



Automatic Countercyclical Financing Adjustment: Review of Draft Chapter and Recommendation Decision

**—
Medicaid and CHIP Payment and Access Commission**

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Overview

- Review draft chapter
 - Medicaid as a countercyclical program
 - Medicaid as an automatic stabilizer and fiscal stimulus
 - Permanent Medicaid countercyclical financing mechanism
 - Government Accountability Office (GAO) prototype model
 - Additional policy issues
- Review and discuss draft recommendation

Medicaid as a Countercyclical Program

- Medicaid is a countercyclical program
 - Enrollment and spending increase during economic downturns due to growth in low-income population, loss of employer-sponsored insurance
- Economic effects of a downturn vary by state
 - Ability to generate revenue to finance state share, size and pace of enrollment increases

Medicaid as an Automatic Stabilizer and Fiscal Stimulus

- No statutory mechanism to automatically adjust FMAP formula to account for enrollment or revenue changes
- Congress must act to provide additional funds to states when economic conditions decline or to provide federal stimulus
- Can be difficult to be proactive in identifying state needs, taking action early, targeting assistance to states

A Permanent Medicaid Countercyclical Financing Mechanism

- Policymakers have suggested that Congress could create a permanent statutory mechanism to automatically increase the federal share of Medicaid expenditures
- Commissioners identified several objectives for an automatic countercyclical financing mechanism:
 - It should be automatic
 - It should have a trigger that is sensitive but not too sensitive
 - Additional financing for states should be targeted

GAO Prototype Model

- GAO developed a prototype formula to trigger a temporarily enhanced FMAP
- We compared key features of the GAO model to Commissioners' objectives
 - GAO prototype adjusts the amount of federal relief to state-level conditions
 - In prior economic downturns caused by the regular business cycle, the GAO model triggered assistance months before Congress acted
 - The prototype seems sufficiently sensitive to respond to major recessions but not minor economic fluctuations

Additional Policy Issues

- Other policy issues relating to Medicaid financing could be addressed in conjunction with a permanent change to the federal financing mechanism
- These include:
 - whether additional rules should be attached to the use of federal matching funds (e.g., maintenance of effort requirements for eligibility)
 - whether to have an upper bound or cap on increased FMAPs
 - whether additional FMAP should be applied to special matching rates (e.g., 90 percent FMAP for the newly eligible adults)

Draft Recommendation

Draft Recommendation #1.1

- Congress should amend the Social Security Act to provide an automatic Medicaid countercyclical financing model, using the prototype developed by the U.S. Government Accountability Office as the basis. The Commission also recommends this policy change should also include:
 - an eligibility maintenance of effort requirement for the period covered by an automatic countercyclical financing adjustment;
 - an upper bound of 100 percent on countercyclical adjusted matching rates; and
 - exclusion of countercyclical adjusted federal matching rate from services and populations that receive special matching rates (e.g., for the new adult group) or are otherwise capped or have allotments (e.g., disproportionate share hospital payments, territories).

Rationale

- A statutory mechanism to automatically increase federal share by adjusting FMAP would allow federal financial stimulus to be directed to states more quickly during economic downturns
- The GAO model meets the Commission's objectives for a countercyclical financing mechanism
- Enhanced federal financing can be limited to regular medical assistance expenditures; ensure that additional federal funds do not substitute for available state funds



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