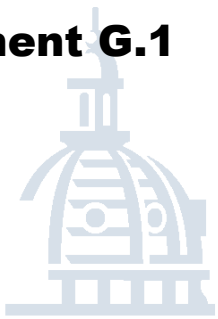




# ISSUE REVIEW

*Fiscal Services Division*



October 29, 2014

## Federal Medical Assistance Percentage Match Rates

**ISSUE**

Over the past six years, the Federal Medical Assistance Percentage (FMAP) rate for Iowa has declined by 8.60%, shifting more than \$276.0 million in expenditures from the federal government to the State General Fund. This **Issue Review** examines the history of the FMAP rate, 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 chapters [249](#) and [514](#)

**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 produced by the Bureau of Economic Analysis of the U.S. Department of Commerce. Per capita income is calculated by dividing the 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.

In Iowa, the base FMAP rate is 54.91% for 2016. This means, for every dollar spent on the Medicaid Program, the federal government pays \$0.5491 and Iowa pays \$0.4509. The rate applies to most, but not all, medical service expenditures paid for by the state. Other services or Programs may receive different or enhanced rates and are detailed below.

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

Iowa - State Share 2016	
0.4509	$= 0.45 \times \frac{((42,656 + 44,014 + 44,763) \div 3)^2}{((42,332 + 44,200 + 44,765) \div 3)^2}$

The FMAP formula is designed to provide states with lower per capita income compared to the U.S. with a greater share of financial assistance. The statute contains both minimum and maximum percentages so no state pays more than 50.00% of the cost and the federal government will not pay 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 from a high of 74.17% in Mississippi for 2016 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 16.90%. Iowa's FMAP rate of 54.91% ranks in the middle (24th) of all states in FY 2016. The map and table below provide FMAP rates for 2015 and 2016.<sup>1</sup>

FMAP Rates 2015 and 2016

State	2015	2016	Change	State	2015	2016	Change	State	2015	2016	Change
Alabama	68.99	69.87	0.88	Kentucky	69.94	70.32	0.38	North Dakota	50.00	50.00	0.00
Alaska	50.00	50.00	0.00	Louisiana**	62.05	62.21	0.16	Ohio	62.64	62.47	-0.17
Arizona	68.46	68.92	0.46	Maine	61.88	62.67	0.79	Oklahoma	62.30	60.99	-1.31
Arkansas	70.88	70.00	-0.88	Maryland	50.00	50.00	0.00	Oregon	64.06	64.38	0.32
California	50.00	50.00	0.00	Massachusetts	50.00	50.00	0.00	Pennsylvania	51.82	52.01	0.19
Colorado	51.01	50.72	-0.29	Michigan	65.54	65.60	0.06	Rhode Island	50.00	50.42	0.42
Connecticut	50.00	50.00	0.00	Minnesota	50.00	50.00	0.00	South Carolina	70.64	71.08	0.44
Delaware	53.63	54.83	1.20	Mississippi	73.58	74.17	0.59	South Dakota	51.64	51.61	-0.03
District of Columbia*	70.00	70.00	0.00	Missouri	63.45	63.28	-0.17	Tennessee	64.99	65.05	0.06
Florida	59.72	60.67	0.95	Montana	65.90	65.24	-0.66	Texas	58.05	57.13	-0.92
Georgia	66.94	67.55	0.61	Nebraska	53.27	51.16	-2.11	Utah	70.56	70.24	-0.32
Hawaii	52.23	53.98	1.75	Nevada	64.36	64.93	0.57	Vermont***	54.01	53.90	-0.11
Idaho	71.75	71.24	-0.51	New Hampshire	50.00	50.00	0.00	Virginia	50.00	50.00	0.00
Illinois	50.76	50.89	0.13	New Jersey	50.00	50.00	0.00	Washington	50.03	50.00	-0.03
Indiana	66.52	66.60	0.08	New Mexico	69.65	70.37	0.72	West Virginia	71.35	71.42	0.07
Iowa	55.54	54.91	-0.63	New York	50.00	50.00	0.00	Wisconsin	58.27	58.23	-0.04
Kansas	56.63	55.96	-0.67	North Carolina	65.88	66.24	0.36	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 and a negative change reflects the state is responsible for a greater share of Medicaid expenditures.

