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*Medicaid Expenditures, FY2003 and FY2004*

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**Abstract.** 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%. During FY2003 and FY2004, the federal government financed about 59% of all Medicaid costs. In FY2003, federal payments for health care services and administration of the Medicaid program totaled \$161 billion, 9.7% higher than in FY2002. Combined state and federal spending in FY2003 for Medicaid totaled \$275 billion, a 6.9% increase over FY2002. In FY2004, federal payments for health care services and administration of the Medicaid program totaled \$174 billion, 8.6% higher than in FY2003. Combined state and federal spending for Medicaid totaled \$295 billion in FY2004, a 7.2% increase over FY2003.

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# CRS Report for Congress

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## Medicaid Expenditures, FY2003 and FY2004

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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%. During FY2003 and FY2004, the federal government financed about 59% of all Medicaid costs.

In FY2003, federal payments for health care services and administration of the Medicaid program totaled \$161 billion, 9.7% higher than in FY2002. Combined state and federal spending in FY2003 for Medicaid totaled \$275 billion, a 6.9% increase over FY2002.

In FY2004, federal payments for health care services and administration of the Medicaid program totaled \$174 billion, 8.6% higher than in FY2003. Combined state and federal spending for Medicaid totaled \$295 billion in FY2004, a 7.2% increase over FY2003. 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 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 Medicaid services, 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.

The 108<sup>th</sup> Congress enacted legislation that 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 to each state's FMAP rate. In addition, the spending caps for the territories (as discussed later) were raised by 5.9% for the last two quarters of FY2003 and first three quarters of FY2004.

For the first two quarters of FY2003, the FMAP rate ranged from 50% to 77%. For the last two quarters of FY2003 and the first three quarters of FY2004, the FMAP rate ranged from 53% to 80%. In the last quarter of FY2004, the FMAP rate ranged from 50% to 77%. Thirteen states received the minimum FMAP rate of 53% for Medicaid expenditures for the first three quarters of FY2004, and 50% for the last quarter of FY2004. Mississippi had the highest FMAP rate at 80% for the first three quarters of FY2004, and 77% for the last quarter of FY2004. The federal share of most state expenditures to administer the program is 50% in all states; higher matching is allowed for certain administrative activities.

## Medicaid Expenditures

Federal and state expenditures for Medicaid benefits and program administration totaled \$275 billion in FY2003, a 6.9% increase from the \$258 billion spent the previous year. Federal and state expenditures for Medicaid benefits and program administration totaled \$295 billion in FY2004, a 7.2% increase from the previous year (**Table 1**). Federal spending accounted for approximately 59% of all Medicaid expenditures during FY2003 and FY2004. The remaining share was paid by state and local governments. Payments for services accounted for 90% of total Medicaid expenditures in FY2003, and 89% in FY2004. Disproportionate share hospital (DSH) payments<sup>1</sup> accounted for 5% of expenditures in FY2003, and 6% in FY2004, and program administration accounted for 5% of total spending in both years, (**Tables 3 and 4**).

**Table 1. Medicaid Spending, FY2002, FY2003, and FY2004**

(in millions of dollars)

	FY2002	FY2003	FY2004
State	\$111,255	\$114,698	\$120,762
Federal	\$146,308	\$160,564	\$174,418
Total <sup>a</sup>	\$257,563	\$275,262	\$295,179

<sup>1</sup> 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.

**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.

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). Just over half of all federal Medicaid spending in FY2003 and FY2004 occurred in nine states.<sup>2</sup> 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 Medicaid 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 FY2003, the federal cap on Medicaid spending for the territories was \$226 million, an 8% increase from FY2002. In FY2004, this amount increased 6% to \$239 million.

## Medicaid Spending by Category

Medicaid spending in FY2003 and FY2004, totaled \$275 billion and \$295 billion, respectively. There are several broad categories of Medicaid expenditures that comprise this total. For example, acute care includes services such as hospitals, physicians, lab and X-ray, and nurse practitioner. 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 copayments and payments of private insurance premiums on behalf of Medicaid beneficiaries. 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 do not permit disaggregating managed care payments into specific types of services (e.g., hospital, nursing facility) (**Table 2**).

