

148953

GAO

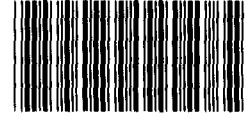
United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-251296

March 31, 1993

The Honorable Daniel P. Moynihan
United States Senate



148953

Dear Senator Moynihan:

This letter responds to your request that we prepare two simulations that would demonstrate the effect of alternative formulas, which use poverty counts, for improving the distribution of Medicaid funds among the states. You requested that two options be explored, one with the current minimum guaranteed federal reimbursement rate at 50 percent and the second with the reimbursement rate reduced to 40 percent. We have constructed tables comparing states' actual reimbursement under the Medicaid program with what states' reimbursement would have been under rates calculated using each alternative formula.

These changes are options that we suggested in our report Changing Medicaid Formula Can Improve Distribution of Funds To States (GAO/GGD-83-27, Mar. 9, 1983); these are similar to an option described in our December 1990 testimony before the House of Representatives, Committee on Government Operations, Subcommittee on Human Resources and Intergovernmental Relations (Medicaid Formula: Fairness Could Be Improved (GAO/T-HRD-91-5, Dec. 7, 1990)).

In the 1983 report and the 1990 testimony, we noted that the current Medicaid formula is intended to reduce differences among the states in medical care coverage of the poor and distribute fairly the burden of financing program benefits among the states. However, these objectives have not been met because benefits vary substantially among states and states face varying burdens in financing the cost of providing for those in need. These variations occur, in part, because the formula does not target most federal funds to states with the greatest needs; that is, those with weak tax bases and high concentrations of poor people. These variations also occur because the minimum 50 percent federal contribution enables states with relatively large tax bases and low poverty rates to finance their programs with relatively low state tax burdens.

GAO/HRD-93-18R Medicaid Formula Alternatives

056916/148953

In the report and testimony, we suggested replacing the squared per capita income factor with the factor of people in poverty to better target funds to states with the greatest need. We also suggested reducing the minimum reimbursement percentage below its current value of 50 percent. Introducing poverty counts into the formula would provide a better measure of those people in need of Medicaid services and improve equity. If this change were made, lowering the minimum federal percentage would further improve equity by reducing the financial advantage it confers on states with relatively few poor people and above-average financing capabilities. Finally, we suggested replacing personal income with total taxable resources to better measure states' ability to fund program services from their own resources. These changes, would achieve a more equitable distribution of funds to all states.

In the enclosed two tables, we show what state Medicaid reimbursements would have been in fiscal year 1991 if an alternative formula using personal income and people in poverty, had been used to calculate federal Medicaid reimbursements. The first table shows reimbursement amounts using a 50 percent minimum reimbursement rate. The second table shows the same information using a 40 percent minimum reimbursement rate. The personal income data are based on a 3-year average (1989-91), as published by the Department of Commerce. The number of persons in poverty is developed by the Census Bureau through its Current Population Survey and is expressed as an average of the period 1989-91. The formula alternatives were applied to both benefit payments and administrative costs. Grant amounts were calculated assuming no change in total federal funding. We made this assumption, using alternative formulas, to provide a quantitative measure of how much fiscal year 1991 funding would have been reallocated among states.

The first alternative, shown in table 1 of the enclosure, would have reallocated about \$1.50 billion, or 2.85 percent of all Medicaid assistance among the 50 states and the District of Columbia in fiscal year 1991. Seventeen states would have received reimbursements at an increased rate, and 34 at a reduced rate. In table 2, the second alternative would have reallocated about \$2.77 billion, or 5.27 percent of all Medicaid assistance, and increased the number of states gaining aid to 24 and reduced the states with losses to 27 in 1991.

As agreed with your office, copies of this correspondence are being sent to Senator Connie Mack, Senator Dale Bumpers, and Senator Bob Graham. If you have any questions, please call Jerry Fastrup, Assistant Director at (202) 512-7211, or Darryl Joyce, Senior Evaluator at (202) 512-7276, of my staff.

