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Paid For, Never Redeemed: State Savings in Florida's Medicaid Program Due to Floridians' Lagging Incomes Are More Than Sufficient to Fund the Extension of Coverage to 800,000 Uninsured, Low-Income Adults

Summary

The governor and majority leadership in the Florida House have persistently but unfairly attacked Medicaid - the health coverage safety net - for purportedly swallowing the state budget. These claims have in turn been used repeatedly to justify rejection of proposals to extend health coverage to more than 800,000 uninsured Florida adults in or near poverty, despite the fact that the portion of the cost funded by already-paid federal tax dollars will never fall below 90 percent.

The fact is, not only has the percentage of and growth in state general revenue (discretionary) funding dedicated to Florida's Medicaid program been continuously overstated by critics, the federal share of Medicaid costs paid has also been continuously increasing.

More specifically, under the current Medicaid program, increases in Florida's Federal Medical Assistance Percentage (FMAP) will save Florida more than $2 billion state dollars over the 8-year period from 2011-12 through 2019-20. These savings far exceed the state's share of the cost of Medicaid expansion. In other words, the expansion has already been fully funded. Furthermore, these increased FMAP rates are the result of Floridians' incomes slipping relative to those of the U.S. as a whole, as that comparison is the basis for the FMAP calculation. Uninsured, low-income adults - those affected most by the factors that have generated the state savings - are also the ones who continue to suffer as a result of the legislature's consistent refusal to reinvest those savings to provide coverage most will otherwise be unable to obtain.

Background

The Medicaid program, the nation's health coverage safety net, was created by Congress but is administered and funded as a federal-state partnership. The federal share of a state's Medicaid costs, known as the Federal Medical Assistance Percentage (FMAP), varies from state to state, but by law can never fall below 50 percent.

Each state's FMAP is calculated annually by the U.S. Department of Health and Human Services using a formula codified in federal law that compares the state's per capita (i.e., per individual) income with the per capita income for the 49 continental states.[1] Currently, state FMAP rates range from a low of 50.00 percent (the minimum allowed) in 13 states to a high of 74.17 percent in Mississippi.[2] Florida's current FMAP is 60.67 percent.[3]

Because Florida's fiscal year (July 1 – June 30) is not aligned with the federal fiscal year (October 1 – September 30), the state blends FMAP rates from the two applicable federal years to calculate the effective FMAP for state budget purposes. Florida's effective FMAP for FY 2015-16 is 60.46 percent.[4]

Florida's FMAP[5] has been consistently rising throughout the current period of overall economic recovery and growth, from 55.94 percent in 2011-12[6] to the current 60.46 percent to a state-projected 62.03 percent in 2019-20.[7] Put another way, in 2011-12, for each dollar spent in the Medicaid program, Florida contributed 44 cents in state (and local) funds. By 2019-20, however, Florida's share is expected to be only 38 cents. These increasing FMAP rates directly equate to reduced state spending for the Medicaid program.

Florida's effective FMAP – the federal share of a state's medical costs - for 2015-16 is 60.46 percent...By contrast, in the most recently completed fiscal year, only 22 cents of every dollar spent in Florida's Medicaid program was funded with state general

<u>Florida's Increasing Federal Medicaid Match Rate Will Save the State More Than $2 Billion over 8 Years</u>

To understand the effect of increasing FMAP rates on state discretionary spending for Medicaid, some additional context is important. Although the federal share of Florida's Medicaid costs is currently 60.5 cents of every dollar, the legislature does not appropriate all of the remaining 39.5 cents from state general revenue (GR). Rather, a significant portion of the remainder is generated from non-state or earmarked revenue sources, including transfers from local governments and hospital taxing districts as well as assessments on providers. In the most recently completed fiscal year (2014-15), for example, only 22 cents of every dollar spent in Florida's Medicaid program was funded with state GR.[8]

Despite the fact that Florida's discretionary contribution to Medicaid is a limited portion of the total cost of the program, increasing FMAP rates have saved and will continue to save Florida hundreds of millions of GR dollars each year. In particular, if Florida's FMAP had remained constant at its 2011-12 level, the state would have contributed an additional $674 million in GR from 2012-13 through 2015-16[9], and would expect to contribute another $1.61 billion through 2019-20. All told, over an 8-year period, because the share of Floridians' federal tax dollars flowing back into Florida continues to increase, the state expects to save an average of $285 million *per year* in GR that otherwise would have been needed to sustain the Medicaid program. Table 1 below summarizes the actual and state-projected GR savings attributable to FMAP increases since 2011-12:

Table 1 – State General Revenue (GR) Savings Due to FMAP Increases Since 2011-12

State Fiscal Year	Florida (Effective) FMAP	State GR $ Investment in Medicaid *(in billions)*	State GR $ Saved Using Actual/Projected FMAP vs. 2011-12 FMAP *(in millions)*
2011-12	55.94%	$ 3,949.0	
2012-13	57.73%	$ 4,155.2	$ 86.0
2013-14	58.67%	$ 4,804.5	$ 136.9
2014-15	59.56%	$ 5,014.6	$ 186.2
2015-16	60.46%	$ 5,142.9	$ 265.0
2016-17	61.01%	$ 5,863.7	$ 325.0
2017-18	61.27%	$ 6,411.2	$ 373.0
2018-19	61.59%	$ 6,998.5	$ 428.7

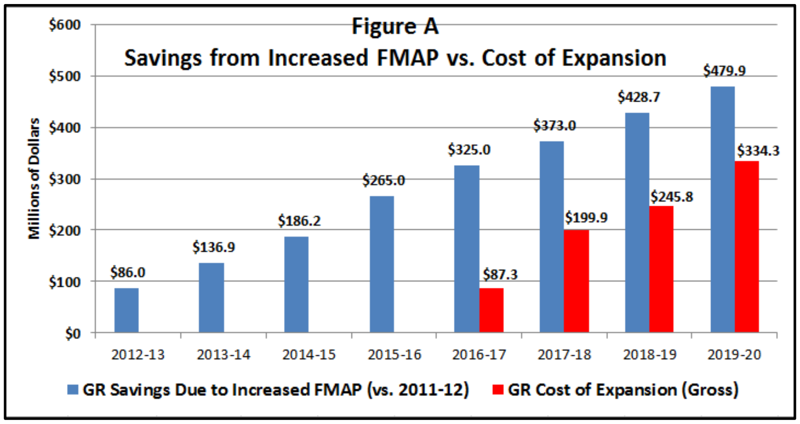
2019-20	62.08%	$ 7,588.4	$ 479.9
8-Year Total			**$ 2,280.8 ($285.1 per year)**

Notes:

1) FMAPs through 2015-16 are actual rates based on HHS calculations. FMAPs after 2015-16 are official state forecasts.
2) Medicaid GR spending amounts through 2014-15 are based on actual appropriations. Amounts between 2015-16 and 2018-19 are official state forecasts. The amount listed for 2019-20 reflects a conservative 3 percent increase above the 2018-19 forecast.

State Savings Resulting from Increased Federal Medicaid Match Rates Would More Than Offset the Cost of Expansion (which in fact has already been offset):

The GR the state will not need to spend as a result of increased FMAP rates would easily cover the cost of extending coverage to most non-elderly adults with incomes under 138 percent of the Federal Poverty Level, as provided for in the Affordable Care Act. The most recent state-generated estimates of the cost of expansion state that the total state GR required for a full expansion from 2016-17 through 2019-20 would average $217 million per year.[10] As depicted in Figure A, the state expects to save considerably more than that amount during the same four-year period, solely as a result of increasing federal contributions in the current Medicaid program.



The cost of expansion to the state would be extremely limited regardless, as the additional $217 million in additional GR needed per year, even if it were not paid for by FMAP increases, would amount to just 3 percent of the total projected GR investment in Medicaid over that 4-year period.[11] Even restricting the focus to 2020, when the state share of expansion costs will reach its permanent maximum of 10 percent, the annualized GR investment is projected to be $340 million, still far less than the estimated $487 million in GR savings that year.[12]

> ***If Florida's FMAP had remained constant at its 2011-12 level, the state would have had to contribute an additional $674 million in GR from 2012-13 through 2015-16, and would expect to contribute another $1.61 billion through 2019-20.***

In short, the state cost of Medicaid expansion would be *full*y offset by state savings resulting from FMAP increases in the current Medicaid program. The fact is, however, the cost of expansion has essentially been paid *twice* with federal funding, because parents and disabled individuals with family incomes over the Medicaid income limit who have catastrophic medical expenses currently qualify for sporadic, short-term coverage through the Medically Needy program.[13] The current FMAP rate applies to services provided to Medically Needy recipients, but under expansion, non-elderly adults would qualify for full coverage under the much higher (90+ percent) federal match rate. Based on the state-generated estimates of the cost of expansion, savings in the Medically Needy program alone would offset 91 percent of the GR cost of expansion between 2016-17 and 2019-20.[14]

<u>This Additional Federal Funding Is Flowing Into Florida Precisely Because Floridians' Incomes Have Failed to Keep Pace with Those of the U.S. as a Whole</u>