**Table 2. Total Medicaid Expenditures by Category, FY2002, FY2003 and FY2004 (in billions)**

Category of Spending <sup>a</sup>	FY2002	FY2003	FY2004
All Medicaid services <sup>b</sup>	\$229.7	\$247.5	\$263.6
— <i>Acute care</i>	\$62.8	\$67.7	\$76.6
— <i>Prescription drugs</i>	\$23.4	\$26.6	\$30.4
— <i>Long-term care</i>	\$102.0	\$106.3	\$111.3
— <i>Third-party payments</i>	\$10.9	\$11.8	\$8.1
— <i>Managed care payments</i>	\$34.4	\$40.5	\$43.6
DSH	\$15.9	\$14.3	\$17.2
Administration	\$11.9	\$13.5	\$14.4
<b>Total Expenditures</b>	<b>\$257.6</b>	<b>\$275.3</b>	<b>\$295.2</b>

<sup>2</sup> For FY2003, the nine states, in order of spending, are NY, CA, TX, PA, FL, OH, IL, MI and NC. In FY2004, the nine states remained the same, however, Michigan and North Carolina switched position in the ranking.

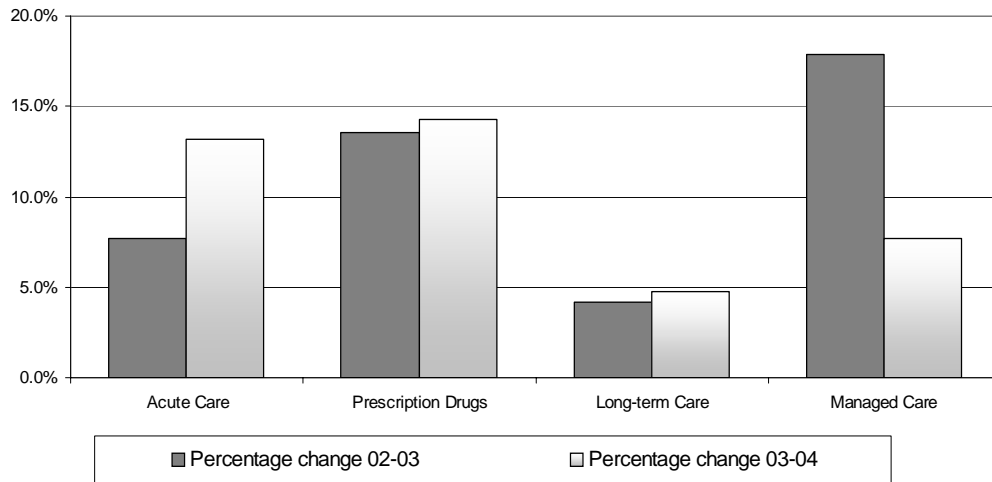
**Source:** Table prepared by Congressional Research Service (CRS) based on analysis from Centers for Medicare and Medicaid Services (CMS), Form 64.

- 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 \$3.8 billion to \$6.5 billion between FY2002 and FY2004.

Though Medicaid *service* expenditures increased at rates of 7.7% for FY2003 and 6.5% for FY2004, over the previous year, the growth in Medicaid service expenditures varied widely by category of service expenditures and by year, (**Figure 1**). For example, long-term care payments grew at a rate of about 5% each year, and payments for prescription drugs increased each year at approximately 14%. 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 18% in FY2003 over the previous year, and 8% in FY2004 over FY2003.

**Figure 1. Annual Percentage Increase in Medicaid Service Expenditures by Category, FY2003 and FY2004**

**Note:** This analysis is focused on services and does not include Medicaid expenditures for third party payments, payments to disproportionate share hospitals, and administration. These percentages were calculated using unrounded expenditures and may differ slightly from calculations done using the rounded numbers in Table 2.