Sincerely yours,



Gregory J. McDonald
Director, Human Services Policy
and Management Issues

Enclosures

(118921)

**FEDERAL MEDICAL ASSISTANCE PERCENTAGE (FMAP) AND FEDERAL GRANT
FOR BENEFITS AND ADMINISTRATION: CURRENT LAW COMPARED TO A FORMULA
USING PERSONAL INCOME, POVERTY POPULATION, AND
A 50 PERCENT FEDERAL MINIMUM**

STATE	FMAP (pc)	NEW FMAP (pc)	ACTUAL 1991 GRANT	ALTERNATIVE 1991 GRANT	DIFFERENCE	PERCENT DIFFERENCE
Alabama	72.73	75.71	790,705,945	828,033,634	37,327,689	4.72
Alaska	50.00	50.00	103,541,825	102,240,604	(1,301,221)	(1.26)
Arizona	61.72	63.05	499,948,706	515,800,069	15,851,363	3.17
Arkansas	75.12	78.81	567,484,715	584,897,786	17,443,071	3.07
California	50.00	54.75	4,343,626,868	4,717,576,744	373,949,876	8.61
Colorado	53.59	51.30	425,000,645	404,071,149	(20,929,496)	(4.92)
Connecticut	50.00	50.00	794,917,190	791,018,572	(3,898,618)	(0.49)
Delaware	50.00	50.00	99,861,381	98,536,436	(1,324,945)	(1.33)
District of Columbia	50.00	58.30	285,052,089	308,896,695	41,844,626	15.79
Florida	54.48	59.01	1,870,897,137	2,024,217,216	153,320,078	8.20
Georgia	61.34	65.41	1,281,146,849	1,387,589,203	86,442,354	6.75
Hawaii	54.14	50.00	146,491,830	134,912,390	(11,579,440)	(7.90)
Idaho	73.65	66.57	165,164,081	151,284,105	(13,879,976)	(8.40)
Illinois	50.00	53.33	1,348,505,131	1,424,870,407	76,365,276	5.66
Indiana	63.24	62.36	1,148,059,712	1,136,267,989	(11,791,723)	(1.03)
Iowa	63.41	50.00	523,944,322	414,418,233	(109,526,089)	(20.90)
Kansas	57.35	50.87	367,688,787	324,388,306	(43,300,480)	(11.78)
Kentucky	72.96	72.48	1,126,537,417	1,124,800,943	(1,736,474)	(0.15)
Louisiana	74.48	78.91	1,436,921,020	1,530,356,556	93,435,535	6.50
Maine	63.49	57.18	368,554,560	350,895,555	(37,659,005)	(9.69)
Maryland	50.00	50.00	763,238,885	758,217,636	(5,021,047)	(0.66)
Massachusetts	50.00	50.00	2,342,963,977	2,336,436,040	(6,527,938)	(0.28)
Michigan	54.17	58.37	1,916,856,810	2,061,196,362	144,339,552	7.53
