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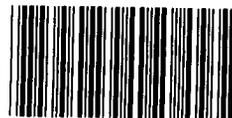
United States  
General Accounting Office  
Washington, D.C. 20548

Human Resources Division

B-251296

March 2, 1993

The Honorable Connie Mack  
United States Senate



148639

Dear Senator Mack:

This letter responds to your request for a table comparing states' actual funding amounts under the Medicaid program with what they would have received if the same total spending on benefits and administration had been reimbursed at rates calculated using an alternative formula. The alternative formula we used for this calculation is that introduced by you in S. 856 during the 102nd Congress. The alternative formula you proposed is based on suggested changes described in our December 1990 testimony before the House Committee on Government Operations' Subcommittee on Human Resources and Intergovernmental Relations, (MEDICAID FORMULA: Fairness Could Be Improved, GAO/T-HRD-91-5, December 7, 1990.

In our testimony, we noted that the current Medicaid formula is intended to reduce differences among 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. This happens, 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. It also occurs 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.

To better promote Congressional intent, we suggested replacing per capita income, used in the current formula, with two other factors: (1) Total Taxable Resources (TTR) and (2) people in poverty. We also suggested reducing the minimum federal reimbursement percentage below its current value of 50 percent. We believe the TTR provides a better measure of a state's ability to fund program services from their own resources and that poverty counts provide a better and more direct measure of those people in need of Medicaid services. If these changes are made, lowering the minimum

GAO/HRD-93-17R, Medicaid Formula Alternative

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federal percentage would improve equity by reducing the financial advantage it confers on states with relatively few poor people and above average financing capabilities of their own. These changes, in our opinion, would achieve a more equitable distribution of funds to all states.

The enclosed table shows what state Medicaid funding amounts would have been in fiscal year 1991 if the alternative formula described above and in S. 856 had been used to calculate federal Medicaid reimbursements. The TTR is prepared by the Department of the Treasury and expressed as an average of the period 1989-1991. 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 1989-1991. The alternative formula was applied to both benefit payments and administrative costs. Grant amounts were calculated assuming no change in total federal funding. We made this assumption to provide a quantitative measure of how much fiscal year 1991 funding would have been reallocated among states using the alternative formula.

As shown in the enclosure, the new formula would have reallocated about \$2.71 billion, or 5.15 percent of all Medicaid assistance among the 50 states and the District of Columbia in fiscal year 1991. Twenty-three states would have received reimbursements at an increased rate, and 28 at a reduced rate.

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

Sincerely yours,



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

Enclosure

(118921)

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

STATES	FMAP (pct)	NEW FMAP (pct)	ACTUAL 1991 GRANT	ALTERNATIVE 1991 GRANT	PERCENT DIFFERENCE	PERCENT DIFFERENCE
Alabama	72.73	78.99	790,705,945	841,959,934	51,253,989	6.48
Alaska	50.00	40.00	103,541,825	81,792,483	(21,749,342)	(21.01)
Arizona	61.72	65.47	499,948,708	535,595,236	35,646,530	7.13
Arkansas	75.12	78.03	567,454,715	594,161,360	26,706,646	4.71
California	50.00	56.87	4,343,626,868	4,899,935,365	556,308,497	12.81
Colorado	53.59	55.12	425,000,645	434,178,134	9,177,489	2.16
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	319,560,048	54,507,979	20.57
Florida	54.46	64.42	1,870,897,137	2,210,060,531	339,163,393	18.13
Georgia	61.34	66.52	1,281,146,849	1,390,946,893	109,800,043	8.57
Hawaii	54.14	40.00	146,491,830	107,929,912	(38,561,918)	(26.32)
Idaho	73.65	69.02	165,164,081	156,853,618	(8,310,463)	(5.03)
Illinois	50.00	56.17	1,348,505,131	1,500,683,668	152,178,537	11.28
Indiana	63.24	64.28	1,148,059,712	1,170,779,637	22,719,925	1.98
Iowa	63.41	51.10	523,944,322	423,520,851	(100,423,471)	(19.17)
Kansas	57.35	53.66	367,688,787	342,195,200	(25,493,586)	(6.93)
Kentucky	72.96	73.14	1,126,537,417	1,135,102,359	8,564,942	0.76
Louisiana	74.48	78.39	1,436,921,020	1,520,168,118	83,247,098	5.79
Maine	63.49	59.54	388,554,560	385,564,411	(2,990,149)	(5.92)
Maryland	50.00	40.00	763,238,665	606,574,110	(156,664,574)	(20.53)
Massachusetts	50.00	40.00	2,342,963,977	1,869,148,832	(473,815,146)	(20.22)
Michigan	54.17	61.59	1,916,856,610	2,174,975,672	258,119,062	13.47
Minnesota	53.43	53.05	971,778,254	962,547,254	(9,231,000)	(0.95)
Mississippi	79.93	83.00	671,586,127	703,497,708	31,911,581	4.75
Missouri	59.82	62.11	1,033,003,201	1,074,330,535	41,327,334	4.00
Montana	71.73	72.89	178,684,106	182,958,964	4,274,858	2.39
Nebraska	62.71	53.85	265,414,303	228,200,383	(37,213,920)	(14.02)
Nevada	50.00	43.16	101,037,516	86,647,887	(14,389,629)	(14.24)
New Hampshire	50.00	40.00	202,448,240	160,889,060	(41,559,180)	(20.53)
New Jersey	50.00	40.00	1,598,638,737	1,271,372,997	(327,265,740)	(20.47)
New Mexico	73.38	79.66	283,917,285	311,050,114	27,132,829	9.56
New York	50.00	53.62	7,779,059,659	8,303,133,064	524,073,405	6.74
North Carolina	66.60	60.98	1,428,806,621	1,318,172,966	(110,633,655)	(7.74)
North Dakota	70.00	66.34	165,653,829	158,316,425	(7,337,403)	(4.43)
Ohio	59.93	56.83	2,343,575,543	2,222,994,729	(120,580,814)	(5.15)
Oklahoma	69.65	71.71	640,744,046	669,888,009	29,143,963	4.55
Oregon	63.50	57.43	464,259,922	424,538,656	(39,721,266)	(8.56)
Pennsylvania	56.64	51.84	2,399,585,413	2,195,782,088	(203,803,325)	(8.49)
Rhode Island	53.74	40.00	352,680,992	262,406,010	(90,274,981)	(25.60)
South Carolina	72.58	72.54	963,758,007	971,066,221	7,308,214	0.76
South Dakota	71.69	67.37	151,189,132	142,662,617	(8,526,515)	(5.64)
Tennessee	68.57	71.15	1,331,129,523	1,385,528,854	54,399,331	4.09
Texas	63.53	69.42	2,898,634,871	3,177,450,291	278,815,421	9.62
Utah	74.89	56.27	276,332,568	210,700,862	(65,631,906)	(23.75)
Vermont	61.97	49.57	131,083,198	105,172,156	(25,911,042)	(19.77)
Virginia	50.00	45.29	667,798,826	600,861,296	(66,937,530)	(10.02)
Washington	54.21	42.07	881,229,105	682,881,010	(198,348,095)	(22.51)
West Virginia	77.00	76.55	483,814,616	484,194,578	379,962	0.08
Wisconsin	59.62	43.52	1,066,860,694	778,979,202	(287,881,493)	(26.98)
Wyoming	68.14	47.90	67,625,937	47,855,616	(19,770,321)	(29.23)
U. S. Total			52,517,409,731	52,517,409,731	0	

Note: Multiplier = 0.4078, minimum = .40