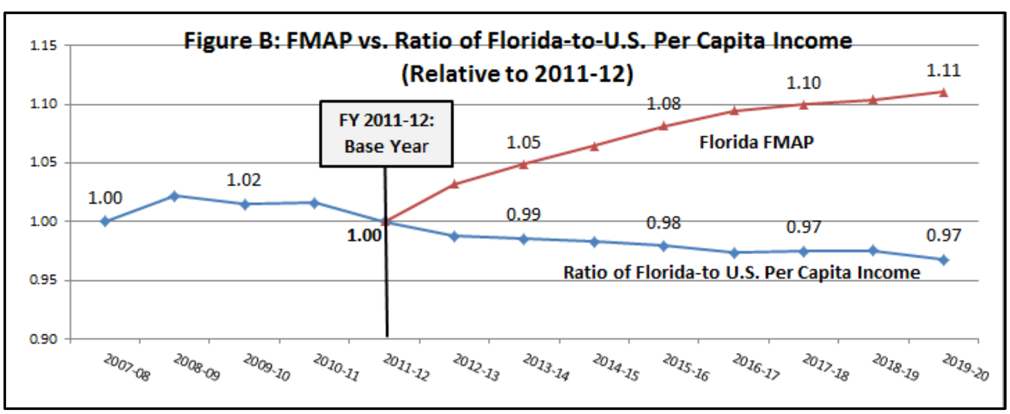
Perhaps most significantly, the refusal of the governor and legislature to allow for the extension of coverage to uninsured non-elderly adults at or near the poverty line has penalized those most directly impacted by the factors that resulted in the Medicaid savings that Florida has readily banked.

The cost of Medicaid expansion would be fully paid for by increasing federal contributions in the current Medicaid program that have occurred throughout the period of economic recovery and growth.

Specifically, as noted above, Florida's FMAP rate is defined by a formula set forth in federal law and calculated annually by federal HHS. The crux of the formula is the relationship between per capita income in Florida vs. the U.S. In pre-recession 2007, Florida's per capita income matched the overall national average.[15] By 2011-12, however, Florida's per capita income had fallen to 95 percent of the U.S. as a whole, and by this year (2015-16), that ratio had fallen to 92 percent. By 2020, state economists expect the rate to fall below 91 percent.[16]

It is also important to note there is a lag time between the collection of income and population data used to calculate the FMAP and the period during which that data is used. The FMAP for a given federal fiscal year is calculated as an average pertaining to the three years prior to the year in which the rate is applicable. Consequently, Florida's 2011-12 FMAP was based primarily on income data from the recession period, and was therefore not much higher than the national "average" 55% rate.[17] In 2019-20, by contrast, when the FMAP will include current income data, the FMAP is expected to exceed 62%. So although per capita income falls far short as a basis for allocating resources in terms of how the state's poorest residents are faring, Florida has consistently slipped in this regard relative to other states. This trend (falling relative incomes and rising federal share of Medicaid costs) is depicted in Figure B below, using FY 2011-12 as a base year:

The crux of the formula is the relationship between per capita income in Florida vs. the U.S. In pre-recession 2007, Florida's per capita income matched the overall national average. By 2011-12, however, Florida's per capita income had fallen to 95 percent of the U.S. as a whole. By this year (2015-16), that ratio had fallen to 92 percent. By 2020, state economists expect the rate to fall below 91 percent.



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Florida's slippage in terms of per capita income relative to other states will result in estimated savings of state general revenue of $2.3 billion dollars over the 8-year period from 2011-12 through 2019-20, and an average of $402 million per year during the next four years alone. That amount would more than offset the already limited GR cost of expanding Medicaid to cover non-elderly adults at or near the poverty line, an amount that would be mostly offset already by shifting participants from the inadequate coverage provided through the Medically Needy program to real coverage upon expansion.

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Endnotes

1 See §1905(b) of the Social Security Act

2 U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, FY 2016 Federal Medical Assistance Percentages, February 2015

3 Ibid.

4 Florida Legislature, Bureau of Economic and Demographic Research (EDR) Social Services Estimating Conference (SSEC), Medicaid Federal Share of Matching Funds, December 2015, p.1

5 For the sake of brevity, we refer to Florida's blended (effective) FMAP rate simply as the FMAP.

6 EDR, SSEC, Federal Share of Matching Funds, July 2015, p. 8

7 EDR, SSEC, December 2015, p.1

8 Calculated using EDR, SSEC, Long-Term Medicaid Forecast, July-August 2015, p. 2

9 FY 2015-16 estimates are based on the July-August 2015 Social Services Estimating Conference, as results from the December 2015 Conference have not been published as of this writing.

10 EDR, Impact Analysis: LIP, IGTs and SB 2512, April 2015, p. 15. It should be noted that this estimate assumed that enrollment under expansion would began in 2015-16, which did not occur.

11 Calculated using data from EDR sources listed above.

12 Ibid.

13 Medically Needy recipients meet all Medicaid eligibility requirements but have family incomes above the applicable income limit. In particularly, non-elderly, non-disabled adults without children cannot qualify for the Medically Needy program.

14 Calculated using EDR, Impact Analysis: LIP, IGTs and SB 2512, April 2015, p. 15

15 U.S. Department of Commerce, Bureau of Economic Analysis, Table SA1: Personal Income Summary: Personal Income, Population, Per Capita Personal Income, September 2015; calculated from EDR, SSEC, Federal Share of Matching Funds, July 2015, p. 3

16 Ibid.

17 Under the formula, a state with per capita income equal to that of the U.S. as a whole would have an FMAP of 55%.