

CRS Report for Congress

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Medicaid Expenditures, FY2001 and FY2002

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Summary

Medicaid is a health insurance program jointly funded by the states and the federal government. Generally, eligibility is limited to low-income children, pregnant women, parents of dependent children, people with disabilities, and the elderly. Each state designs and administers its own program within broad federal guidelines.

The federal government shares in a state's Medicaid costs by means of a statutory formula based on a state's per capita income, adjusted annually. The federal medical assistance percentage (FMAP) is the percentage of Medicaid benefit costs paid for by the federal government. FMAPs must not fall below 50% and may not exceed 83%. Overall, during FY2001 and FY2002, the federal government financed about 57% of all Medicaid costs.

Federal payments for health care services and administration of the Medicaid program totaled \$130 billion in FY2001, 11.1% higher than in FY2000. Combined state and federal spending for Medicaid totaled \$228 billion in FY2001, a 10.7% increase over FY2000.

Federal payments for health care services and administration of the Medicaid program totaled \$146 billion in FY2002, 12.9% higher than in FY2001. Combined state and federal spending for Medicaid totaled \$258 billion in FY2002, a 13.2% increase over FY2001. This report will be updated when new data are available.

Medicaid is a health insurance program jointly funded by the states and the federal government. Eligibility requirements are set by the states within federal guidelines including age, income, resources, family structure, and disability. Generally, eligibility is limited to certain categories or groups of individuals; namely, low-income children, pregnant women, parents of dependent children, people with disabilities, and the elderly. Within federal guidelines, each state also designs and administers its own program.

The federal government shares in a state's Medicaid service costs through a variable matching formula. After a state pays for a Medicaid-covered service, it makes a claim for the federal share of the payment and is reimbursed at the federal matching rate for that state. The federal matching rate for the cost of services provided to Medicaid beneficiaries, known as the federal medical assistance percentage (FMAP), is inversely

related to a state's per capita income and may range from 50% to 83%. For the territories and the District of Columbia, however, the FMAP is statutorily set at 50% and 70% respectively. In FY2001 federal matching rates for states ranged from 50% to 77%. In FY2002, FMAP rates ranged from 50% to 76%. In FY2002, 11 states received the minimum of 50% federal matching on Medicaid payments, and Mississippi had the highest FMAP at 76.09%. The federal share of most state expenditures to administer the program is 50% in all states; higher matching is allowed for certain administrative activities, however.

The 108th Congress enacted legislation which provided temporary fiscal relief for state and local governments including \$10 billion to states through changes in Medicaid financing. Specifically, the *Jobs and Growth Tax Relief Reconciliation Act of 2003* (P.L. 108-27) held states harmless for any declines in the FMAP percentage for the prior year for the last two quarters of FY2003 and the first three quarters of FY2004 and added 2.95 percentage points each states FMAP rate. In addition, the spending caps for the territories (as discussed later) are raised by 5.9% for the last two quarters of FY2003 and first three quarters of FY2004.

Medicaid Expenditures

Federal and state expenditures for Medicaid benefits and program administration totaled \$228 billion in FY2001, a 10.7% increase from the \$206 billion spent the year before. Federal and state expenditures for Medicaid benefits and program administration totaled \$258 billion in FY2002, a 13.2% increase from the \$228 billion spent the previous year (**Table 1**). Federal spending accounted for approximately 57% of all Medicaid expenditures during FY2001 and FY2002, with the other 43% paid by state and local governments. Payments for services accounted for 88% of total Medicaid expenditures in FY2001 and 89% in FY2002. Disproportionate share hospital (DSH) payments¹ accounted for 7% of expenditures in FY2001 and 6% in FY2002, and program administration accounted for about 5% of total spending in both years (**Tables 3 and 4**).

