# Federal Medical Assistance Percentages and Arkansas Medicaid

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*Established by Title XIX of the Social Security Act of 1965 as an optional program for states, Medicaid was adopted by all states by 1982. Arkansas adopted Medicaid in 1970, and adopted the complementary Children's Health Insurance Program (CHIP) established by Title XXI in 1997. The two programs together serve as the primary source of health care coverage for low-income families, children, and the disabled, and of long-term care coverage for the aged and disabled. The Medicaid program is a joint arrangement by each state and the federal government, and many states' Medicaid programs in the region are largely federally-funded. This allows the federal government to set minimum program standards while allowing for some state flexibility and innovation. The Congressionally-legislated formula for the share of each state's Title XIX Medicaid program costs covered by the federal government—the Federal Medical Assistance Percentage (FMAP)—has changed minimally since 1965. However, the match rate for particular programs such as CHIP varies from the standard Medicaid FMAP. This fact sheet provides information about FMAP calculation, match rates for Arkansas programs, FMAP variation across states, and ways that states may use federal funds differently in the future.*

## FEDERAL MEDICAL ASSISTANCE PERCENTAGE FOR STANDARD MEDICAID

The federal medical assistance percentage (FMAP) is used to determine the amount that the federal government will pay to states for medical expenditures for Medicaid beneficiaries. The FMAP for each state is calculated annually, accounting for variations in income across states.[1] The FMAP calculation uses a rolling three-year average per capita income for each state, which is recalculated each year. Because a state's FMAP is directly related to its per capita income, relatively poorer states have higher FMAP rates. If a state's economy improves, its FMAP will be lower than in previous years. Regardless of the formula's results, however, the federal share of Medicaid expenditures for each state is bound by a 50 percent minimum and an 83 percent maximum. Figure 1 shows the FMAP formula.

**Figure 1: FMAP Formula[1]**

**State Share** = 0.45 X (the square of state per capita income/the square of U.S. per capita income)

**FMAP** = 1 - 0.45 X (the square of state per capita income/the square of U.S. per capita income)

## MATCH RATE VARIATION AMONG MEDICAID PROGRAMS/ACTIVITIES

Although the Arkansas Medicaid program has a standard FMAP that fluctuates minimally over time, other federal programs administered by Arkansas Medicaid sometimes have different FMAP rates. For example, as part of the federal Balanced Budget Act of 1997, Congress approved an enhanced match rate for the Children's Health Insurance Program (CHIP).[2] Figure 2 shows the CHIP match rate formula.

**Figure 2: CHIP Match Rate Formula[1]**

**CHIP Match Rate** = (0.30 X the state's share of standard FMAP) + the federal share of the state's standard FMAP

The Patient Protection and Affordable Care Act (PPACA) included an increased match rate for CHIP starting in 2015. The CHIP Reauthorization Act of 2015 extends this funding through federal fiscal year 2017 when Congress will once again consider reauthorization. The increase is for an additional 23 percentage points above the standard FMAP, not to exceed 100 percent. In fiscal year 2016, Arkansas will be among 12 states receiving 100 percent federal funding for CHIP. Table 1 shows match rates for fiscal year 2016.

**Table 1: Arkansas Match Rates for Fiscal Year 2016[2]**

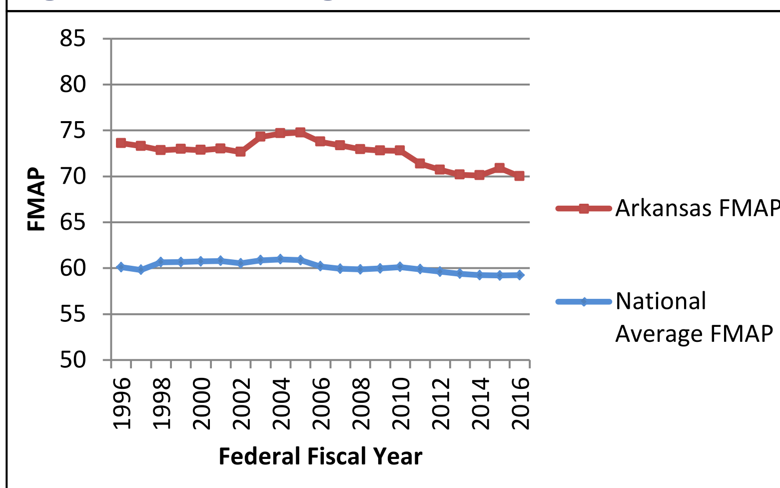
| | Federal Share | State Share |
|---|---|---|
| Standard Medicaid FMAP | 70% | 30% |
| Children's Health Insurance Program | 100% | 0% |
| Health Care Independence Program | 100% | 0% |
| Eligibility and Enrollment System Upgrades | 90% | 10% |
| Administrative Services | 50% | 50% |

Medicaid administrative costs are usually shared at an equal 50 percent between states and the federal government, while 90 percent federal support for modernization of eligibility and enrollment systems is available to states upon approval of an advanced planning document.[3] The optional expansion of Medicaid under PPACA

offers an FMAP of 100 percent for the first three years. From 2017 to 2019, the FMAP for the expansion will decrease gradually, settling at 90 percent in 2020 and thereafter.

