

Why GAO Did This Study

In response to the recession of 2007, Congress passed the American Recovery and Reinvestment Act of 2009 (Recovery Act). Recovery Act funds provided states with fiscal relief and helped to maintain state Medicaid programs through a temporary increase to the federal share of Medicaid funding—the Federal Medical Assistance Percentage (FMAP)—from October 2008 through December 2010. In March 2011, GAO reported that states' ability to fund Medicaid was hampered due to increased Medicaid enrollment and declines in states' revenues that typically occur during a national downturn. The Recovery Act mandated that GAO provide recommendations for modifying the increased FMAP formula to make it more responsive to state Medicaid program needs during future economic downturns. In this report, GAO presents a prototype formula for a temporary increased FMAP and evaluates its effects on the allocation of assistance to states. To evaluate the three components of the prototype formula—starting assistance, targeting assistance, and ending assistance—GAO uses the 2007 recession.

What GAO Recommends

To ensure that federal funding efficiently and effectively responds to the countercyclical nature of the Medicaid program, Congress could consider enacting an increased FMAP formula that targets variable state Medicaid needs and provides automatic, timely, and temporary assistance in response to national economic downturns.

View [GAO-12-38](#) or key components. For more information, contact Carolyn L. Yocom at (202) 512-7114 or yocomc@gao.gov; or Thomas J. McCool at (202) 512-2642 or mccoolt@gao.gov.

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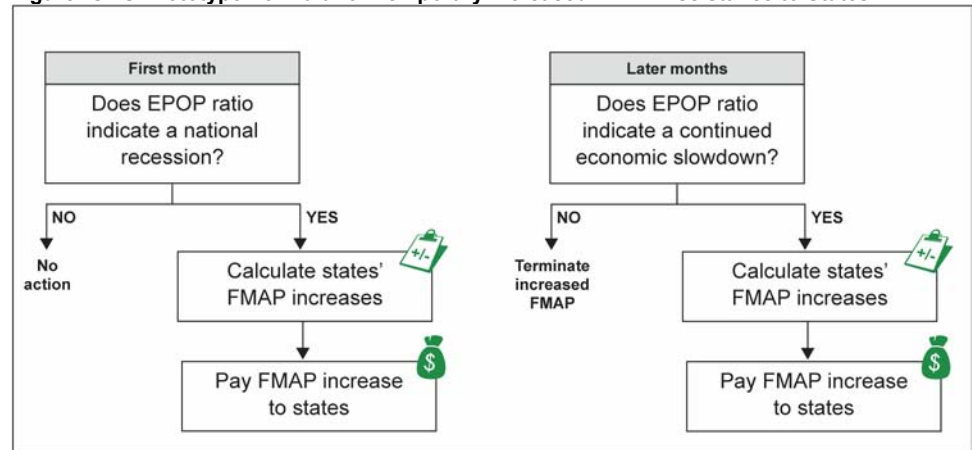
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Prototype Formula Would Provide Automatic, Targeted Assistance to States during Economic Downturns

What GAO Found

GAO's prototype formula offers a timely and targeted option for providing states temporary Medicaid assistance during a national economic downturn. Once a threshold number of states—26 in GAO's prototype formula—show a sustained decrease in their employment-to-population (EPOP) ratio, temporary increases to states' FMAPs would be triggered automatically. The EPOP ratio compares the number of employed persons in a state to the working age population aged 16 and older. (See figure.) This assistance would end when fewer than the threshold number of states shows a decline in their EPOP ratio.

Figure: GAO Prototype Formula for Temporary Increased FMAP Assistance to States



Source: GAO.

Because the prototype formula relies on labor market data as an automatic trigger rather than legislative action, assistance would have begun earlier and extended longer than the assistance provided by the Recovery Act. The prototype formula would have triggered assistance to begin in January 2008 and end in September 2011, compared with the Recovery Act which provided an increased FMAP from October 2008 through June 2011. Once the increased FMAP is triggered, targeted state assistance would be calculated based on two components: (1) increases in unemployment, as a proxy for changes in Medicaid enrollment; and (2) reductions in total wages and salaries, as a proxy for changes in states' revenues.

GAO's prototype formula provides a baseline of funding for state Medicaid needs during an economic downturn by offering automatic, timely, and targeted assistance to states. Such assistance would facilitate state budget planning, provide states with greater fiscal stability, and better align federal assistance with the magnitude of the economic downturn's effects on individual states.

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 and emphasized the importance of aligning changes to the FMAP formula with individual state circumstances. HHS noted the complexity of the prototype formula and offered several considerations to guide policy choices regarding appropriate thresholds for timing and targeting of increased FMAP funds.