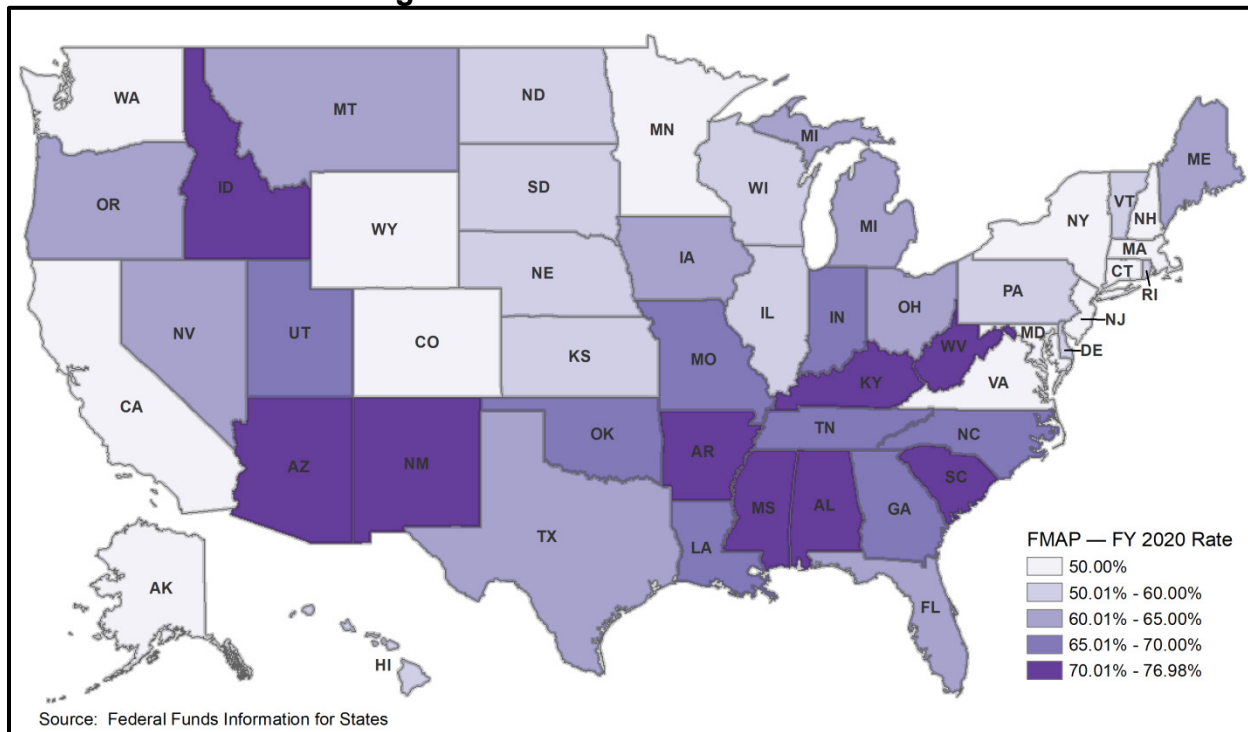
State	2019	2020	Change	State	2019	2020	Change	State	2019	2020	Change
Alabama	71.88	71.97	0.09	Kentucky	71.67	71.82	0.15	North Dakota	50.00	50.05	0.05
Alaska	50.00	50.00	0.00	Louisiana	65.00	66.86	1.86	Ohio	63.09	63.02	-0.07
Arizona	69.81	70.02	0.21	Maine	64.52	63.80	-0.72	Oklahoma	62.38	66.02	3.64
Arkansas	70.51	71.42	0.91	Maryland	50.00	50.00	0.00	Oregon	62.56	61.23	-1.33
California	50.00	50.00	0.00	Massachusetts	50.00	50.00	0.00	Pennsylvania	52.25	52.25	0.00
Colorado	50.00	50.00	0.00	Michigan	64.45	64.06	-0.39	Rhode Island	52.57	52.95	0.38
Connecticut	50.00	50.00	0.00	Minnesota	50.00	50.00	0.00	South Carolina	71.22	70.70	-0.52
Delaware	57.55	57.86	0.31	Mississippi	76.39	76.98	0.59	South Dakota	56.71	57.62	0.91
District of Columbia*	70.00	70.00	0.00	Missouri	65.40	65.65	0.25	Tennessee	65.87	65.21	-0.66
Florida	60.87	61.47	0.60	Montana	65.54	64.78	-0.76	Texas	58.19	60.89	2.70
Georgia	67.62	67.30	-0.32	Nebraska	52.58	54.72	2.14	Utah	69.71	68.19	-1.52
Hawaii	53.92	53.47	-0.45	Nevada	64.87	63.93	-0.94	Vermont	53.89	53.86	-0.03
Idaho	71.13	70.34	-0.79	New Hampshire	50.00	50.00	0.00	Virginia	50.00	50.00	0.00
Illinois	50.31	50.14	-0.17	New Jersey	50.00	50.00	0.00	Washington	50.00	50.00	0.00
Indiana	65.96	65.84	-0.12	New Mexico	72.26	72.71	0.45	West Virginia	74.34	74.94	0.60
Iowa	59.93	61.20	1.27	New York	50.00	50.00	0.00	Wisconsin	59.37	59.36	-0.01
Kansas	57.10	59.16	2.06	North Carolina	67.16	67.03	-0.13	Wyoming	50.00	50.00	0.00

A positive FMAP change above reflects the federal government is responsible for a greater share of Medicaid expenditures, while a negative change reflects the state is responsible for a greater share of Medicaid expenditures.