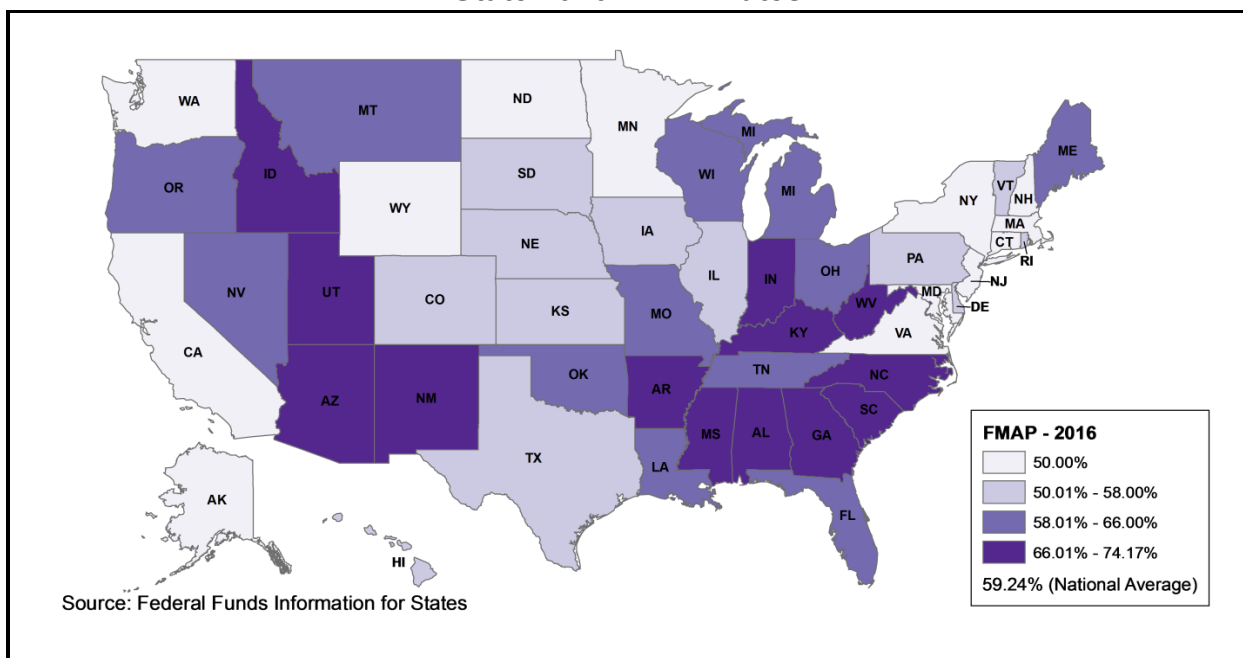
\*The District of Columbia's FMAP is frozen at 70.00% as part of the city's federal financing structure.

\*\*Louisiana's FMAP rates reflect the disaster-recovery adjustment as included in section 2006 of the Affordable Care Act (ACA).

\*\*\*The table does not reflect the 2.20% increase that Vermont may receive between January 1, 2014, and December 31, 2015, as a result of a provision in ACA related to expansion states.

Source: Federal Funds Information for States

State 2016 FMAP Rates



<sup>1</sup>For 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.

**Other FMAP Rates**

In addition to the match rate for the regular Medicaid Program, certain Medicaid populations, such as Family Planning, receive an enhanced match rate funded at 90.00% by the federal government. The federal government may approve special programs designed to incentivize certain behaviors or shifts in expenditures to lower cost options. Iowa is currently participating in the Balancing Incentive Payment (BIP) Program that provides an enhanced match rate of 2.00% for non-institutional long-term care services and supports. The goal of the Program is to shift individuals from institutional-based long-term care to care in their home or community. In addition to the two Programs listed above, there are a number of other programs, services, and activities that receive enhanced rates.