Table 1. Medicaid Spending, FY2000, FY2001, and FY2002
(in millions of dollars)

	FY2000	FY2001	FY2002
State	\$88,991	\$97,994	\$111,255
Federal	\$116,696	\$129,634	\$146,308
Total ^a	\$205,687	\$227,628	\$257,563

Source: Table prepared by Congressional Research Service (CRS) based on analysis from Centers for Medicare and Medicaid Services (CMS), Form 64.

a. Medicaid expenditures for the territories are not included.

¹ Under Medicaid, states must make disproportionate share (DSH) adjustments to the payment rates of certain hospitals treating large numbers of low income and Medicaid patients — on the assumption that hospitals incur higher costs for such persons.

Just over half of all FY2001 and FY2002 federal Medicaid spending occurred in nine states.² Medicaid expenditures vary a great deal across states, as shown in **Tables 3 and 4**, for reasons that include differences in eligible populations in the state, provider reimbursement rates, the range of optional services covered, the number of beneficiaries who are elderly or who have a disability, the breadth of private health insurance coverage in the state, and the state's federal medical assistance percentage (FMAP). There is no limit on the amount of federal funds a state may receive provided that the state incurs the Medicaid expenses.

In contrast, the amount of federal expenditures in the five territories is subject to spending caps. The five territories include American Samoa, Commonwealth of the Northern Mariana Islands, Guam, Puerto Rico, and the U.S. Virgin Islands. In FY2001, the federal cap on Medicaid spending for the territories was \$203 million, a 5% increase from FY2000. In FY2002 this amount increased 3% to \$210 million.

Medicaid Spending by Category

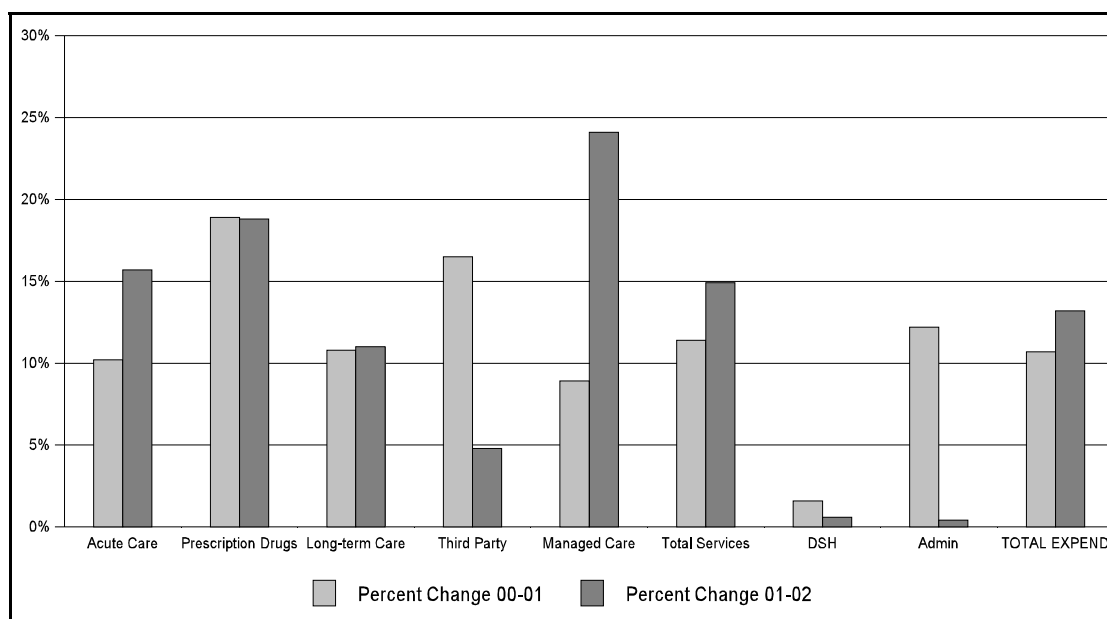
Though total Medicaid spending had annual increases of 10.7% and 13.2% for FY2001 and FY2002 over the previous year, the annual growth in Medicaid expenditures varied widely by category of expenditures and by year (**Figure 1**). For example, DSH payments grew only by a couple of percentage points each year,³ and expenditures for Medicaid prescription drugs increased by 19% in both FY2001 and FY2002 over the previous year. Other categories of spending had significant differences in the annual growth rates between the two years of analysis. For example, Medicaid managed care payments grew by 9% in FY2001 over the previous year and 24% in FY2002 over FY2001.