*The District of Columbia's FMAP is frozen at 70.00% as part of the city's federal financing structure.

Source: Federal Funds Information for States

¹For the purposes of this **Issue Review**, unless otherwise noted, all FMAP rates are based on the federal fiscal year (FFY). Since Iowa's fiscal year begins on July 1, the Iowa FMAP rate is a blend of three months of one federal fiscal year and nine months of the next.

Figure 3 — State 2020 FMAP Rates

Other FMAP Rates

In addition to the match rate for the regular Medicaid Program, a number of programs, services, and activities receive an enhanced match rate designed to incentivize certain behaviors or shifts in expenditures to lower cost options. For example, Iowa previously participated in the Balancing Incentive Payment (BIP) Program, which provided an enhanced match rate of 2.00% for noninstitutional long-term care services and supports. The goal of the Program was to shift individuals from institution-based long-term care to care in individuals' homes or communities. Iowa also receives a 90.00% enhanced match rate for family planning services with the goal of reducing unwanted pregnancies.

According to the Congressional Research Service, "The FMAP rate is also used in determining the phased-down state contribution ('clawback') for Medicare Part D, the federal share of certain child support enforcement collections, Temporary Assistance for Needy Families (TANF) contingency funds, a portion of the Child Care and Development Fund (CCDF), and foster care and adoption assistance under Title IV-E of the Social Security Act."²

Enhanced FMAP rates also apply to other jointly funded state and federal health programs. Iowa's FMAP rate for the Healthy and Well Kids in Iowa (hawk-i) Program will be 84.34% in FY 2020. This includes an enhanced match rate of 11.50% that the State received as a provision of the Affordable Care Act (ACA). The ACA provided a 23.00% enhanced match rate for FY 2016 through FY 2019, which was partially phased down to 11.50% for FY 2020, the final year the State will receive the enhanced rate.

Iowa also receives an enhanced FMAP rate under the ACA for the Iowa Health and Wellness Program (I-HAWP), which covers individuals with income up to 133.00% of the federal poverty level who were previously ineligible for Medicaid. The federal FMAP rate for the first three

²Congressional Research Service, [Medicaid's Federal Medical Assistance Percentage \(FMAP\)](#) (April 25, 2018, R43847).

calendar years (2014 through 2016) was 100.00%, with a gradual decline to 90.00% by CY 2020 (Figure 4).

**Figure 4 — Iowa Health and Wellness Program
FMAP Rate 2014-2021**

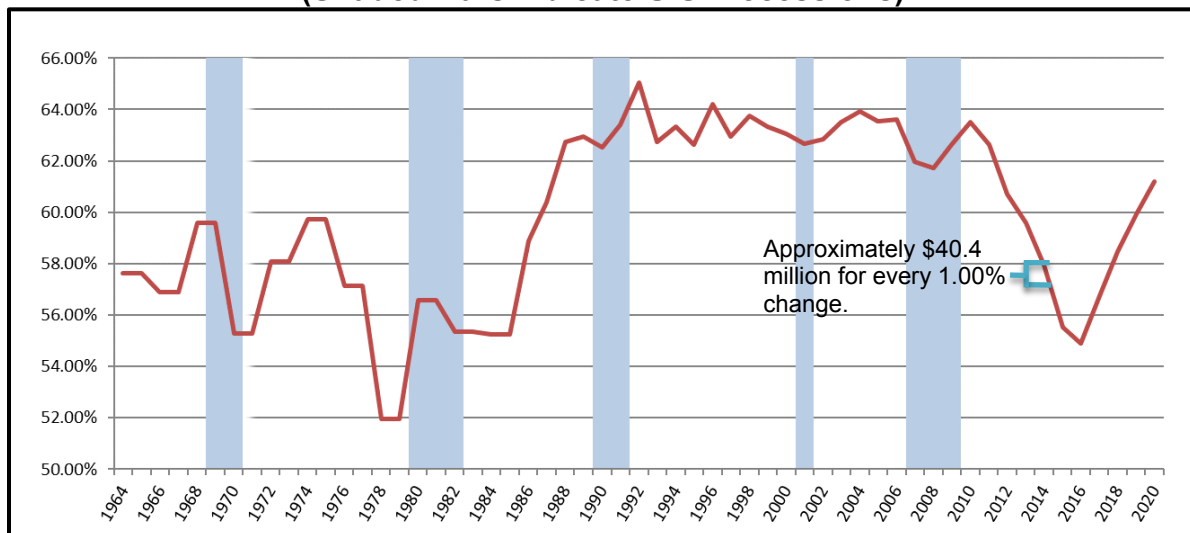
Calendar Year	Federal FMAP %
2014	100.00%
2015	100.00%
2016	100.00%
2017	95.00%
2018	94.00%
2019	93.00%
2020	90.00%
2021	90.00%

HISTORY OF THE IOWA FMAP RATE

The FMAP formula has remained mostly unchanged since the beginning of the Medicaid Program in 1965. From FY 1965 through FY 1987, the FMAP rate was calculated on a biannual basis. Beginning in 1988, the federal Consolidated Omnibus Budget Reconciliation Act (COBRA) changed the frequency of the calculation to an annual basis.

