

# AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) FACT SHEET HOW FEDERAL MEDICAID RELIEF WORKS FOR WEST VIRGINIA

Office of Senator Jay Rockefeller

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Medicaid is a critical safety-net for low-income children, pregnant women, the elderly, and people with disabilities in West Virginia. It is also the economic foundation of our health care infrastructure through its support of hospitals, doctors, community health centers, and nursing homes throughout West Virginia.

Both the state and the federal government provide funding for Medicaid. The federal government's share of a state's expenditures for most Medicaid services is called the federal medical assistance percentage (FMAP). Determined annually, the FMAP is designed so that the federal government pays a larger portion of Medicaid costs in states, like West Virginia, with lower per capita income relative to the national average (and vice versa for states with higher per capita incomes). For fiscal year 2008, West Virginia had an FMAP of 74.25 percent, which means that the state was responsible for 25.75 percent of all Medicaid costs.

The need for access to Medicaid grows during times of economic uncertainty because of job loss and the corresponding loss in employer-sponsored health insurance. During the 2001-2003 recession, there was a huge loss in private health care coverage. Data from the Center for Studying Health System Change indicates that the proportion of the under-65 population with employer-sponsored coverage fell from 67 percent in 2001 to 63.4 percent in 2003. After adjusting for population growth, this means that nearly 9 million fewer people were covered by employer-sponsored health insurance during the recession than would have been if coverage rates remained unchanged.

Unemployment is worse now than the last recession. During the last recession, unemployment peaked at 6.3% nationally. Unemployment has already hit 8.1% in this recession and many economists expect it to rise to 9% or higher. This means that states will continue to face increased demand for Medicaid and other services while state revenues decline. In response to the growing need for Medicaid services, the American Recovery and Reinvestment Act includes \$87 billion in temporary, timely, and targeted Medicaid relief to help states sustain their Medicaid programs at a time when they might otherwise be forced to make deep cuts. There are three specific Medicaid funding mechanisms in the new recovery law. During the recession adjustment period:

1. the law holds *all states* harmless from any decline in their regular FMAPs;
2. the law provides *all states* with an across-the-board FMAP increase of 6.2 percentage points; and
3. the law provides *qualifying states* with an unemployment-related increase.

The *recession adjustment period* is defined in statute as the 27-month period that begins with the first quarter of fiscal year 2009 (October 1, 2008) and runs through the end of the first quarter of fiscal year 2011 (December 31, 2010). Each of the funding mechanisms is discussed in detail on the following pages:

1. **Automatic FMAP Hold Harmless** - \$5,918,064.21 for West Virginia in first two quarters of Fiscal Year 2009

According to the U.S. Department of Health and Human Services, West Virginia had an FMAP of 74.25 percent for fiscal year 2008 and has an FMAP of 73.73 percent for fiscal year 2009. Under the hold harmless provision of the new law, because West Virginia's FMAP for fiscal year 2009 is less than the state's FMAP as so determined for fiscal year 2008, West Virginia's FMAP for fiscal year 2009 will be substituted for the state's FMAP for fiscal year 2008. This means that West Virginia's FMAP for fiscal year 2009 will be 74.25 percent. The hold harmless provision applies for the duration of the recession adjustment period, so West Virginia will be held harmless from any declines in its regular FMAP for 27 months.

2. **Automatic 6.2 Percentage Point FMAP Increase** - \$70,561,534.79 for West Virginia in first two quarters of Fiscal Year 2009

In addition to West Virginia's FMAP being held harmless at the state's fiscal year 2008 level of 74.25 percent, the state will also receive an across-the-board FMAP increase of 6.2 percentage points. Like the hold harmless, this across-the-board increase also applies for the duration of the recession adjustment period (27 months). After applying the hold harmless and the 6.2 percentage point across-the-board FMAP increase, West Virginia will have an FMAP of 80.45 percent for fiscal year 2009 (and the corresponding state share will be 19.55 percent).

3. **Unemployment-Related FMAP Increase**

Based on unemployment in the state, West Virginia may qualify for additional FMAP relief on top of the hold harmless and the 6.2 percentage point across-the-board FMAP increase – if the state meets one of three unemployment thresholds specified in the law. West Virginia will be evaluated on a quarterly basis for the unemployment-related FMAP increase, which would be equal to a percentage reduction in the state share. The additional percentage reduction would be applied to the state share after the hold harmless increase and after one-half of the 6.2 percentage point increase (i.e., 3.1 percentage points); for purposes of this fact sheet, the state share that results from this formula is referred to as the *adjusted state share*.

$$\begin{aligned} \text{Adjusted State Share} &= \text{West Virginia's state share after application of hold harmless} + \\ &\quad 3.1 \text{ percentage points} \\ &= 19.55 \text{ percent} + 3.1 \text{ percent} \\ &= 22.65 \text{ percent} \end{aligned}$$

The unemployment-related FMAP increase is based on West Virginia's unemployment rate in the most recent 3-month period for which federal data are available (from the Bureau of Labor Statistics) compared to its lowest unemployment rate in any 3-month period beginning on or after January 1, 2006. However, for the first two and last two quarters of the recession adjustment period, the 3-month period is specified. For example, the law specified that October-December 2008 unemployment data would be used to calculate unemployment-related FMAP increases for the first two quarters of fiscal year 2009. The criteria for the unemployment-based FMAP increase are as follows:

- **Tier I – If West Virginia has an unemployment rate increase of at least 1.5 but less than 2.5 percentage points = 5.5 percent reduction in state share.** If West Virginia experiences a Tier I unemployment rate increase, then the state share will be further reduced (in other words, the state's FMAP will be further increased). To determine the unemployment-related FMAP increase, the additional 5.5 percent reduction will be applied to the adjusted state share.