The broad categories shown in **Figure 1** and **Table 2** combine several specific types of Medicaid services. For example, acute care includes services such as hospitals, physicians, lab and X-ray, and nurse practitioner. Managed care includes payments to Medicaid managed care organizations and individuals who are paid a fee to manage the care of Medicaid beneficiaries referred to as "primary care case managers." The data does not permit disaggregating managed care payments into specific types of services (e.g., hospital, prescription drug). Long-term care includes services such as nursing facilities, home and community-based waivers, and mental health facilities. Third party payments include payment of Medicare premiums, and co-payments and payments of private insurance premiums on behalf of Medicaid beneficiaries.

² The nine states in order of spending for FY2001 are: NY, CA, TX, PA, OH, FL, MI, IL, and NC. The nine states, in order of spending for FY2002 are: NY, CA, TX, PA, FL, OH, IL, NC and MA.

³ Congress has restricted the growth in DSH payments by setting limits on the amounts available to each state and setting national limits.

Figure 1. Annual Percentage Increase in Medicaid Expenditures by Category, FY2001 and FY2002



Note: These percentages were calculated using unrounded expenditures and may differ slightly from calculations done using the rounded numbers in Table 2 below.

Source: CRS based on analysis from Centers for Medicare and Medicaid Services (CMS), Form 64. Medicaid expenditures for the territories are not included.

Table 2. Total Medicaid Expenditures by Category, FY2000, FY2001 and FY2002

(in billions)

Category of Spending ^a	FY2000	FY2001	FY2002
All Medicaid services ^b	\$179.6	\$200.0	\$229.7
— <i>Acute care</i>	\$52.4	\$57.8	\$66.9
— <i>Prescription drugs</i>	\$16.6	\$19.7	\$23.4
— <i>Long-term care</i>	\$79.7	\$88.2	\$98.0
— <i>Third party payments</i>	\$9.0	\$10.5	\$10.9
— <i>Managed care payments</i>	\$25.4	\$27.7	\$34.4
DSH	\$15.6	\$15.8	\$15.9
Administration	\$10.5	\$11.8	\$11.9
Total Expenditures	\$205.7	\$227.6	\$257.6

Source: Table prepared by Congressional Research Service (CRS) based on analysis from Centers for Medicare and Medicaid Services (CMS), Form 64.

- a. Medicaid expenditures for the territories are not included.
- b. The sum of the specific categories of services is greater than “All Medicaid Services” because offsetting collections to Medicaid (e.g., estate recovery, overpayments identified through fraud and abuse) are not attributable to a specific category of service and are not subtracted from the reported amounts. Collections ranged from \$3.5 to \$3.9 between FY2000 and FY2002.

Table 3. Medicaid Expenditures by State, FY2001
(in millions of dollars)

