



Highlights of [GAO-03-620](#), a report to the Honorable Dianne Feinstein, United States Senate

Why GAO Did This Study

A primary goal in establishing Medicaid's statutory formula, whereby states with lower per capita incomes (PCI) receive higher rates of federal reimbursement for program costs, was to narrow differences among states in their ability to fund Medicaid services. States' ability to fund services depends on their financial resources in relation to their number of and costs to serve people in poverty. GAO and others have testified before Congress that the current formula does not address wide differences among states in their ability to fund their Medicaid programs and that the formula's reliance on PCI is the primary cause. GAO was asked to determine the extent to which the formula narrows these differences and to identify factors that impede further narrowing of differences.

To evaluate the extent to which the formula narrows differences in states' funding ability, GAO used an alternative to PCI that more directly measures states' resources, number of people in poverty, and cost of providing services to this population. Using this measure, GAO determined the effect of the current formula by comparing states' funding ability before and after receiving their federal matching aid. If differences in funding ability were eliminated, the formula would have reduced differences by 100 percent.

www.gao.gov/cgi-bin/getrpt?GAO-03-620.

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.

MEDICAID FORMULA

Differences in Funding Ability among States Often Are Widened

What GAO Found

The Medicaid formula narrows the average difference in states' funding ability by 20 percent but often widens the gap between individual states and the national average. Although the receipt of federal matching aid moves 30 states closer to the national average, making the average difference in funding ability smaller, it also moves 21 states farther away from the average, widening the average difference. These 21 states include 3 that are among the states with the largest populations in poverty—California, Florida, and New York. After federal matching aid is added, states' funding ability ranges from 26 percent below the national average for two states to 179 percent above for another. Because of the formula's current structure, in many instances, two states devoting similar proportions of their own resources to Medicaid can spend very different amounts per person in poverty. For example, in fiscal year 2000, California and Wisconsin each devoted about \$8 for every \$1,000 of their own state resources toward Medicaid. However, under the current formula, Wisconsin receives a relatively high federal matching rate despite its relatively high ability to fund program services, whereas California receives a low federal matching rate despite its relatively low ability to fund program services. With the addition of federal matching aid, Wisconsin is enabled to spend more than twice what California is able to spend per person in poverty (\$7,532 versus \$3,731).

Two factors constrain the formula from further decreasing differences in states' funding ability. First, PCI is not a comprehensive indicator of a state's total available resources and is a poor measure of the size of and cost to serve a state's people in poverty. Second, the statutory provision that guarantees no state will receive less than a 50 percent matching rate benefits many states that already have above-average resources to fund health care for their populations in poverty. For example, 2 of the 11 states that benefit the most from the 50 percent "floor" receive matching rates that are 35 and 20 percentage points higher, respectively, than the rates they would receive based solely on their PCI.

GAO received comments on a draft of this report from two external reviewers who have Medicaid formula expertise. They generally agreed with the analysis and provided technical comments, which were incorporated as appropriate.