



Highlights of [GAO-07-97](#), a report to congressional requesters

Why GAO Did This Study

During economic downturns, states may struggle to finance Medicaid, a federal-state health financing program for certain low-income individuals. States receive federal matching funds for their Medicaid programs according to a statutory formula based on each state's per capita income (PCI) in relation to national PCI. The number of individuals eligible for Medicaid can increase during downturns as a result of rising unemployment. GAO previously reported that any federal assistance to respond to downturns should be well-timed and account for each state's fiscal circumstances. GAO was asked to consider strategies to help states offset increased Medicaid expenditures in the event of future economic downturns.

GAO analyzed policy proposals and federal and state strategies to cope with downturns to identify and develop three potential strategies. GAO explored (1) targeting assistance to states most affected by a downturn, (2) using 2 instead of 3 years of PCI data to compute federal matching rates to more accurately reflect states' economic circumstances, and (3) giving states the option to obtain assistance based on their own determination of need. GAO discussed the strategies with experts, identified design considerations, and analyzed each strategy's potential effects.

The Department of Health and Human Services received a draft of this report and did not comment.

www.gao.gov/cgi-bin/getrpt?GAO-07-97.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Kathryn G. Allen at (202) 512-7118 or Stanley J. Czerwinski at (202) 512-6806.

MEDICAID

Strategies to Help States Address Increased Expenditures during Economic Downturns

What GAO Found

No single strategy or combination of strategies can meet the varied economic needs of all states at all times, but one or more of the following strategies GAO analyzed may be useful for Congress as it deliberates how to help states cope with Medicaid expenditure increases during economic downturns. Any potential strategy would need to be considered within the context of broader health care and fiscal challenges, including continually rising health care costs, a growing elderly population, and Medicaid's increasing share of the federal budget.

Supplemental federal assistance provided to states based on changes in states' unemployment rates would target funds to states most affected by downturns. GAO used unemployment as the key variable because it reflects the potential for increases in Medicaid enrollment resulting from an economic downturn. GAO created a simulation model to illustrate this strategy, which also adjusts the amount of funding relative to each state's per person spending on Medicaid services. The model captured about 90 percent of states' increases in unemployment during 2001, and all states would have received some federal assistance. A few states with relatively earlier or later increases in unemployment would not have received a commensurate amount of funding because a portion of their downturns was outside the period of the simulation.

Using 2 years of PCI data to compute federal matching rates instead of the 3 years required under current law did not result in matching rates that consistently reflected current economic circumstances, as measured by PCI or changes in states' unemployment. Under certain conditions, reducing the number of years of data also skewed rates farther from current economic conditions. This strategy would also result in greater annual fluctuations in matching rates for most states. For these reasons, eliminating 1 year of PCI data is not a feasible alternative to help states address increased Medicaid expenditures.

States could be given the option to decide whether and to what extent they need federal assistance, through a loan, either from the federal government or from the private capital market (subsidized and possibly guaranteed by the federal government), or a Medicaid-specific national "rainy day" fund. This strategy's viability would depend on states' willingness to pay into a national fund or assume additional Medicaid-specific debt and on states' accepting the terms of the loan or rainy day fund. Federal funding required for this strategy would vary depending on design factors such as whether federal loan subsidies or Medicaid rainy day matching funds are included.