Minnesota	53.43	50.82	971,778,254	922,120,092	(49,658,162)	(5.11)
Mississippi	79.93	83.00	671,586,127	703,497,706	31,911,581	4.75
Missouri	59.82	59.96	1,033,003,201	1,037,116,911	4,113,709	0.40
Montana	71.73	70.99	178,684,106	178,188,965	(495,141)	(0.28)
Nebraska	62.71	51.82	265,414,303	219,823,624	(45,790,679)	(17.25)
Nevada	50.00	50.00	101,037,516	100,374,253	(663,263)	(0.66)
New Hampshire	50.00	50.00	202,448,240	201,111,325	(1,336,915)	(0.66)
New Jersey	50.00	50.00	1,588,638,737	1,589,216,246	9,422,491	(0.59)
New Mexico	73.38	79.07	283,917,285	308,766,406	24,849,121	8.75
New York	50.00	50.85	7,779,059,659	7,874,008,585	94,948,926	1.22
North Carolina	68.80	60.05	1,428,806,621	1,296,135,143	(130,671,478)	(9.15)
North Dakota	70.00	65.32	165,653,829	155,896,660	(9,757,169)	(5.89)
Ohio	59.93	54.35	2,343,575,543	2,126,135,985	(217,439,558)	(9.28)
Oklahoma	69.65	69.79	640,744,046	651,962,651	11,218,605	1.75
Oregon	63.50	53.90	464,259,922	396,416,287	(68,843,634)	(14.18)
Pennsylvania	56.64	50.00	2,399,585,413	2,117,868,446	(281,716,967)	(11.74)
Rhode Island	53.74	50.00	352,680,992	328,007,513	(24,673,479)	(7.00)
South Carolina	72.58	71.34	963,756,007	955,025,022	(8,732,985)	(0.91)
South Dakota	71.69	64.21	151,189,132	135,971,628	(15,217,504)	(10.07)
Tennessee	68.57	70.34	1,331,129,523	1,369,869,451	38,739,929	2.91
Texas	63.53	68.77	2,898,634,871	3,147,716,493	249,081,623	8.59
Utah	74.89	54.44	276,332,568	203,827,796	(72,504,770)	(26.24)
Vermont	61.97	50.00	131,083,198	106,078,003	(25,005,195)	(19.08)
Virginia	50.00	50.00	667,798,826	663,339,664	(4,459,162)	(0.67)
Washington	54.21	50.00	881,229,105	811,632,995	(69,596,110)	(7.90)
West Virginia	77.00	75.37	483,814,616	476,742,093	(7,072,523)	(1.46)
Wisconsin	59.62	50.00	1,066,860,694	895,027,450	(171,833,244)	(16.11)
Wyoming	68.14	52.85	67,625,937	52,809,705	(14,816,231)	(21.91)
United States	n/a	n/a	52,517,408,731	52,517,408,731	0	0