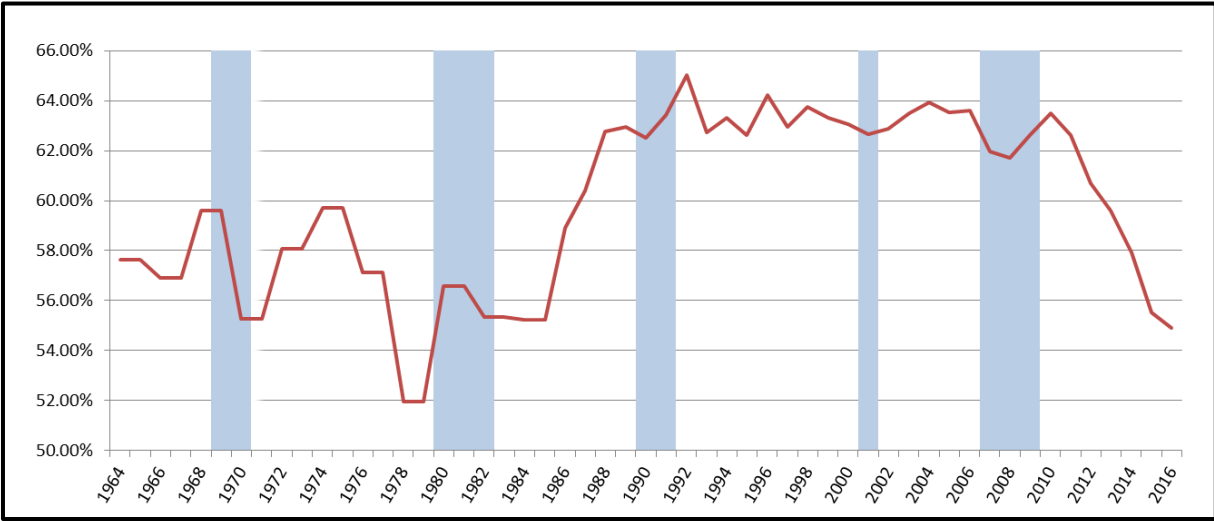
Different FMAP rates are used to calculate the federal match rate for other State and federal health programs. Iowa’s FMAP rate for the Healthy and Well Kids in Iowa (*hawk-i*) Program will be 68.44% in 2016. This is a decrease of 6.02% since 2010. Iowa also receives a fixed FMAP rate under the Affordable Care Act for the new Iowa Health and Wellness Program (I-HAWP) that covers individuals with income up to 133.00% of the federal poverty level that were previously ineligible for Medicaid. The FMAP rate for the first three calendar years (2014-2016) is 100.00% federal funds with a gradual decline to 90.00% by calendar year 2020.

**HISTORY OF THE IOWA FMAP RATE**

The FMAP formula has remained mostly unchanged since the beginning of the Medicaid Program. From FFY 1965 through FFY 1987, the FMAP rate was calculated on a biannual basis. Beginning in 1988, the federal Consolidated Omnibus Budget Reconciliation Act (COBRA) changed the frequency 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 FFY 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 that began at the end of 2007, Iowa’s economy fared much better than other states, in large part to a strong farm economy. Because of stronger economic conditions compared to most states, the Iowa FMAP rate began a steady decline beginning in 2011, declining 8.60% between 2011 and 2016.

**History of Iowa’s FMAP Rate 1964-2016  
(Shaded Bars indicate U.S. Recessions)**



**BENEFITS AND LIMITATIONS OF THE FMAP FORMULA**

The FMAP formula has provided a stable and predictable funding source for states since the beginning of the Program and although there are annual fluctuations in the rate, it generally doesn't move more than one or two percentage points. However, the formula does have limitations. One issue that states face is the built-in delay in the formula. To calculate the federal match rate for FFY 2016, the formula uses economic data from calendar years 2011-2013. 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 GAO [report](#)<sup>2</sup> 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 to shocks in certain sectors or changes in any single data point. The report also suggest the formula could taking into account things like geographic cost differences or demand for services that would reflect both the cost and the need for services in the formula.

Any changes in the formula will require a change in federal law. With total state and federal spending of \$415.2 billion for Medicaid in FY 2012, any revision in the formula will likely have a significant impact on states.

**BUDGET IMPACT**

Total Iowa expenditures estimated for the Medicaid Program (not including the Iowa Health and Wellness Programs) for FY 2016 just under \$4.0 billion. Given this, Iowa expenditures for the regular Medicaid Program will increase or decrease by approximately \$32.1 million for every 1.00% change in the FMAP rate. The Iowa FMAP rate has declined by 8.60% since 2011. As a result, when calculating state expenditures for FY 2016, approximately \$276.0 million has been shifted from the federal government back to Iowa for the same set of Medicaid services.

The Iowa Health and Wellness Program FMAP funding is slated to decrease from 100.00% federal funding in the first three years of the Program to 90.00% federal funding by 2020 when the federal government will pay that rate in perpetuity. An FMAP schedule is listed below.

**Iowa Health and Wellness Program  
FMAP Rate 2014-2021**

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

<sup>2</sup> GAO, Report to Congressional Requesters, "MEDICAID Alternative Measures Could Be Used to Allocate Funding More Equitably" (May 2013, GAO-13-434).

It is too early to accurately project what the Iowa financial responsibility will be in FY 2017 and beyond, but long-term projections estimate Iowa costs of \$25.2 million in FY 2017 based on \$1.0 billion in total expenditures. The calendar year FMAP rate is blended over two years to calculate the FY 2017 I-HAWP FMAP rate of 97.50%. When the 90.0% FMAP rate takes full effect in 2020 and beyond, it is estimated the Iowa share will exceed \$100.0 million annually.

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