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

**Table 3. Medicaid Expenditures by State, FY2003**

(in millions of dollars)

State	Total Expenditures				Federal Expenditures			
	Medical Assistance	DSH Payments	Admin	Total	Medical Assistance	DSH Payments	Admin	Total
Alaska	\$814	\$16	\$64	\$893	\$538	\$9	\$38	\$585
Alabama	\$3,124	\$354	\$128	\$3,606	\$2,259	\$250	\$78	\$2,586
Arkansas	\$2,298	\$31	\$111	\$2,441	\$1,746	\$23	\$73	\$1,843
Arizona	\$4,046	\$173	\$207	\$4,426	\$2,884	\$116	\$110	\$3,110
California	\$28,262	\$1,835	\$2,056	\$32,153	\$14,841	\$927	\$1,133	\$16,902
Colorado	\$2,392	\$160	\$111	\$2,663	\$1,237	\$80	\$63	\$1,381
Connecticut	\$3,278	\$228	\$116	\$3,622	\$1,712	\$114	\$65	\$1,891
Dist. Of Col.	\$1,038	\$38	\$76	\$1,152	\$742	\$27	\$42	\$812
Delaware	\$716	\$3	\$46	\$765	\$371	\$1	\$27	\$399
Florida	\$10,655	\$271	\$549	\$11,474	\$6,444	\$159	\$304	\$6,908
Georgia	\$5,935	\$366	\$380	\$6,681	\$3,646	\$218	\$205	\$4,070
Hawaii	\$766	\$0	\$70	\$836	\$463	\$0	\$43	\$506
Iowa	\$2,110	\$26	\$83	\$2,219	\$1,377	\$17	\$48	\$1,442
Idaho	\$800	\$10	\$69	\$879	\$581	\$7	\$44	\$633
Illinois	\$8,936	\$317	\$695	\$9,948	\$4,654	\$159	\$374	\$5,186
Indiana	\$4,039	\$243	\$204	\$4,486	\$2,567	\$151	\$112	\$2,830
Kansas	\$1,722	\$42	\$90	\$1,855	\$1,062	\$25	\$55	\$1,143
Kentucky	\$3,529	\$168	\$107	\$3,804	\$2,521	\$118	\$64	\$2,703
Louisiana	\$3,599	\$824	\$162	\$4,585	\$2,625	\$587	\$99	\$3,311
Massachusetts	\$7,271	\$410	\$366	\$8,047	\$3,750	\$205	\$210	\$4,164
Maryland	\$4,284	\$59	\$295	\$4,638	\$2,221	\$29	\$156	\$2,406
Maine	\$1,734	\$43	\$79	\$1,856	\$1,182	\$28	\$47	\$1,257
Michigan	\$7,535	\$433	\$499	\$8,466	\$4,323	\$241	\$274	\$4,837
Minnesota	\$4,783	\$58	\$279	\$5,121	\$2,477	\$29	\$150	\$2,655
