FLINT HILLS CENTER
FOR PUBLIC POLICY

POLICY BRIEF

Volume 4, Issue 3 August 2, 2007

MEDICAID'S RAW DEAL:
HOW KANSANS SUBSIDIZE WEALTHIER STATES THROUGH THE FEDERAL MEDICAL ASSISTANCE PERCENTAGE

BY STEPHEN A. MOSES

Executive Summary

Too often public policy crafted with good intentions yields unexpected—and unfortunate—outcomes. The Federal Medical Assistance Percentage serves as an excellent example of this phenomenon. Designed with the hope of assisting impoverished states in the provision of Medicaid services, the program actually serves to line the pockets of expansive budgets in wealthier states. As this policy brief explains, Kansas is a donor state. Given the financial hurdles the state's Medicaid budget will face in the coming years, this situation should not be allowed to continue.

Introduction

In pursuing our mission to recommend sound public policy for Kansas, the Flint Hills Center for Public Policy has done a good deal of work on long-term care financing policy. The Flint Hills Center presented state legislative testimony on several occasions, addressed community forums around the state and published a report titled "Plain(s) Talk on Medicaid Long Term Care in Kansas: A Case Study of Medicaid and LTC Financing in Kansas" authored by Stephen Moses of the Center for Long-Term Care Reform.[1]

Indeed, The Flint Hills Center has conducted many studies and published numerous reports on all aspects of the Medicaid program in Kansas. Examples include its "Medicaid Handbook," numerous policy papers, editorials, and testimonies, all viewable at www.flinthills.org.

This policy brief is a continuation of this effort. Simply put, the purpose is to highlight an inequity in federal Medicaid policy that forces Kansas to subsidize health care spending in other states.

The Federal Medical Assistance Percentage

One very interesting factor about Medicaid is that the program is funded partly with state money and partly with federal funds. States pay what they are able and choose to pay for Medicaid. The federal government matches that amount based on the state's FMAP or Federal Medical

Assistance Percentage. FMAPs vary inversely with the economic prosperity of each state. The original idea was to help poorer states afford comparable programs to wealthier states by giving them an advantage in their access to federal funding. Thus, FMAPs range widely from a minimum of 50 percent in New York and several other very prosperous states to more than 75 percent in Mississippi.

Basically, a rich state like New York gets one dollar from the federal government for every dollar it commits to fund Medicaid. A poor state like Mississippi gets approximately three dollars for every dollar it puts into Medicaid. To bring the discussion back to Kansas, the state's FMAP is roughly 60 percent. This means that Kansas receives about $1.50 from the federal government for every dollar it spends on Medicaid.

One would expect, therefore, that relatively poor states would receive proportionately more money from the federal coffers for their Medicaid programs than relatively wealthy states. But that is not the case. Some fascinating research by the American Enterprise Institute's Robert B. Helms shows that exactly the opposite holds true.[2] Following are excerpts from Helms' paper (footnotes omitted). The paper includes sources and references for the underlying data.

> Poorer states today are falling behind as wealthier states are collecting a disproportionate share of federal Medicaid dollars. (p. 1)
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> [D]ata for all states reveal that there is a negative relationship between the per-capita amount of federal funds flowing to the states and the amount of poverty in the states-that is, as a general tendency, the poorer the state, the less federal money that state receives. (p. 2)
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> Not only can the wealthier states afford to spend more on Medicaid, the open-ended process of obligating the federal government to match what the state chooses to spend creates an incentive for states to increase Medicaid spending relative to all other priorities. (p. 3)
>
> Clearly, the FMAP procedure is not successfully achieving the original objective of Medicaid: targeting federal assistance toward the states with the greatest share of poverty. Poorer states today are falling behind as wealthier states are collecting a disproportionate share of federal Medicaid dollars. (p. 4)
>
> Numerous analysts have pointed out that we have created a situation in which each governor and state Congressional delegation has a strong incentive to increase federal funding under the FMAP procedures rather than consider reforms that would be in the best interest of those Medicaid is intended to serve. (p. 4)
>
> Meanwhile, Congress tries to control costs by passing new controls on payment rates to providers and suppliers. This dissonance between state incentives to expand eligibility and federal attempts to control expenditures can only be expected to intensify in future years as the population ages and the cost of caring for the disabled puts more pressure on federal and state budgets. As in any system that relies primarily on price controls and government rationing, Medicaid

> beneficiaries will have access to fewer providers and will experience decreases in the quality of care. (p. 5)
>
> With limited resources, how does the government target resources to the neediest? The present Medicaid program seems designed to do just the opposite, shifting resources toward citizens who live in wealthier states. (p. 5)

How the Federal Medical Assistance Program Hurts Kansas

In discussing how FMAP affects Kansas Dr. Helms explains that "NY gets over twice as much per poor person . . . as does the state of Kansas. . . . This is the result even though Kansas has a higher FMAP (61% in 2005) than does NY (50%)." He goes on to explain: "This illustrates once again that it is not the FMAP that is pumping more and more of the federal Medicaid dollars toward the Northeast, but the open-ended payment policy that allows the wealthier states to keep expanding their programs relative to what the poorer states can do."[3]

Federal taxpayers in Kansas have no choice but to subsidize New York state's extremely generous Medicaid program, but poor Kansans get less than half the return per capita from federal Medicaid funds than do their counterparts in the Empire State.

States that have relatively easy Medicaid LTC eligibility rules, generous "spousal refusal" policy, truly munificent benefits including home and community-based care without asset transfer penalties, and ineffective estate recovery efforts, are subsidized by Kansans. This perverse incentive encourages rich states to throw more and more money toward Medicaid at the expense of poorer states which lack the economic wherewithal to compete.

Conclusion

As long as the FMAP system works the way it does now, more money will continue to flow away from poor people in economically challenged states to more affluent people in economically prosperous states. At a time when Kansas is struggling with the expense of its own Medicaid program, the state cannot afford these subsidies. Kansas policymakers must strive to rectify this imbalance and prevent the continued siphoning off of the state's limited resources.

About the Author

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Notes:

[1] Available at: http://www.centerltc.com/pubs/plains_talk_on_medicaid_ltc_in_kansas.pdf.

[2] Robert B. Helms, "The Medicaid Commission Report: A Dissent," American Enterprise Institute for Public Policy Research, Washington, D.C., No. 2, January 2007, http://www.aei.org/publications/filter.all,pubID.25434/pub_detail.asp.

[3] Personal email communication May 17, 2007. During the research for our New York LTC Compact project, we asked Dr. Helms to compare how the FMAP system affects Kansas and New York. These comments arise from that discussion.

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The Flint Hills Center for Public Policy is a Kansas think tank created as an independent voice to help political decision makers make informed choices. The Flint Hills Center for Public Policy is a non-profit, nonpartisan policy think tank. While not involved in the implementation or administration of government policy, our goal is to inform and raise public awareness of policy issues. For more information, visit our website at www.flinthills.org.

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