

Why GAO Did This Study

In response to the most recent U.S. recession, from December 2007 to June 2009, Congress passed the American Recovery and Reinvestment Act of 2009 (Recovery Act). To help states maintain their Medicaid programs and provide states with general fiscal relief, the Recovery Act temporarily increased the federal share of Medicaid funding for states. The federal funding states receive for Medicaid is determined by a statutory formula—the Federal Medical Assistance Percentage (FMAP). The Recovery Act also required GAO to study options for providing a temporary increased FMAP in response to future recessions. GAO reviewed how past recessions affected states' ability to fund Medicaid, examined the responsiveness of past increased FMAP assistance to state needs, and identified options for adjusting the increased FMAP formula for use during future recessions.

To conduct this work, GAO reviewed its previous reports on recessions and the increased FMAP and similar work from other organizations. GAO analyzed federal Medicaid data and enrollment data provided by state Medicaid directors. GAO also analyzed labor market data from the Bureau of Labor Statistics, state revenue data from the Census Bureau, and the Federal Reserve Bank of Philadelphia's Coincident Indexes to assess states' ability to fund Medicaid during economic downturns. GAO identifies options for Congress to consider but does not make recommendations in this report.

View [GAO-11-395](#) or key components. For more information, contact Thomas J. McCool at (202) 512-2642 or mccoolt@gao.gov; or Carolyn L. Yocom at (202) 512-7114 or yocomc@gao.gov.

MEDICAID

Improving Responsiveness of Federal Assistance to States during Economic Downturns

What GAO Found

Past recessions hampered states' ability to fund increased Medicaid enrollment and maintain existing services. Both the 2001 and 2007 recessions resulted in increased Medicaid enrollment and decreased revenues, though states' experiences varied. During the 2007 recession, total state tax revenues declined by 10.2 percent from the fourth quarter of 2007 to the second quarter of 2009, with individual state experiences varying. For example, North Dakota had a revenue increase of 6.9 percent while Arizona had a decline of 23.1 percent. In addition, the effect of increased Medicaid enrollment and decreased revenues persisted after the recessions ended, causing states to further adjust their Medicaid programs.

The increased FMAP funds provided by the Recovery Act were more responsive to state Medicaid needs than were funds provided after the 2001 recession. Overall, the Recovery Act funds were timed for state Medicaid funding needs. Assistance began during the recession while nearly all states were experiencing Medicaid enrollment increases as indicated by rising unemployment and revenue decreases as indicated by declining wages and salaries. The FMAP funds were targeted for Medicaid enrollment growth, but did not distinguish among states with varying degrees of reduced revenue in the allocation of assistance. The increased FMAP following the 2001 recession was provided well after the recession ended and was not targeted for state Medicaid needs.

Past recessions offer options for improving the responsiveness of temporary FMAP increases to state Medicaid program needs. More responsive assistance can aid states in addressing increased Medicaid enrollment resulting from a national recession, as well as addressing decreases in states' revenues. GAO has revised a prototype formula for temporary FMAP increases it developed in 2006. The revised formula would address the timing and targeting of funds, and further improve the responsiveness of the increased FMAP funding. In particular, these revisions (1) use an automatic trigger to start the assistance program closer to the onset of a national recession, (2) add several quarters of transitional assistance before ending the increased FMAP assistance, and (3) target assistance by calculating the increased funding needed on the basis of the economic conditions of each state.

In commenting on a draft of this report, the Department of Health and Human Services (HHS) agreed with the analysis and goals of the report while emphasizing that changes to the FMAP formula must be authorized by statute. HHS also stated that it is critical to align changes in the FMAP formula to individual state circumstances in order to avoid unintended consequences for beneficiaries as well as provide budget planning stability for states. GAO agrees that statutory changes would be necessary to implement any adjustments to the FMAP, but does not make recommendations regarding particular actions in this report.