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TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Eric Richardson

DATE: March 28, 2024

March 2024 Medicaid Forecast

Forecasting Group. Staff members from the Department of Health and Human Services (HHS), the Department of Management (DOM), and the Fiscal Services Division of the Legislative Services Agency (LSA) met on March 28, 2024, to discuss estimated Medical Assistance (Medicaid) expenditures for fiscal year (FY) 2023, FY 2024, and FY 2025. The Forecasting Group meets periodically to discuss revenues and expenditures and agree on estimates for the current and upcoming fiscal years.

Final Fiscal Year 2023. Fiscal year 2023 ended with a \$421.4 million surplus above what was appropriated in 2022 Iowa Acts, [House File 2578](#) (FY 2023 Health and Human Services Appropriations Act), as detailed in **Figure 1**. The surplus was a result of the enhanced 6.20% Federal Medical Assistance Percentage (FMAP) increase, which was part of the federal COVID-19 relief to states and included \$53.4 million in unspent [American Rescue Plan Act of 2021 \(ARPA\)](#) State funds. The FMAP increase provided approximately \$72.0 million per quarter beginning January 1, 2020. The estimate also includes an increase in the capitation payments for the two managed care organizations (MCOs) for FY 2023. The surplus includes the end of the federal public health emergency (PHE) in April 2023, and disenrollment for individuals who are no longer eligible for Medicaid began in May 2023. Eligibility redeterminations and the disenrollment process will likely take 9 to 12 months in accordance with federal guidelines.

Fiscal Year 2024 Estimate. For FY 2024, the Forecasting Group estimates that Medicaid will have a surplus of \$200.1 million above what was appropriated in 2023 Iowa Acts, [Senate File 561](#) (FY 2024 Health and Human Services Appropriations Act). The estimated surplus is due to the projected carryforward from FY 2023 and an enhanced FMAP of 2.50% in the first quarter and 1.50% in the second quarter of FY 2024 due to the end of the PHE, as provided in the federal [Consolidated Appropriations Act of 2023](#). The FY 2024 estimate also includes capitation rate increases.

Fiscal Year 2025 Estimate. For FY 2025, the Forecasting Group estimates that Medicaid will have a surplus of \$19.1 million. The estimated surplus is lower than in FY 2024 due to the end of the PHE, along with a preliminary 0.41% decrease in Iowa's FMAP. The FY 2025 estimate does not include any capitation rate increases. Revenue from the Medicaid MCO premium tax enacted in 2023 Iowa Acts, [House File 685](#) (Medicaid, Liens, and Third-Party Recovery Act), has been included in the forecast estimate. The tax is scheduled to be collected beginning January 1, 2024, and submitted by the MCOs beginning in FY 2025.

Figure 1 — Medicaid Balance Sheet

	Actual FY 2023	Estimated FY 2024	Estimated FY 2025
Medicaid Funding			
Carryforward from Previous Year	\$ 273,039,251	\$ 367,990,615	\$ 200,094,064
Palo Replacement Generation Tax	0	0	0
Health Care Trust Fund	183,706,173	174,036,746	171,560,000
Nursing Facility Quality Assurance Fund	57,161,022	111,216,205	111,216,205
Hospital Trust Fund	33,920,554	33,920,554	33,920,554
MCO Premium Tax	0	0	116,578,147
Medicaid Fraud Fund	58,806	150,000	150,000
Transfer Decategorization Reversion	880,576	0	0
Total Non-General Fund Sources	\$ 548,766,382	\$ 687,314,120	\$ 633,518,970
General Fund Appropriation	1,510,127,388	1,543,626,779	1,543,626,779
General Fund Supplemental	0	0	0
Total General Fund Sources	\$ 1,510,127,388	\$ 1,543,626,779	\$ 1,543,626,779
Total Medicaid Funding	\$ 2,058,893,770	\$ 2,230,940,899	\$ 2,177,145,749
Estimated State Medicaid Need	\$ 1,928,172,322	\$ 2,004,436,923	\$ 2,131,488,647
FMAP Changes	-40,981,094	-47,280,411	26,600,000
FMAP Adjustment — COVID-19	-263,787,097	-44,709,677	0
MCO Capitation Increase	60,192,090	97,900,000	0
HCBS Program Increase	0	5,500,000	0
Nursing Facility Rebase	0	15,000,000	0
Home Health Rural Incentives	1,777,082	0	0
ICF/ID Rate Increase	1,339,971	0	0
Behavioral Health Intervention Services Rate Increase	1,277,082	0	0
Psychiatric Tiered Rates	1,500,000	0	0
Functional Family and Multisystemic Therapy	118,799	0	0
Medicaid Refunds and Offsets	909,000	0	0
Applied Behavioral Analysis Rate Increase	385,000	0	0
Office of Chief Information Officer Adjustment	0	-609	0
Mental Health Service Rate Increase (85.0%)	0	3,000,000	0
Mental Health Therapy	0	7,000,000	0
Substance Use Provider Rates	0	3,000,000	0
Total Estimated Medicaid Need	\$ 1,690,903,155	\$ 2,030,846,835	\$ 2,158,088,647
Balance (Underfunded If Negative)	\$ 367,990,615	\$ 200,094,064	\$ 19,057,102
Unspent ARPA State Funds	\$ 53,388,793	\$ 0	\$ 0
Ending State Balance	\$ 421,379,408	\$ 200,094,064	\$ 19,057,102
MCO – Managed Care Organization			
FMAP – Federal Medical Assistance Percentage			
ARPA – American Rescue Plan Act of 2021			
HCBS – Home- and Community-Based Services			
		ICF/ID – Intermediate Care Facilities for Persons with an Intellectual Disability	

