

# FEDERAL MEDICAL ASSISTANCE PERCENTAGES AND ARKANSAS MEDICAID

## Introduction

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 healthcare coverage for low-income families, children, and the disabled, as well as long-term care coverage for the aged and disabled.

The Medicaid program is a joint arrangement between each state and the federal government, with most states depending on the federal government for the lion's share of the funding. As the primary funder, the federal government sets minimum program standards while allowing for some state flexibility and innovation. The congressionally established formula for the share of each state's Title XIX Medicaid program costs covered by the federal government is known as the federal medical assistance percentage (FMAP). This explainer provides information about FMAP calculation, match rates for Arkansas programs, FMAP variation across states, and way that states may use federal funds differently in the future.

## Federal Medical Assistance Percentage for Standard Medicaid

The 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.<sup>1</sup> 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. 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% minimum and an 83% maximum.<sup>2</sup> Figure 1 shows the FMAP formula.<sup>1</sup>

**FIGURE 1: FMAP FORMULA**

$\text{State Share} = 0.45 \times (\text{state per capita income}^2 / \text{U.S. per capita income}^2)$
$\text{FMAP} = 1 - ((\text{state per capita income}^2 / \text{U.S. per capita income}^2) \times 0.45)$

## 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 FMAPs. For example, as part of the federal Balanced Budget Act of 1997, Congress approved an enhanced match rate for CHIP. Figure 2 shows the CHIP match rate formula.<sup>2</sup>

**FIGURE 2: CHIP MATCH RATE FORMULA**

<b>CHIP Match Rate</b> = (0.30 x the state’s share of standard FMAP) + the federal share of the state’s FMAP
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In contrast to Medicaid — an entitlement program that the federal government is obligated to fund — CHIP is a block grant program that periodically requires reauthorization and funding by Congress at a capped amount each fiscal year. In 2018, The Healthy Kids Act provided funding for CHIP allotments through fiscal year (FY) 2023, while the Bipartisan Budget Act of 2018 funded CHIP for an additional four years, through FY 2027. The Consolidated Appropriations Act of 2023 extends federal funding for CHIP for an additional two years through the end of FY 2029.

**TABLE 1: ARKANSAS MATCH RATES FOR FISCAL YEAR 2023**

	Federal Share	State Share
Standard Medicaid FMAP	71%	29%
Children’s Health Insurance Program	80%	20%
AR Health and Opportunity for Me (ARHOME)	90%	10%
Eligibility and Enrollment Systems Upgrades	90%	10%
Administrative Services	50%	50%

Table 1 shows Arkansas Medicaid match rates for fiscal year 2023. Medicaid administrative costs are usually shared at an equal 50% between states and the federal government, while 90% federal support for modernization of eligibility and enrollment systems is available to states upon approval of an advanced planning document. The optional expansion of Medicaid under the Patient Protection and Affordable Care Act offered an FMAP of 100% for the first three years (2014 to 2016). From 2017 to 2019, the FMAP for the expansion decreased gradually, settling at 90% in 2020 and thereafter.

## **Federal Medical Assistance Percentage Increase During the COVID-19 Pandemic**

The Families First Coronavirus Response Act authorized a temporary increase of 6.2 percentage points to states' FMAPs in exchange for meeting specific Medicaid program requirements. These requirements included:<sup>3</sup>

- Maintaining Medicaid eligibility standards, methodologies and procedures no more restrictive than those that were already in place as of Jan. 1, 2020.
- Not charging premiums that were higher than those in place as of Jan. 1, 2020.
- Continuing to provide Medicaid coverage to all individuals enrolled on or after March 18, 2020, through the last day of the month when the COVID-19 public health emergency ends, regardless of any changes in individuals' circumstances that would otherwise result in termination.
- Providing Medicaid coverage without cost-sharing for COVID-19 testing and treatments.