State	Total Expenditures				Federal Expenditures			
	Medical assistance	DSH payments	Admin.	Total	Medical assistance	DSH payments	Admin.	Total
Alabama	\$2,509	\$367	\$112	\$2,988	\$1,759	\$257	\$65	\$2,081
Alaska	\$563	\$14	\$47	\$624	\$376	\$8	\$28	\$413
Arizona	\$2,562	\$103	\$159	\$2,824	\$1,737	\$68	\$81	\$1,886
Arkansas	\$1,829	\$23	\$95	\$1,947	\$1,338	\$17	\$57	\$1,411
California	\$21,944	\$1,926	\$1,913	\$25,783	\$11,372	\$987	\$1,058	\$13,417
Colorado	\$1,956	\$186	\$105	\$2,247	\$980	\$93	\$59	\$1,132
Connecticut	\$2,923	\$291	\$166	\$3,379	\$1,462	\$145	\$90	\$1,697
DC	\$898	\$82	\$39	\$1,019	\$629	\$52	\$21	\$702
Delaware	\$588	\$4	\$43	\$635	\$295	\$2	\$27	\$324
Florida	\$8,219	\$339	\$488	\$9,046	\$4,663	\$192	\$266	\$5,121
Georgia	\$4,612	\$425	\$277	\$5,315	\$2,758	\$254	\$156	\$3,168
Hawaii	\$635	\$0	\$41	\$675	\$342	\$0	\$25	\$367
Idaho	\$683	\$10	\$53	\$746	\$484	\$7	\$31	\$523
Illinois	\$7,386	\$379	\$657	\$8,421	\$3,705	\$190	\$354	\$4,248
Indiana	\$3,353	\$656	\$191	\$4,200	\$2,083	\$407	\$104	\$2,594
Iowa	\$1,653	\$14	\$84	\$1,751	\$1,037	\$9	\$49	\$1,095
Kansas	\$1,639	\$47	\$88	\$1,775	\$982	\$28	\$51	\$1,061
Kentucky	\$3,113	\$191	\$94	\$3,398	\$2,193	\$135	\$56	\$2,384
Louisiana	\$3,330	\$872	\$108	\$4,310	\$2,349	\$615	\$59	\$3,023
Maine	\$1,266	\$49	\$72	\$1,387	\$838	\$33	\$39	\$909
Maryland	\$3,194	\$63	\$238	\$3,494	\$1,596	\$31	\$131	\$1,758
Massachusetts	\$6,134	\$485	\$316	\$6,935	\$3,088	\$243	\$175	\$3,505
Michigan	\$6,787	\$432	\$673	\$7,891	\$3,818	\$242	\$369	\$4,429
Minnesota	\$3,772	\$64	\$241	\$4,077	\$1,940	\$33	\$129	\$2,101
Mississippi	\$2,260	\$179	\$78	\$2,517	\$1,738	\$137	\$46	\$1,922
Missouri	\$4,290	\$455	\$218	\$4,963	\$2,636	\$278	\$125	\$3,038
Montana	\$482	\$0	\$40	\$522	\$357	\$0	\$24	\$380
Nebraska	\$1,187	\$0	\$65	\$1,252	\$719	\$0	\$39	\$758
Nevada	\$598	\$76	\$41	\$716	\$304	\$38	\$23	\$365
New Hampshire	\$715	\$158	\$49	\$922	\$358	\$79	\$29	\$466
New Jersey	\$6,006	\$1,117	\$238	\$7,361	\$3,015	\$559	\$134	\$3,708
New Mexico	\$1,452	\$15	\$77	\$1,545	\$1,085	\$11	\$46	\$1,142
New York	\$28,912	\$2,456	\$1,100	\$32,468	\$14,497	\$1,228	\$595	\$16,321
North Carolina	\$5,735	\$415	\$279	\$6,429	\$3,591	\$259	\$152	\$4,003
North Dakota	\$405	\$1	\$23	\$430	\$286	\$1	\$13	\$300
Ohio	\$7,796	\$637	\$424	\$8,857	\$4,608	\$376	\$228	\$5,212
Oklahoma	\$1,998	\$23	\$150	\$2,171	\$1,450	\$16	\$84	\$1,550
Oregon	\$2,628	\$30	\$219	\$2,878	\$1,586	\$18	\$125	\$1,730
Pennsylvania	\$10,147	\$761	\$478	\$11,386	\$5,483	\$408	\$261	\$6,153
Rhode Island	\$1,107	\$81	\$67	\$1,255	\$596	\$44	\$38	\$678
South Carolina	\$2,647	\$372	\$101	\$3,120	\$1,872	\$262	\$60	\$2,194
South Dakota	\$463	\$1	\$13	\$477	\$326	\$1	\$8	\$335
Tennessee	\$5,501	\$0	\$165	\$5,666	\$3,515	\$0	\$89	\$3,604
Texas	\$10,238	\$1,346	\$657	\$12,240	\$6,219	\$816	\$357	\$7,392
Utah	\$833	\$1	\$71	\$905	\$596	\$1	\$43	\$639
Vermont	\$575	\$27	\$46	\$648	\$360	\$17	\$28	\$404
Virginia	\$2,800	\$236	\$165	\$3,202	\$1,487	\$123	\$92	\$1,702
Washington	\$3,978	\$328	\$464	\$4,770	\$2,026	\$166	\$244	\$2,436
West Virginia	\$1,446	\$102	\$69	\$1,618	\$1,090	\$77	\$39	\$1,206
Wisconsin	\$3,964	\$12	\$203	\$4,179	\$2,356	\$7	\$111	\$2,475
Wyoming	\$243	\$0	\$21	\$264	\$159	\$0	\$14	\$172
United States ^a	\$199,956	\$15,854	\$11,818	\$227,628	\$114,140	\$8,970	\$6,524	\$129,634

