



# Medicaid: An Essential Program for States and Their Residents

## Medicaid

Medicaid is a health insurance program that serves low-income Americans, including children, seniors, and people with disabilities. It is jointly funded by states and the federal government. Federal Medicaid funding is a reliable, vital source of financial support for states, and making even minor changes to Medicaid's financing structure would leave states with large budget holes.

## Medicaid Is a State-Federal Partnership That Helps States Better Serve Residents' Health Care Needs

States don't have to have a Medicaid program, but all states do because they recognize that Medicaid helps them serve their residents' health care needs.

Without Medicaid, states would need to find ways to fund health care and long-term care for their low-income residents using state funding alone, as very few Medicaid enrollees can afford private coverage. More state dollars would be spent on hospital care that patients can't pay for (also called "uncompensated care"); institutional care, like care in nursing homes; and health care services for people who go bankrupt paying for medical care.

## Medicaid Is a Reliable Source of Funding for States

For 50 years, Medicaid has been a consistent source of financial support for states.<sup>1</sup> The federal government pays for at least half of each state's Medicaid program costs, matching state spending at least dollar for dollar. In many states, the federal share, or "matching rate," is even higher. This matching rate is based on a formula that considers each state's economic condition. In 2015, the federal government is paying an average of 59 percent of total Medicaid costs, and in some states, it is paying more than 70 percent.<sup>2</sup>

For states that expand Medicaid coverage under the Affordable Care Act (ACA), the federal match is even more generous: The federal government pays all the costs of newly eligible enrollees through 2016, with the federal share gradually decreasing to 90 percent in 2020, where it will stay.<sup>3</sup>

## **Medicaid's Funding Structure Protects States and Allows Innovation**

The formula that is used to determine states' matching rates for their traditional Medicaid programs has remained essentially unchanged for 50 years (this excludes Medicaid expansions, referred to above, which are a new option under the ACA that have their own matching rate). In the few instances where the federal government has changed these matching rates, the changes were explicitly temporary and typically increased federal support to help states during times of economic crisis.<sup>4</sup> For example, all states received a temporary increase in federal Medicaid matching funds during the last recession.

Because federal support is linked to state costs, states can be sure they'll receive increased support if their residents' health needs change—like during a flu epidemic or a natural disaster.

This dependable funding structure gives states more latitude to experiment with different program designs. For example, states can test projects that pay for care coordination services for people with multiple chronic illnesses. If costs for these “pilot programs” are higher than anticipated, the federal government shares the cost.

## **States Have the Flexibility to Design Medicaid Programs That Work for Their Residents**

There are broad federal guidelines designed to ensure that state Medicaid programs further the program goals that Congress laid out. But within these guidelines, states have wide latitude to design and adopt optional programs to suit their needs. For example, states can add services or cover additional populations, and a number of states use this flexibility to develop and run pilot programs aimed at improving quality of care and reducing costs.

Every state has taken advantage of this opportunity: All states provide some optional Medicaid services or cover some optional Medicaid populations.<sup>5,6</sup>

## **Medicaid Is Critical to State Budgets**

Medicaid funding makes up more than half of all the federal funds that go to states.<sup>7</sup> Because Medicaid is a vital source of state revenue, enacting even minor changes to Medicaid's financing structure would have profound effects on state budgets.

For instance, many states that have expanded Medicaid under the ACA have realized budget savings as a result of their expansion:<sup>8</sup> Expanding Medicaid reduces the number of low-income uninsured

residents, which means the demand for state-funded health services declines. And because the federal government covers virtually all the costs of expansion, added costs to states will be minimal.<sup>9</sup>

On the other hand, federal proposals to cap or cut federal Medicaid spending would create large budget holes for states.<sup>10</sup>

## **Medicaid Dollars Are Spent Efficiently**

Medicaid provides comprehensive coverage to enrollees at much lower costs per person than private insurance. For example, compared to private insurance, Medicaid spends, on average, 40 percent less on administrative costs like marketing, advertising, and collecting premiums.<sup>11</sup> Medicaid costs have also grown more slowly than costs in the private market.

As a lean program, Medicaid has very little fat to cut. Therefore, changing how Medicaid is financed will likely shift costs to states and enrollees.

## **Medicaid Helps Make the Health Care System Stronger for Everyone**

Medicaid is a critical source of revenue for doctors, hospitals, nursing homes, and other health care providers that are the foundation of a state's health care system. This is especially true in underserved areas, like rural counties. For example, physicians in rural areas receive almost 20 percent of their patient revenue from Medicaid. Nationally, the average is about 17 percent.<sup>12</sup> Similarly, Medicaid is a critical payer for care that is provided at rural hospitals.<sup>13</sup>

The financial support that Medicaid provides to rural, suburban, and urban hospitals benefits not just Medicaid enrollees, but everyone in the health care system.