Missouri	\$5,016	\$525	\$254	\$5,795	\$3,156	\$322	\$138	\$3,615
Mississippi	\$2,689	\$164	\$95	\$2,948	\$2,102	\$125	\$66	\$2,293
Montana	\$511	\$0	\$30	\$542	\$387	\$0	\$18	\$405
North Carolina	\$6,683	\$368	\$301	\$7,352	\$4,291	\$230	\$172	\$4,693
North Dakota	\$467	\$1	\$21	\$490	\$333	\$1	\$12	\$346
Nebraska	\$1,326	\$0	\$72	\$1,397	\$811	\$0	\$42	\$853
New	\$712	\$204	\$63	\$979	\$368	\$102	\$39	\$510
New Jersey	\$6,745	\$1,114	\$515	\$8,374	\$3,476	\$557	\$278	\$4,310
New Mexico	\$2,000	\$6	\$68	\$2,074	\$1,535	\$5	\$43	\$1,582
Nevada	\$944	\$72	\$68	\$1,084	\$511	\$38	\$43	\$592
New York	\$37,501	\$2,402	\$1,165	\$41,068	\$19,342	\$1,201	\$650	\$21,194
Ohio	\$9,939	\$238	\$360	\$10,538	\$6,007	\$140	\$195	\$6,342
Oklahoma	\$2,289	\$23	\$169	\$2,481	\$1,665	\$16	\$102	\$1,783
Oregon	\$2,640	\$38	\$242	\$2,920	\$1,642	\$23	\$136	\$1,801
Pennsylvania	\$12,125	\$647	\$625	\$13,397	\$6,827	\$354	\$340	\$7,522
Rhode Island	\$1,342	\$95	\$81	\$1,517	\$764	\$53	\$47	\$863
South Carolina	\$3,192	\$346	\$136	\$3,675	\$2,285	\$242	\$80	\$2,606
South Dakota	\$535	\$1	\$17	\$554	\$376	\$1	\$11	\$387
Tennessee	\$6,357	\$0	\$523	\$6,881	\$4,211	\$0	\$272	\$4,483
Texas	\$14,101	\$1,319	\$750	\$16,170	\$8,698	\$792	\$442	\$9,932
Utah	\$1,080	\$12	\$79	\$1,172	\$788	\$9	\$46	\$843
Virginia	\$3,370	\$155	\$227	\$3,752	\$1,777	\$78	\$127	\$1,983
Vermont	\$676	\$29	\$63	\$768	\$435	\$18	\$38	\$491
Washington	\$4,713	\$280	\$459	\$5,451	\$2,502	\$139	\$243	\$2,884
Wisconsin	\$4,745	\$44	\$169	\$4,959	\$2,855	\$26	\$98	\$2,979
West Virginia	\$1,780	\$78	\$89	\$1,947	\$1,367	\$58	\$55	\$1,480
Wyoming	\$337	\$0	\$26	\$363	\$215	\$0	\$18	\$232
<b>United States<sup>a</sup></b>	<b>\$247,480</b>	<b>\$14,273</b>	<b>\$13,509</b>	<b>\$275,262</b>	<b>\$144,949</b>	<b>\$8,052</b>	<b>\$7,564</b>	<b>\$160,564</b>