The Consolidated Appropriations Act of 2023 set a date (April 1, 2023) for Medicaid continuous coverage provisions to end — meaning states can begin disenrolling those no longer eligible — and set a schedule for phasing out enhanced federal financial assistance.<sup>4</sup>

## **Federal Medical Assistance Percentage Over the Decades**

Arkansas's average FMAP for medical services between fiscal years 2013 and 2023 was 70.7%.<sup>1</sup> The national average FMAP for the same period was 59.8%. The highest FMAP for

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<sup>1</sup> For this explainer, standard FMAPs were used for data reflecting fiscal years 2020 through 2023. An enhanced FMAP of 6.2% was available to states meeting certain requirements during this period due to the COVID-19 public health emergency.

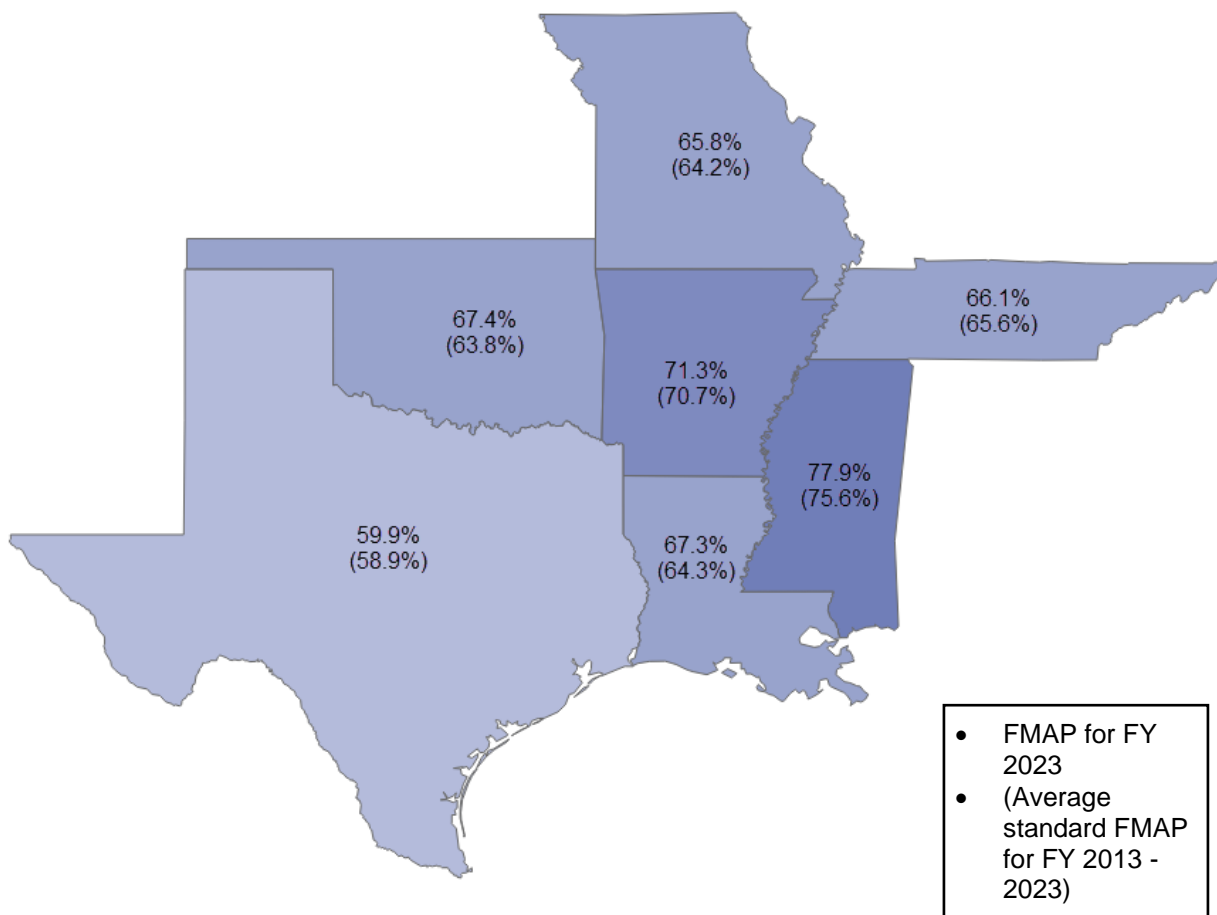
Arkansas during that period was 71.6% in 2022, and the highest national average in that period was also during fiscal year 2022, when it was 62.5%.