Medicaid Enrollment. Before COVID-19, enrollment tended to fluctuate on a monthly basis by as many as 3,000 individuals in Medicaid and 1,500 individuals in the Iowa Health and Wellness Plan (IHAWP). In FY 2023, Medicaid and IHAWP grew by an average of 477 individuals per month, with a total growth of 5,725 individuals for the fiscal year. Disenrollment was prohibited by the federal government during the PHE, which ended in April 2023. Beginning May 2023, the State began to disenroll ineligible individuals, which reduced the FY 2023 monthly average of individuals. The majority of monthly increases were associated with the maintenance of effort requirement for receiving the 6.20% enhanced FMAP rate

related to COVID-19; however, with the PHE ending in April 2023, disenrollment reduced overall Medicaid totals beginning in May 2023, which has continued into FY 2024.

The majority of the monthly increases are associated with the maintenance of effort requirement for receiving the 6.20% enhanced FMAP rate related to COVID-19.

Figure 2 shows Medicaid and IHAWP enrollment changes by month. Through the first eight months of FY 2024, enrollment has decreased from the FY 2023 pace and is averaging -17,657 per month for the two programs, with a total enrollment decrease of -141,254 for both Medicaid and IHAWP through February.

Figure 2 — Changes in Medicaid and IHAWP Enrollment — FY 2024

	Regular Medicaid				Total	IHAWP Total
	Children	Adults	Aged	Disabled		
FY 2023 Total	305,184	98,543	33,971	80,859	518,557	249,804
FY 2024 Monthly Changes						
July	-10,885	-4,761	-154	91	-15,709	-15,066
August	-11,659	-5,139	-272	-70	-17,140	-15,198
September	-11,557	-4,681	-289	-372	-16,899	-10,450
October	-6,716	-2,162	-116	-514	-9,508	-5,479
November	-8,856	-3,511	-273	-603	-13,243	-6,988
December	-6,512	-2,545	-544	-1,214	-10,815	-4,556
January	866	-308	707	-819	446	505
February	1,074	-458	-117	-769	-270	-884
Total FY 2024	-54,245	-23,565	-1,058	-4,270	-83,138	-58,116
Grand Total FY 2024	250,939	74,978	32,913	76,589	435,419	191,688

Figure 3 shows monthly Medicaid enrollment over the past two years. The Medicaid program saw a large increase in enrollment after March 2020 as a result of suspending disenrollment. However, with the end of the PHE in April 2023, monthly disenrollment has decreased total enrollment through FY 2024.

Figure 3 — Medicaid Enrollment Two-Year Actual



FY 2025 FMAP Rates. The Bureau of Economic Analysis [released](#) final State personal per capita income data for 2022 on September 29, 2023. This allows states to calculate the final federal fiscal year (FFY) 2025 FMAP rates. The FFY 2025 FMAP rates are based on per capita personal incomes for calendar years 2020 through 2022. These rates are calculated on a federal fiscal year basis, but the numbers in this article have been blended to reflect State fiscal year (SFY) 2025. Iowa’s SFY 2025 FMAP rate decreased by -0.41% to 63.47%. This means for every dollar spent on the Medicaid program, the federal government will pay \$0.6347 and Iowa pays \$0.3653. The FMAP change is 0.58% less on a State fiscal year basis than the preliminary estimate that was released in March.

The FMAP decrease indicates that Iowa’s economy is doing better compared to other states, resulting in a smaller share of the total FMAP portion for Iowa. This is the first time since FY 2016 that the FMAP rate has moved against the State’s favor, meaning Iowa pays more. Prior to the 9.22% increase from FY 2017 to FY 2024, the rate declined 8.2% from FY 2010 to FY 2016.

Fiscal Impact. Although the final fiscal impact is still being calculated, the -0.41% change in the FMAP rate means that the State will be responsible for approximately \$26.6 million more in Medicaid expenditures in SFY 2025. **Figure 4** shows the five-year change in the FMAP rate.

Figure 4 — Five-Year State Regular Medicaid FMAP

State Fiscal Year	Federal Share	State Share	Federal % Change
FY 2021	61.61%	38.39%	0.73%
FY 2022	62.04%	37.96%	0.43%
FY 2023	62.88%	37.12%	0.84%
FY 2024	63.88%	36.12%	1.00%
FY 2025	63.47%	36.53%	-0.41%