

Medicaid Administration and Financing

Nearly 75 million low-income Americans depend on Medicaid for health care. Medicaid covers Americans at all stages of life, including children and families, pregnant women, older adults, and people with disabilities.

Medicaid is the largest payer of health care services in the country.¹ The program is a federal-state partnership, administered by states within a federal framework and funded jointly by the federal government and states. In 2017, total Medicaid expenditures reached \$592 billion, with the federal share accounting for about 60 percent of total expenditures.¹ As the primary payer for health care and long-term care services for low-income Americans, Medicaid represents a significant portion of state and federal budgets.

Administration

While details of Medicaid programs vary from state to state, all states must meet a set of core federal requirements to receive federal funding, including minimum eligibility standards, mandatory benefits, and financial and quality reporting. The Centers for Medicare and Medicaid Services (CMS) is the federal agency responsible for establishing and enforcing the core requirements.²

Within the parameters set by federal law and CMS, states have flexibility to design a Medicaid program that they decide best meets the needs of the state and its population. States may specify program elements like additional eligibility categories, additional covered benefits, payment and delivery models (i.e., traditional fee-for-service or managed care), and provider payment rates. Each state has one or more designated agencies that administers its Medicaid program.

Financing

Medicaid is financed jointly by the federal government and states. In 2017, the Federal expenditure for Medicaid was \$370.6 billion or 63 percent of the total Medicaid annual spend.³ The federal government spends at least \$1 for every \$1 spent by states. The federal share of spending for each state is determined by a formula known as the *Federal Medical Assistance Percentage (FMAP)* or federal match. This formula provides states with lower per capita incomes more federal funds, while states with higher incomes receive a lower federal match.⁴

Medicaid's financing structure is open-ended, as federal matching funds are guaranteed for covered services for eligible beneficiaries. As a result, state decisions on eligibility and covered benefits can increase federal expenditures. While average federal spending is about 63 percent of total Medicaid expenditures, the federal share of spending is considerably higher in some states.⁵

1 Department of Health and Human Services. [2017 Actuarial Report of the Financial Outlook for Medicaid](#). September 2018.

2 Set forth in Title XIX of the Social Security Act and Title 42 of the Code of Federal Regulations

3 Ibid.

4 Unlike states, the federal share of Medicaid program expenses in the six U.S territories is set at 55%.

5 "Federal Medical Assistance Percentage (FMAP) for Medicaid and Multiplier" Kaiser Family Foundation; <https://www.kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier/?currentTimeframe=1&sortModel=-%7B%22collId%22:%22Location%22,%22sort%22:%22asc%22%7D>

A closer look at how FMAP determines federal spending by state:

- The standard FMAP is the basis for determining the federal match rate and allows states with lower per capita incomes to receive higher match rates. For example, in 2019, the federal match rate varied from a guaranteed minimum of 50 percent in states like California and Minnesota, up to 76.4 percent in states like Mississippi.⁶
- States may also receive an enhanced FMAP for specific populations or services. For example, states that expanded Medicaid under the Affordable Care Act (ACA) receive an enhanced federal match rate for the expansion population, which began at 100 percent and is phasing down to 90 percent by 2020. Congress has used enhanced FMAPs in other federal laws as well, as a means of incentivizing states to adopt certain policies and programs.
- States also receive an administrative FMAP for administering the Medicaid program, generally at a 50 percent match rate. States may receive a higher match rate for certain administrative costs such as IT investments to improve eligibility and enrollment systems.

The non-federal or state share of Medicaid funding is financed by state general revenues. State funding can come from a variety of sources—at least 40 percent must come from the state government and up to 60 percent may come from local governments.

How do states receive federal funds?

The federal government reimburses states for its share of Medicaid expenditures; states do not receive federal funds in advance. Each calendar quarter, states file projected estimates of their Medicaid expenditures with CMS for the coming quarter. Following the calendar quarter, states file adjusted statements with CMS to claim federal match on their actual expenditures. CMS then transfers amounts equal to the federal portion based on states' adjusted statements. Statements are reviewed and audited by CMS on a regular basis.

For more information on Medicaid, please refer to other briefs in AHIP's Medicaid 101 series

- [Medicaid 101 — Program Overview](#)
- [Medicaid Eligibility and Enrollment](#)
- [Medicaid Managed Care](#)
- [Medicaid Prescription Drug Coverage](#)
- [Children's Health Insurance Program \(CHIP\)](#)
- [Long Term Services and Supports \(LTSS\) in Medicaid](#)

6 Kaiser Family Foundation. [Federal Medical Assistance Percentage \(FMAP\) for Medicaid and Multiplier FY19](#).