Note: Multiplier = 0.4327; minimum = .50

FEDERAL MEDICAL ASSISTANCE PERCENTAGE (FMAP) AND FEDERAL GRANT FOR BENEFITS AND ADMINISTRATION: CURRENT LAW COMPARED TO A FORMULA USING PERSONAL INCOME, POVERTY POPULATION, AND A 40 PERCENT FEDERAL MINIMUM

STATE	FMAP (pc)	NEW FMAP (pc)	ACTUAL 1991 GRANT	ALTERNATIVE 1991 GRANT	DIFFERENCE	PERCENT DIFFERENCE
Alabama	72.73	77.11	790,705,945	843,333,875	52,627,930	6.66
Alaska	50.00	40.00	103,541,825	81,792,483	(21,749,342)	(21.01)
Arizona	61.72	65.17	499,948,708	533,214,851	33,266,145	6.65
Arkansas	75.12	78.14	567,464,715	595,070,119	27,615,404	4.87
California	50.00	57.36	4,343,626,868	4,942,158,131	598,531,262	13.78
Colorado	53.59	54.11	425,000,645	428,165,212	1,164,567	0.27
Connecticut	50.00	40.00	794,917,190	632,814,858	(162,102,332)	(20.39)
Delaware	50.00	40.00	99,861,381	78,829,148	(21,032,233)	(21.06)
District of Columbia	50.00	60.70	265,052,069	319,543,255	54,491,186	20.56
Florida	54.46	61.37	1,870,997,137	2,105,221,150	234,324,013	12.52
Georgia	61.34	67.40	1,281,146,849	1,409,253,064	128,106,214	10.00
Hawaii	54.14	40.00	146,491,830	107,929,912	(38,561,918)	(26.32)
Idaho	73.65	68.49	165,164,081	155,660,291	(9,503,790)	(5.75)
Illinois	50.00	56.02	1,348,506,131	1,496,685,859	148,180,728	10.99
Indiana	63.24	64.55	1,148,069,712	1,175,734,159	27,674,447	2.41
Iowa	63.41	51.37	523,944,322	425,766,632	(98,177,690)	(18.73)
Kansas	57.35	53.70	367,698,767	342,436,082	(25,262,705)	(6.87)
Kentucky	72.96	74.06	1,126,537,417	1,149,402,239	22,864,822	2.03
Louisiana	74.46	80.13	1,436,921,020	1,553,915,203	116,994,183	8.14
Maine	63.49	59.62	366,554,560	366,046,721	(22,507,840)	(5.79)
Maryland	50.00	40.00	763,238,685	608,574,110	(156,664,574)	(20.53)
Massachusetts	50.00	40.00	2,342,963,977	1,869,148,632	(473,815,146)	(20.22)
Michigan	54.17	60.77	1,916,856,610	2,145,880,473	229,023,863	11.95
Minnesota	53.43	53.65	971,778,254	973,519,666	1,741,413	0.18
Mississippi	79.93	83.00	671,586,127	703,497,708	31,911,581	4.75
Missouri	59.82	62.27	1,033,003,201	1,077,010,679	44,007,478	4.26
Montana	71.73	72.66	178,684,106	182,363,548	3,689,442	2.07
Nebraska	62.71	54.80	265,414,303	231,384,306	(34,029,995)	(12.82)
Nevada	50.00	44.73	101,037,516	86,785,279	(11,252,237)	(11.14)
New Hampshire	50.00	40.00	202,448,240	180,889,060	(41,559,180)	(20.53)
New Jersey	50.00	40.00	1,598,636,737	1,271,372,997	(327,263,740)	(20.47)
New Mexico	73.36	80.28	283,917,285	313,472,948	29,555,663	10.41
New York	50.00	53.68	7,776,059,659	8,312,357,955	536,298,296	6.86
North Carolina	66.60	62.35	1,428,806,621	1,347,863,926	(80,922,695)	(5.66)
North Dakota	70.00	67.32	165,653,829	160,663,918	(4,989,911)	(3.01)
Ohio	59.93	56.98	2,343,575,543	2,228,980,694	(114,594,850)	(4.89)
Oklahoma	69.65	71.53	640,744,046	668,219,100	27,475,055	4.29
Oregon	63.50	56.55	484,259,922	418,045,427	(46,214,495)	(9.95)
Pennsylvania	56.64	49.85	2,399,585,413	2,111,454,816	(288,130,597)	(12.01)
Rhode Island	53.74	40.00	352,680,992	262,406,010	(90,274,981)	(25.60)
South Carolina	72.56	72.99	963,758,007	977,124,296	13,366,292	1.39
South Dakota	71.69	66.27	151,189,132	140,337,857	(10,851,275)	(7.18)
Tennessee	66.57	72.05	1,331,129,523	1,403,136,059	72,006,536	5.41
Texas	63.53	70.57	2,896,634,871	3,230,066,353	331,433,482	11.43
Utah	74.89	57.06	276,332,568	213,654,869	(62,677,699)	(22.68)
Vermont	61.97	50.58	131,063,198	107,316,055	(23,767,143)	(18.13)
Virginia	50.00	45.35	667,796,826	601,596,878	(66,201,948)	(9.91)
Washington	54.21	40.33	881,229,106	654,586,234	(226,642,871)	(25.72)
West Virginia	77.00	78.79	483,814,616	485,716,362	1,901,745	0.39
Wisconsin	59.62	43.15	1,066,860,694	772,425,084	(294,435,611)	(27.60)
Wyoming	68.14	55.57	67,625,937	55,522,985	(12,102,951)	(17.90)
United States	n/a	n/a	52,517,409,731	52,517,409,731	0	0

Note: Multiplier = 0.4078; minimum = .40