## FMAP OVER THE DECADES

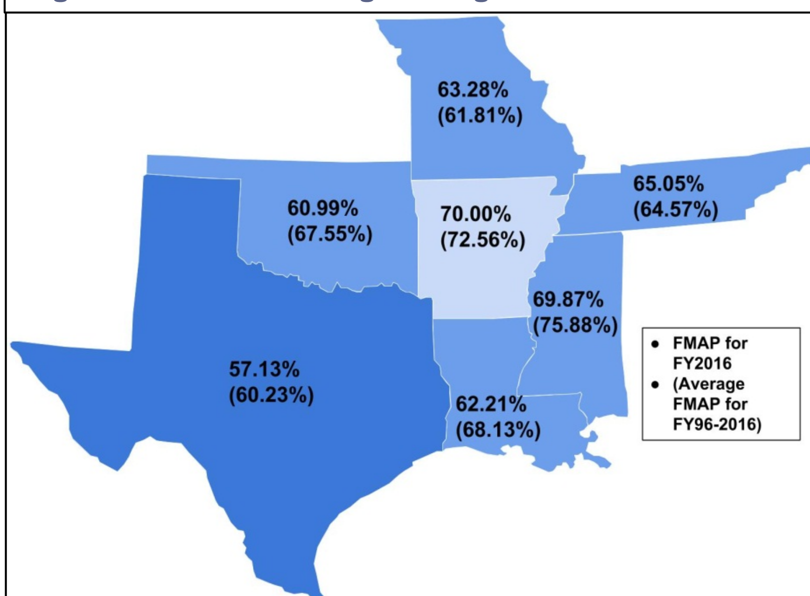
Figure 3: FMAP Averages[4]




*The average Federal Medical Assistance Percentage (FMAP) rate for basic Medicaid services between fiscal years 1996 and 2016 for Arkansas is 72.56 percent.[4] A gradual improvement in the state's economy is reflected in the slight downward trend in the FMAP. The national average FMAP for the same time period is 60.12 percent. The highest national average in that time period was fiscal year 2004, with 60.97 percent.*

## FMAP DIFFERENCES ACROSS STATES

Figure 4: FMAPs in Neighboring States[2,4]




Arkansas Federal Medical Assistance Percentage rates have traditionally been higher when compared to most neighboring states. States can choose either fee-for-service or managed care arrangements. Fee-for-service allows states to develop varying payment rates, where managed care allows states to use independent care organizations and pay through capitated rates. The Centers for Medicare and Medicaid Services (CMS) uses a three-year cycle to adjust FMAPs, accounting for inflation and other economic fluctuations.[5]

States are required to submit state plan amendments to the CMS attesting that they meet eligibility standards. Federal rules require state Medicaid programs to cover, at a minimum, the following services in order to receive their federal share of funding:

- Inpatient hospital services
- Outpatient hospital services
- Early and periodic screening, diagnostic, and treatment services
- Nursing facility services
- Home health services
- Physician services
- Rural health clinic services
- Federal qualified health center services
- Laboratory and X-ray services
- Family planning services
- Nurse midwife services
- Certified pediatric and family nurse practitioner services
- Transportation to medical care
- Tobacco cessation counseling for pregnant women

FMAP rates for US territories, including American Samoa, Guam, the Northern Mariana Islands, Puerto Rico, and the Virgin Islands, increased from 50 percent to 55 percent in 2011. The adjusted 55 percent rate is also used for enhanced FMAP rates for CHIP.[6]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In addition to general revenue, many states use methods such as provider fees and supplemental taxes to generate state funds designated for the Medicaid program to draw down additional federal dollars based on the FMAP. The additional revenue from this activity can be used to increase provider rates or fund other parts of the Medicaid program. Arkansas uses hospital assessment fees, provider fees for intermediate care facilities, and nursing home quality assurance fees to draw down additional federal dollars. In fiscal year 2014, these fees were $150 million of the approximately $5.3 billion Medicaid operating budget.[7]

## FMAP AND STATE BUDGETARY IMPACT

The FMAP reflects the Congressionally-legislated shared fiscal responsibility between the federal government and states for the care of low-income, aged, and disabled populations. Recently, states have been exploring proposals for greater flexibility from the federal government to administer their Medicaid programs and cost containment strategies including capped federal budget expenditures. In these discussions states assume the financial risk of future cost growth in exchange for greater programmatic flexibility. Amid federal and state budget pressure related to health care spending, Medicaid and its shared financing structure through the FMAP will continue to be targets of discussion for reform. For relatively poorer states such as Arkansas, the potential for future cost growth and diminishing returns on program changes should be considered, particularly in a state with a balanced budget requirement.

## REFERENCES

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