Source: Table prepared by Congressional Research Service (CRS) based on analysis from Centers for Medicare and Medicaid Services (CMS), Form 64.

a. This does not include expenditures for the five U.S. territories.

Table 4. Medicaid Expenditures by State, FY2002
(in millions of dollars)

State	Total Expenditures				Federal Expenditures			
	Medical Assistance	DSH Payments	Admin	Total	Medical Assistance	DSH Payments	Admin	Total
Alaska	\$667	\$18	\$54	\$739	\$431	\$10	\$31	\$472
Alabama	\$2,719	\$374	\$101	3,195	\$1,921	\$263	\$58	2,243
Arkansas	\$2,223	\$15	\$103	\$2,341	\$1,620	\$11	\$64	\$1,694
Arizona	\$3,454	\$88	\$214	\$3,756	\$2,320	\$57	\$114	\$2,490
California	\$25,541	\$1,350	\$2,165	\$29,056	\$13,246	\$694	\$1,184	\$15,124
Colorado	\$2,161	\$162	\$90	\$2,413	\$1,086	\$81	\$51	\$1,218
Connecticut	\$3,215	\$242	\$145	\$3,601	\$1,621	\$121	\$79	\$1,821
Dist. Of Col.	\$981	\$40	\$60	\$1,082	\$688	\$28	\$35	\$751
Delaware	\$631	\$3	\$54	\$688	\$317	\$2	\$36	\$354
Florida	\$9,480	\$392	\$528	\$10,400	\$5,365	\$221	\$288	\$5,874
Georgia	\$5,808	\$433	\$303	\$6,544	\$3,429	\$256	\$180	\$3,865
Hawaii	\$740	\$0	\$64	\$804	\$417	\$0	\$38	\$456
Iowa	\$2,548	\$28	\$80	\$2,655	\$1,603	\$17	\$46	\$1,667
Idaho	\$763	\$10	\$63	\$836	\$543	\$7	\$39	\$589
Illinois	\$8,432	\$377	\$701	\$9,510	\$4,236	\$188	\$376	\$4,801
Indiana	\$4,049	\$399	\$181	\$4,630	\$2,518	\$247	\$104	\$2,869
Kansas	\$1,796	\$41	\$120	\$1,956	\$1,082	\$25	\$69	\$1,176
Kentucky	\$3,566	\$197	\$100	\$3,864	\$2,497	\$138	\$60	\$2,695
Louisiana	\$4,025	\$861	\$136	\$5,022	\$2,836	\$605	\$88	\$3,529
Massachusetts	\$7,440	\$623	\$317	\$8,380	\$3,734	\$312	\$176	\$4,221
Maryland	\$3,477	\$137	\$274	\$3,888	\$1,751	\$68	\$145	\$1,965
Maine	\$1,379	\$51	\$60	\$1,490	\$920	\$34	\$37	\$991
Michigan ^a	\$7,157	\$405	(\$164)	\$7,398	\$4,040	\$228	(\$123)	\$4,145
Minnesota	\$4,355	\$59	\$248	\$4,662	\$2,188	\$30	\$133	\$2,351
Missouri	\$4,824	\$537	\$216	\$5,576	\$2,953	\$328	\$116	\$3,396