**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, FY2004**

(in millions of dollars)

State	Total Expenditures				Federal Expenditures			
	Medical Assistance	DSH Payments	Admin	Total	Medical Assistance	DSH Payments	Admin	Total
Alaska	\$866	\$18	\$64	\$948	\$572	\$11	\$41	\$623
Alabama	\$3,228	\$409	\$106	\$3,742	\$2,361	\$289	\$62	\$2,712
Arkansas	\$2,560	\$25	\$114	\$2,699	\$1,973	\$19	\$71	\$2,063
Arizona	\$4,775	\$158	\$189	\$5,123	\$3,397	\$106	\$105	\$3,608
California	\$28,697	\$1,980	\$2,850	\$33,527	\$15,194	\$990	\$1,556	\$17,740
Colorado	\$2,466	\$182	\$116	\$2,764	\$1,293	\$91	\$71	\$1,454
Connecticut	\$3,610	\$265	\$147	\$4,023	\$1,895	\$133	\$79	\$2,106
Dist. Of Col.	\$1,076	\$40	\$76	\$1,192	\$803	\$29	\$46	\$878
Delaware	\$789	\$3	\$47	\$839	\$414	\$2	\$27	\$442
Florida	\$12,483	\$307	\$579	\$13,369	\$7,638	\$181	\$316	\$8,136
Georgia	\$6,619	\$425	\$369	\$7,413	\$4,116	\$253	\$184	\$4,553
Hawaii	\$908	\$0	\$62	\$970	\$555	\$0	\$36	\$591
Iowa	\$2,211	\$28	\$85	\$2,324	\$1,465	\$18	\$50	\$1,533
Idaho	\$927	\$12	\$71	\$1,010	\$678	\$9	\$44	\$730
Illinois	\$9,612	\$379	\$571	\$10,562	\$5,044	\$190	\$306	\$5,540
Indiana	\$4,533	\$357	\$239	\$5,128	\$2,937	\$222	\$130	\$3,289
Kansas	\$1,720	\$63	\$106	\$1,888	\$1,084	\$38	\$56	\$1,179
Kentucky	\$3,892	\$195	\$104	\$4,190	\$2,821	\$137	\$66	\$3,024
Louisiana	\$3,908	\$1,025	\$165	\$5,098	\$2,890	\$734	\$97	\$3,721
Massachusetts	\$8,236	\$489	\$373	\$9,098	\$4,323	\$244	\$208	\$4,775
Maryland	\$4,508	\$79	\$268	\$4,854	\$2,364	\$39	\$143	\$2,546
Maine	\$1,939	\$82	\$85	\$2,106	\$1,329	\$54	\$48	\$1,431
Michigan	\$7,778	\$447	\$368	\$8,593	\$4,533	\$250	\$207	\$4,990
Minnesota	\$5,482	\$68	\$283	\$5,833	\$2,878	\$34	\$151	\$3,063
Missouri	\$5,457	\$625	\$271	\$6,353	\$3,480	\$384	\$144	\$4,009
Mississippi	\$3,099	\$186	\$85	\$3,370	\$2,458	\$143	\$54	\$2,656
Montana	\$659	\$7	\$33	\$699	\$503	\$5	\$20	\$528
North Carolina	\$7,524	\$421	\$367	\$8,313	\$4,913	\$265	\$202	\$5,380
North Dakota	\$478	\$2	\$22	\$501	\$340	\$1	\$12	\$354
Nebraska	\$1,393	\$37	\$109	\$1,540	\$869	\$22	\$61	\$953
New Hampshire	\$881	\$268	\$58	\$1,206	\$462	\$134	\$34	\$629
New Jersey	\$6,662	\$1,267	\$341	\$8,270	\$3,494	\$633	\$188	\$4,315
New Mexico	\$2,190	\$23	\$109	\$2,322	\$1,704	\$17	\$71	\$1,792
Nevada	\$959	\$79	\$66	\$1,104	\$550	\$44	\$39	\$633
New York	\$38,106	\$2,872	\$1,305	\$42,284	\$19,924	\$1,436	\$743	\$22,103
Ohio	\$10,674	\$876	\$383	\$11,933	\$6,567	\$518	\$207	\$7,292
Oklahoma	\$2,474	\$27	\$149	\$2,650	\$1,818	\$19	\$85	\$1,921
Oregon	\$2,556	\$41	\$243	\$2,839	\$1,633	\$25	\$132	\$1,790
Pennsylvania	\$13,335	\$754	\$737	\$14,826	\$7,597	\$413	\$396	\$8,405
Rhode Island	\$1,537	\$109	\$82	\$1,728	\$898	\$61	\$46	\$1,006
South Carolina	\$3,359	\$489	\$142	\$3,990	\$2,432	\$342	\$85	\$2,859
South Dakota	\$560	\$1	\$18	\$580	\$395	\$1	\$11	\$407
Tennessee	\$7,030	\$0	\$546	\$7,576	\$4,700	\$0	\$286	\$4,986
Texas	\$14,634	\$1,444	\$695	\$16,773	\$9,162	\$869	\$389	\$10,421
Utah	\$1,221	\$14	\$80	\$1,316	\$906	\$10	\$44	\$960
Virginia	\$3,711	\$114	\$245	\$4,071	\$1,959	\$57	\$132	\$2,148
Vermont	\$764	\$35	\$67	\$866	\$493	\$21	\$40	\$554
Washington	\$4,915	\$329	\$503	\$5,746	\$2,551	\$164	\$270	\$2,985
Wisconsin	\$4,362	\$49	\$191	\$4,602	\$2,656	\$29	\$108	\$2,792
West Virginia	\$1,870	\$67	\$94	\$2,032	\$1,450	\$50	\$56	\$1,557
Wyoming	\$366	\$0	\$33	\$399	\$233	\$0	\$23	\$256
<b>United States</b>	<b>\$263,599</b>	<b>\$17,172</b>	<b>\$14,407</b>	<b>\$295,179</b>	<b>\$156,702</b>	<b>\$9,736</b>	<b>\$7,980</b>	<b>\$174,418</b>

**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.