The Iowa FMAP rate has fluctuated between a high of 65.04% in 1992 to a low of 51.96% in FY 1979. Before the farm crisis of the 1980s, the Iowa FMAP rate was nearing the federal minimum of 50.00%. With the beginning of the crisis, the FMAP rate began a steady climb to approximately 63.00%, where it remained until 2011. During the most recent recession, which began at the end of 2007, Iowa’s economy fared much better than those of other states, in large part due to a strong farm economy. Due to stronger economic conditions compared to most states, the Iowa FMAP rate began a steady decline beginning in FY 2011, declining 8.60% between FY 2011 and FY 2016. Beginning in FY 2017, the FMAP rate began trending back up to make up most of the difference from the shift in the previous five years (Figure 5).

**Figure 5 — History of Iowa’s FMAP Rate FY 1964-2020
(Shaded Bars Indicate U.S. Recessions)**



BENEFITS AND LIMITATIONS OF THE FMAP FORMULA

Federal funding provided through the FMAP formula has been a stable and predictable funding source for states since the beginning of the Medicaid Program, and although there are changes in the rate, the rate generally does not fluctuate more than one or two percentage points annually. However, the formula does have limitations. One issue that states face is outdated data used in calculating the formula. To calculate the federal match rate for FY 2020, the formula uses economic data from calendar years 2015 through 2017. Because of this, the formula lags behind the fluctuations of the normal economic cycle, leaving states particularly vulnerable during recessions, when Medicaid rolls typically increase and tax revenues decline. Congress has acted on several occasions to provide additional federal funds through an enhanced FMAP rate during recessions. This occurred once during the early 2000s and most recently during the last recession in 2008. However, congressional action occurs on a case-by-case basis and is never guaranteed.

A 2013 U.S. Government Accountability Office (GAO) report³ suggests the formula could benefit from using a wider variety of data sources, such as corporate income, to measure state resources. By using a larger number of data sources, the formula would be more insulated against shocks in certain sectors or changes in any single data point. The report also suggests the formula could take into account data such as geographic cost differences or demand for services that would reflect both the cost and the need for services.

ALTERNATIVE FUNDING DISTRIBUTION

There have been several alternative funding distribution proposals over the past several years at the federal level, including converting Medicaid to a block grant or using a per capita funding formula. If the Medicaid FMAP formula was converted to a block grant, each state would receive a lump sum amount from the federal government, which would likely grow annually based on an inflation factor. The state would then be responsible for all remaining costs not covered by the block grant.

A block grant could potentially save federal taxpayers billions of dollars while exposing states to greater financial risk. Financial risk to states would be particularly great during an economic downturn, when Medicaid enrollment is likely to increase, or if a new expensive treatment were developed, such as the recent Hepatitis C treatment regimen, which costs tens of thousands of dollars per person. States would likely be given more flexibility in deciding who qualifies for services or what benefits would be provided.

Another alternative is a per capita formula, which would provide a fixed amount of funding per individual enrolled in Medicaid. This would allow for funding increases based on new enrollment, but like the block grant, a per capita formula would not protect states against the risk of expensive new medical treatments or cases in which health care costs outpace the federal inflation factor.

Any changes in the Medicaid FMAP formula will require a change in federal law. With state and federal spending for Medicaid totaling \$576.600 billion in FY 2017, any revision in the formula will likely have a significant fiscal impact on states.

³ GAO, Report to Congressional Requesters, [MEDICAID: Alternative Measures Could Be Used to Allocate Funding More Equitably](#) (May 2013, GAO-13-434).

BUDGET IMPACT

Total Iowa expenditures estimated for the Medicaid Program for SFY 2020, including the I-HAWP, are \$5.670 billion total and \$1.700 billion State. Given this estimate, Iowa expenditures for the regular Medicaid Program will increase or decrease by approximately \$40.4 million for every 1.00% change in the FMAP rate.

State expenditures for the I-HAWP totaled \$80.9 million for SFY 2018, with a blended rate of 94.50%. That rate will decrease to 93.50% in SFY 2019, 91.50% in SFY 2020, and to the floor of 90.00% in FY 2021 and beyond. **Figure 6** illustrates the rate changes and the anticipated increases in State expenditures due to those changes.

Figure 6 — I-HAWP FMAP Rate Changes

State Fiscal Year	Blended Federal FMAP Rate	State Expenditures Increase (millions)
2019	93.50%	\$7.2
2020	91.50%	16.9
2021	90.00%	13.6

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