Mississippi	\$2,688	\$189	\$88	\$2,965	\$2,047	\$144	\$52	\$2,244
Montana	\$571	\$0	\$27	\$598	\$422	\$0	\$16	\$438
North Carolina	\$6,264	\$460	\$302	\$7,026	\$3,879	\$283	\$167	\$4,329
North Dakota	\$459	\$2	\$23	\$484	\$323	\$2	\$13	\$338
Nebraska	\$1,328	\$11	\$82	\$1,421	\$794	\$7	\$47	\$847
New Hampshire	\$835	\$181	\$59	\$1,075	\$418	\$91	\$35	\$544
New Jersey	\$6,530	\$1,216	\$241	\$7,987	\$3,273	\$608	\$134	\$4,015
New Mexico	\$1,765	\$12	\$64	\$1,840	\$1,304	\$9	\$37	\$1,350
Nevada	\$732	\$76	\$56	\$864	\$369	\$38	\$33	\$440
New York	\$33,434	\$2,861	\$1,182	\$37,477	\$16,750	\$1,431	\$646	\$18,827
Ohio	\$9,004	\$654	\$320	\$9,978	\$5,302	\$385	\$176	\$5,863
Oklahoma	\$2,236	\$24	\$167	\$2,428	\$1,593	\$17	\$97	\$1,707
Oregon	\$2,549	\$23	\$226	\$2,798	\$1,522	\$14	\$129	\$1,665
Pennsylvania	\$11,352	\$779	\$557	\$12,688	\$6,216	\$425	\$305	\$6,947
Rhode Island	\$1,270	\$88	\$63	\$1,421	\$667	\$46	\$37	\$750
South Carolina	\$2,902	\$391	\$133	\$3,426	\$2,020	\$271	\$76	\$2,368
South Dakota	\$549	\$1	\$16	\$566	\$373	\$1	\$9	\$383
Tennessee	\$5,787	\$0	\$245	\$6,032	\$3,689	\$0	\$130	\$3,819
Texas	\$12,100	\$1,423	\$707	\$14,230	\$7,302	\$857	\$386	\$8,544
Utah	\$972	\$12	\$78	\$1,062	\$683	\$9	\$48	\$739
Virginia	\$3,630	\$182	\$187	\$4,000	\$1,877	\$94	\$108	\$2,078
Vermont	\$632	\$29	\$55	\$716	\$400	\$18	\$34	\$451
Washington	\$4,811	\$358	\$491	\$5,659	\$2,440	\$180	\$260	\$2,880
Wisconsin	\$4,144	\$49	\$186	\$4,380	\$2,433	\$29	\$104	\$2,566
West Virginia	\$1,501	\$83	\$73	\$1,657	\$1,130	\$62	\$41	\$1,233
Wyoming	\$274	\$0	\$24	\$298	\$170	\$0	\$16	\$186
United States ^b	\$229,748	\$15,949	\$11,866	\$257,563	\$130,756	\$8,991	\$6,560	\$146,308

Source: Table prepared by Congressional Research Service (CRS) based on analysis from Centers for Medicare and Medicaid Services (CMS), Form 64.

a. Form-64 is also used to report adjustments from a prior period resulting in a negative value.

b. This does not include expenditures for the five U.S. territories.