West Virginia's Tier I Unemployment-Related FMAP Increase

$$\begin{aligned}
 &= 74.25 \text{ FMAP after application of hold harmless} + 6.2 \text{ across-the-board FMAP increase} \\
 &+ \text{West Virginia's unemployment-related FMAP increase} \\
 &= 74.25 + 6.2 + [\text{West Virginia's adjusted state share multiplied by 5.5\%}] \\
 &= 74.25 + 6.2 + [22.65 \text{ multiplied by 5.5\%}] \\
 &= 74.25 + 6.2 + 1.25 \\
 &= 81.70 \text{ FMAP}
 \end{aligned}$$

In other words, if West Virginia meets the Tier I unemployment threshold in fiscal year 2009, the state will receive an additional 1.25 percentage point reduction in its state share (which equals an FMAP increase of 1.25 percentage points). WV's state share would be further reduced from 19.55 percent to 18.30 percent. The corresponding federal share (FMAP) would be 81.70 percent.

- **Tier II – If West Virginia has an unemployment rate increase of at least 2.5 but less than 3.5 percentage points = 8.5 percent reduction in state share.** If West Virginia experiences a Tier II unemployment rate increase, then the state share will be further reduced (in other words, the state's FMAP will be further increased). To determine the unemployment-related FMAP increase, the additional 8.5 percent reduction will be applied to the adjusted state share..

West Virginia's Tier II Unemployment-Related FMAP Increase

$$\begin{aligned}
 &= 74.25 \text{ FMAP after application of hold harmless} + 6.2 \text{ across-the-board FMAP increase} \\
 &+ \text{West Virginia's unemployment-related FMAP increase} \\
 &= 74.25 + 6.2 + [\text{West Virginia's unemployment-related FMAP increase}] \\
 &= 74.25 + 6.2 + [\text{West Virginia's adjusted state share multiplied by 8.5\%}] \\
 &= 74.25 + 6.2 + [22.65 \text{ multiplied by 8.5\%}] \\
 &= 74.25 + 6.2 + 1.93 \\
 &= 82.38 \text{ FMAP}
 \end{aligned}$$

In other words, if West Virginia meets the Tier II unemployment threshold in fiscal year 2009, the state will receive an additional 1.93 percentage point reduction in its state share (which equals an FMAP increase of 1.93 percentage points). WV's state share would be further reduced from 19.55 percent to 17.62 percent. The corresponding federal share (FMAP) would be 82.38 percent.

- **Tier III – If West Virginia has an unemployment rate increase of at least 3.5 percentage points = 11.5 percent reduction in state share.** If West Virginia experiences a Tier III unemployment rate increase, then the state share will be further reduced (in other words, the state's FMAP will be further increased). To determine the unemployment-related FMAP increase, the additional 11.5 percent reduction will be applied to the adjusted state share.

West Virginia's Tier III Unemployment-Related FMAP Increase

$$\begin{aligned}
 &= 74.25 \text{ FMAP after application of hold harmless} + 6.2 \text{ across-the-board FMAP increase} \\
 &+ \text{West Virginia's unemployment-related FMAP increase} \\
 &= 74.25 + 6.2 + [\text{West Virginia's unemployment-related FMAP increase}] \\
 &= 74.25 + 6.2 + [\text{West Virginia's adjusted state share multiplied by 11.5\%}] \\
 &= 74.25 + 6.2 + [22.65 \text{ multiplied by 11.5\%}] \\
 &= 74.25 + 6.2 + 2.60 \\
 &= 83.05 \text{ FMAP}
 \end{aligned}$$

In other words, if West Virginia meets the Tier III unemployment threshold in fiscal year 2009, the state will receive an additional 2.60 percentage point reduction in its state share (which equals an FMAP increase of 2.60 percentage points). WV's state share would be further reduced from 19.55 percent to 16.95 percent. The corresponding federal share (FMAP) would be 83.05 percent.

If West Virginia qualifies for the unemployment-related FMAP increase and later has a decrease in its unemployment rate, its percentage reduction in state share will not decrease until the fourth quarter of federal fiscal year 2010 (for West Virginia, this corresponds with the first quarter of state fiscal year 2011). If West Virginia qualifies for the unemployment-related FMAP increase and later has an increase in its unemployment rate, its percentage reduction in state share could increase.

Requirements for West Virginia to Receive Ongoing Federal Medicaid Relief During Recession Adjustment Period

The full amount of the temporary FMAP increase would apply only to Medicaid, excluding disproportionate share hospital (DSH) payments and expenditures for individuals who are eligible for Medicaid because of an increase in a state's income eligibility standards above what was in effect on July 1, 2008. A portion of the temporary FMAP increase (i.e., the amount provided for the hold harmless plus the 6.2 percentage points across-the-board) will apply to Title IV-E foster care and adoption assistance, which also use the FMAP to determine federal funding. Additionally, in order for West Virginia to continue receiving the temporary Medicaid and Title IV-E relief funding throughout the recession period, the state is:

- required to maintain their Medicaid eligibility standards, methodologies, and procedures as in effect on July 1, 2008;

- prohibited from receiving the increase if the state is not in compliance with federal requirements for prompt payment of health care providers under Medicaid (and required to report to the Secretary of HHS on state compliance);
- prohibited from depositing or crediting the additional federal funds paid as a result of the increase to any reserve or rainy day fund;
- required to ensure that local governments do not pay a larger percentage of the state's nonfederal Medicaid expenditures than otherwise would have been required on September 30, 2008; and
- required to submit a report to the Secretary regarding how the additional federal funds paid as a result of the temporary FMAP increase were expended.