

# CRS Report for Congress

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## Medicaid Expenditures, FY2002 and FY2003

Karen L. Tritz  
Analyst in Social Legislation  
Domestic Social Policy Division

### 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 FY2002, the federal government financed about 57% of all Medicaid costs. During FY2003, the federal government financed about 59% of all Medicaid costs. This increase in FY2003 is likely the result of the temporary FMAP increase enacted in May 2003 (P.L. 108-27).

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.

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

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.

In FY2002, FMAP rates ranged from 50% to 76%. For the first two quarters of FY2003, the FMAP rate ranged from 50% to 77%. For the last two quarters of FY2003, the FMAP rate ranged from 53% to 80%. In FY2003, 12 states received the minimum FMAP rate for Medicaid expenditures of 50% for the first two quarters and 53% for the last two quarters. Mississippi had the highest FMAP rate at 76.62% and 79.57% for FY2003. 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 \$258 billion in FY2002, a 13.2% increase from the \$228 billion spent the previous year. Federal and state expenditures for Medicaid benefits and program administration totaled \$275 billion in FY2003, a 6.9% increase from the previous year (**Table 1**). Federal spending accounted for approximately 57% of all Medicaid expenditures during FY2002 and 59% of all Medicaid expenditures during FY2003. The remaining share was paid by state and local governments. Payments for services accounted for 89% of total Medicaid expenditures in FY2002 and 90% in FY2003. Disproportionate share hospital (DSH) payments<sup>1</sup> accounted for 6% of expenditures in FY2002 and 5% in FY2003, and program administration accounted for about 5% of total spending in both years (**Tables 3 and 4**).

**Table 1. Medicaid Spending, FY2001, FY2002, and FY2003**

(in millions of dollars)

	FY2001	FY2002	FY2003
State	\$97,994	\$111,255	\$115,134
Federal	\$129,634	\$146,308	\$160,564
Total <sup>a</sup>	\$227,628	\$257,563	\$275,262

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

<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.

a. Medicaid expenditures for the territories are not included.

Just over half of all FY2002 and FY2003 federal Medicaid spending occurred in nine states.<sup>2</sup> 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 FY2002, the federal cap on Medicaid spending for the territories was \$210 million, a 3% increase from FY2001. In FY2003 this amount increased 8% to \$226 million.

## Medicaid Spending by Category

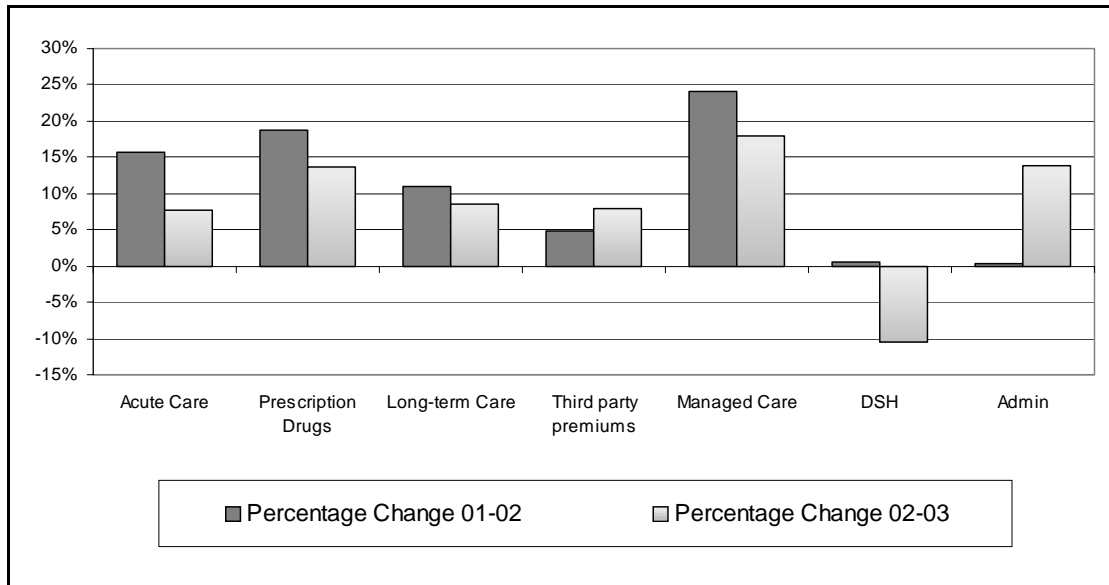
Though total Medicaid spending had annual increases of 13.2% and 6.9% for FY2002 and FY2003 over the previous year, the annual growth in Medicaid expenditures varied widely by category of expenditures and by year (**Figure 1**). For example, long-term care payments grew by approximately 10% each year and payments for Medicaid services provided by a managed care organization increased each year at approximately 21%. Other categories of spending had significant differences in the annual growth rates between the two years of analysis. For example, Medicaid administration grew by less than 1% in FY2002 over the previous year and 14% in FY2003 over FY2002.

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. 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, prescription drug).

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<sup>2</sup> The nine states, in order of spending, for FY2002 are NY, CA, TX, PA, FL, OH, IL, NC and MA. The nine states, in order of spending, for FY2003 are NY, CA, TX, PA, FL, OH, IL, MI, and NC.

**Figure 1. Annual Percentage Increase in Medicaid Expenses by Category, FY2002 and FY2003**



**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, FY2001, FY2002 and FY2003**  
(in billions)

Category of Spending <sup>a</sup>	FY2001	FY2002	FY2003
All Medicaid services <sup>b</sup>	\$200.0	\$229.7	\$247.5
— <i>Acute care</i>	\$54.3	\$62.8	\$67.7
— <i>Prescription drugs</i>	\$19.7	\$23.4	\$26.6
— <i>Long-term care</i>	\$91.7	\$102.0	\$106.3
— <i>Third-party payments</i>	\$10.5	\$10.9	\$11.8
— <i>Managed care payments</i>	\$27.7	\$34.4	\$40.5
DSH	\$15.8	\$15.9	\$14.3
Administration	\$11.8	\$11.9	\$13.5
<b>Total Expenditures</b>	<b>\$227.6</b>	<b>\$257.6</b>	<b>\$275.3</b>

**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 \$3.9 to \$5.4 billion between FY2001 and FY2003.

**Table 3. 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
District 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 <sup>a</sup>	\$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
<b>United States<sup>b</sup></b>	<b>\$229,748</b>	<b>\$15,949</b>	<b>\$11,866</b>	<b>\$257,563</b>	<b>\$130,756</b>	<b>\$8,991</b>	<b>\$6,560</b>	<b>\$146,308</b>

**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.

**Table 4. 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 Hampshire	\$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.