



Section 6

FINANCING

How Do Medicaid and CHIP Dollars Flow?

In 2015, the Medicaid and Children’s Health Insurance Program (CHIP) programs accounted for over 17% of total U.S. health care spending.⁴⁰ Medicaid expenditures nationally amounted to over \$545 billion in that fiscal year, while CHIP expenditures amounted to over \$14.6 billion.⁴¹ Medicaid usually consumes the largest or second-largest share of state budgets, ranging from a high of 41% in New Hampshire, to a low of 9% and 7% of state budgets in Alabama and Utah respectively.⁴²

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 75.65% in FY 2017 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.

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⁴⁰National Health Expenditures Accounts (NHEA), Table 5: National Health Expenditures and Table 21: Enrollment and Per Enrollee Estimates of Health insurance Retrieved August 14, 2017 from <http://go.cms.gov/2xlawu0>

⁴¹National Health Expenditures Accounts (NHEA), Table 21: Expenditures, Enrollment and Per Enrollee Estimates of Health insurance Retrieved August 14, 2017 from <http://go.cms.gov/2xlawu0>

⁴²Kaiser Family Foundation, State Health Facts. Distribution of State General Fund Expenditures (in millions) 2015. Retrieved August 14, 2017 from <http://www.kff.org/other/state-indicator/distribution-of-general-fund-spending/>

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.⁴³

While the federal matching dollars are crucial, states still make a large financial contribution to the Medicaid program. The state share ranged from \$29 billion in California to \$284 million in Wyoming in FY 2016.⁴⁴ 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 spent on the Medicaid program in FY 2016, look at the table on the Kaiser Family Foundation State Health Facts website at <http://www.kff.org/medicaid/state-indicator/federalstate-share-of-spending>

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.⁴⁵ 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 expanded in 2014, the federal share of Medicaid spending for the newly eligible individuals was 100%. This lasted through 2016 when the federal matching rate began to phase down annually from 100% to 90% for those newly eligible by 2020.

CHIP Funding

Unlike Medicaid, federal CHIP funds are capped and allotted for two years based on a formula that changes from year to year. Regardless of program design, states' CHIP spending is reimbursed by the federal government at a matching rate that is higher than Medicaid's.^{46,47} The Medicare Access and CHIP Reauthorization Act of 2015 (MACRA, P.L. 114-10) extended federal

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⁴³However, 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.

⁴⁴Kaiser Family Foundation, State Health Facts. Federal and State Share of Medicaid Spending 2016. Retrieved August 14, 2017 from <http://www.kff.org/medicaid/state-indicator/federalstate-share-of-spending>

⁴⁵Medicaid 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 <https://www.macpac.gov/publication/report-to-the-congress-on-medicare-and-chip-311/>

CHIP funding for two years through FY 2017. As of September 2017, Congress is working on legislation that will extend CHIP funding over a longer period of time, potentially at a lower match rate. MACPAC estimates that all states would exhaust federal CHIP funding at some point in FY 2018.⁴⁸

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.

⁴⁶For the enhanced federal match rate for CHIP in FY2018 by state, see <http://www.kff.org/other/state-indicator/enhanced-federal-matching-rate-chip>

⁴⁷For the federal match rate for Medicaid in FY2018 by state, see <http://www.kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier>

⁴⁸The Medicaid and CHIP Payment and Access Commission.(2017, July). *Federal CHIP Funding: When Will States Exhaust Allotments?*. Retrieved September 13, 2017 from <https://www.macpac.gov/publication/federal-chip-funding-when-will-states-exhaust-allotments/>

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://cahpp.org/resources/Medicaid-CHIP-tutorial>

Is this tutorial helpful to you? Please take our survey at <http://bit.ly/2gXLyuy-catalyst-survey>

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CATALYST
C E N T E R



IMPROVING FINANCING OF CARE
for *Children & Youth*
WITH SPECIAL HEALTH CARE NEEDS

NATIONAL ACADEMY
for STATE HEALTH POLICY

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