**The Medicaid program is a reliable source of funding for states that bolsters their economies and allows them to do more to meet their residents' health care needs than they could on their own.**

## Endnotes

1 Melissa Burroughs, "Medicaid: 50 Years of Helping States Achieve Health and Economic Gains," Families USA blog (July 21, 2015), available online at <http://familiesusa.org/blog/2015/07/medicaid-50-years-helping-states-achieve-health-and-economic-gains>.

2 Kaiser Family Foundation, State Health Facts, *Federal and State Share of Medicaid Spending*, available online at <http://kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier/>, accessed on August 14, 2015.

3 Robin Rudowitz, *Understanding How States Access the ACA Enhanced Medicaid Match Rates* (Washington: Kaiser Family Foundation, September 29, 2014), available online at <http://kff.org/medicaid/issue-brief/understanding-how-states-access-the-aca-enhanced-medicaid-match-rates/>.

4 Edwin Park, *History Rebuts Claim That Federal Medicaid Matching Rates Are Unstable* (Washington: Center on Budget and Policy Priorities, February 3, 2014), available online at <http://www.cbpp.org/blog/history-rebuts-claim-that-federal-medicaid-matching-rates-are-unstablehttps://kaiserfamilyfoundation.files.wordpress.com/2013/01/7872.pdf>.

5 For example, every state provides some Medicaid coverage of home- and community-based services for seniors or people with disabilities. These are optional (not required) Medicaid services. See Kaiser Family Foundation, State Health Facts, *Medicaid Benefits: Home and Community-Based Services Waiver*, available online at <http://kff.org/medicaid/state-indicator/home-and-community-based-services-waiver/>, accessed on August 17, 2015.

6 Congressional Budget Office, *An Overview of the Medicaid Program* (Washington: Congressional Budget Office, September 18, 2013), available online at <https://www.cbo.gov/publication/44588>.

7 Brian Sigritz, "Medicaid Represents a Majority of All Federal Funds to States for the First Time," *NASBO Budget Blog*, June 25, 2015, available online at <https://www.nasbo.org/budget-blog/medicaid-represents-majority-all-federal-funds-states-first-time>.

8 Deborah Bacharach, Patricia Boozang, and Dori Glanz, *States Expanding Medicaid See Significant Budget Savings and Revenue Gains* (New Jersey: The Robert Wood Johnson Foundation and Manatt Health Solutions, April 2015), available online at [https://www.manatt.com/uploadedFiles/Content/5\\_Insights/WhitePapers/Manatt\\_StateExpandMedicaid\\_4\\_9\\_15.pdf](https://www.manatt.com/uploadedFiles/Content/5_Insights/WhitePapers/Manatt_StateExpandMedicaid_4_9_15.pdf); Stan Dorn, Norton Francis, Robin Rudowitz, and Laura Snyder, *The Effect of Medicaid Expansion on State Budgets: An Early Look in Select States* (Menlo Park, CA: The Kaiser Family Foundation, March 11, 2015), available online at <http://kff.org/medicaid/issue-brief/the-effects-of-the-medicaid-expansion-on-state-budgets-an-early-look-in-select-states/>.

9 Under the ACA, the federal share of expansion costs never falls below 90 percent.

10 Dee Mahan, *How Per Capita Caps Would Hurt States* (Washington: Families USA, January 2015), available online at <http://familiesusa.org/product/how-capita-caps-medicaid-would-hurt-states>.

11 Federal spending on Medicaid administrative costs averaged just 8.5 percent of total Medicaid spending, compared to private health plans, where administrative spending averages 12 percent of total spending. Centers for Medicare and Medicaid Services, *National Health Expenditures by Type of Service and Source of Funds, CY 1960-2013* (Washington: Department of Health and Human Services, CMS, 2013), available online at <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/NHE2013.zip>.

12 Jon Bailey, *Medicaid and Rural America* (Lyons, NE: Center for Rural Affairs, February 2012), available online at <http://files.cfra.org/pdf/Medicaid.pdf>.

13 Ibid.

A selected list of relevant publications to date:

*Medicaid: Connecting Low-Income Seniors and People with Disabilities to Health and Long-Term Care* (July 2015)

*Medicaid: Providing Enrollees with Access to Health Care* (July 2015)

This publication was written by:  
**Andrea Callow**, Medicaid Policy Analyst,  
Families USA

The following Families USA staff  
contributed to the preparation of this  
material (listed alphabetically):

Melissa Burroughs, Villers Fellow  
Dee Mahan, Director of Medicaid Advocacy  
Evan Potler, Art Director  
Ingrid VanTuinen, Director of Editorial

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1201 New York Avenue NW, Suite 1100  
Washington, DC 20005  
202-628-3030  
info@familiesusa.org  
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