## Federal Medical Assistance Percentage Differences Across States

The Centers for Medicare and Medicaid Services (CMS) uses a three-year cycle to adjust FMAPs, accounting for inflation and other economic fluctuations. From 2013 to 2023, Arkansas’s FMAPs were generally higher than those of most neighboring states, except for Mississippi (see Figure 3 below).<sup>5,6</sup>

States can choose either fee-for-service or managed care arrangements in financing their Medicaid programs. Fee-for-service allows states to develop varying payment rates, whereas managed care allows states to use independent care organizations and pay through capitated rates.

**FIGURE 3: FMAPs IN NEIGHBORING STATES**



States must submit state plan amendments to CMS attesting that they meet eligibility standards and for approval of any programmatic changes. Federal rules require state Medicaid programs to cover, at a minimum, the following services 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.

FMAPs for U.S. territories, including American Samoa, Guam, the Northern Mariana Islands, Puerto Rico, and the Virgin Islands, increased from 50% in 2010 to 55% in 2011. The adjusted 55% rate is also used for enhanced FMAPs for CHIP.

In addition to general revenue, many states use methods such as provider fees and supplemental taxes to generate state funds designated for Medicaid programs and 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 help fund its share of the match (29%) and draw down additional federal dollars.

## Conclusion

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 for possible reform. For a relatively poor state like 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.



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<sup>1</sup> Kaiser Family Foundation. (September 2012). Medicaid financing: An overview of the federal Medicaid matching rate (FMAP). [kff.org/wp-content/uploads/2013/01/8352.pdf](http://kff.org/wp-content/uploads/2013/01/8352.pdf)

<sup>2</sup> Medicaid and CHIP Payment and Access Commission. Matching rates. Accessed April 24, 2023. Retrieved from [macpac.gov/subtopic/matching-rates](http://macpac.gov/subtopic/matching-rates)

<sup>3</sup> Cardwell, A. (March 30, 2020). Q&A: What states should know about the Medicaid FMAP increase. National Academy for State Health Policy. [nashp.org/qa-what-states-should-know-about-the-medicaid-fmap-increase](http://nashp.org/qa-what-states-should-know-about-the-medicaid-fmap-increase)

<sup>4</sup> Congressional Research Service. (January 9, 2023). Temporary federal medical assistance percentage (FMAP) increase for Title IV-E foster care and permanency payments. [crsreports.congress.gov/product/pdf/IN/IN11297](https://crsreports.congress.gov/product/pdf/IN/IN11297)

<sup>5</sup> Kaiser Family Foundation. Federal medical assistance percentage (FMAP) for Medicaid and multiplier. FY 2013-FY 2019. Accessed April 25, 2023 [kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier/?currentTimeframe=11&selectedRows=%7B%22states%22:%7B%22all%22:%7B%7D%7D,%22wrapups%22:%7B%22united-states%22:%7B%7D%7D%7D&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D](http://kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier/?currentTimeframe=11&selectedRows=%7B%22states%22:%7B%22all%22:%7B%7D%7D,%22wrapups%22:%7B%22united-states%22:%7B%7D%7D%7D&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D)

<sup>6</sup> Medicaid and CHIP Payment and Access Commission. Exhibit 6: Federal medical assistance percentages (FMAPs) and enhanced FMAPs (E-FMAPs) by state. Accessed April 25, 2023. [macpac.gov/publication/federal-medical-assistance-percentages-fmaps-and-enhanced-fmaps-e-fmaps-by-state-selected-periods](http://macpac.gov/publication/federal-medical-assistance-percentages-fmaps-and-enhanced-fmaps-e-fmaps-by-state-selected-periods)

