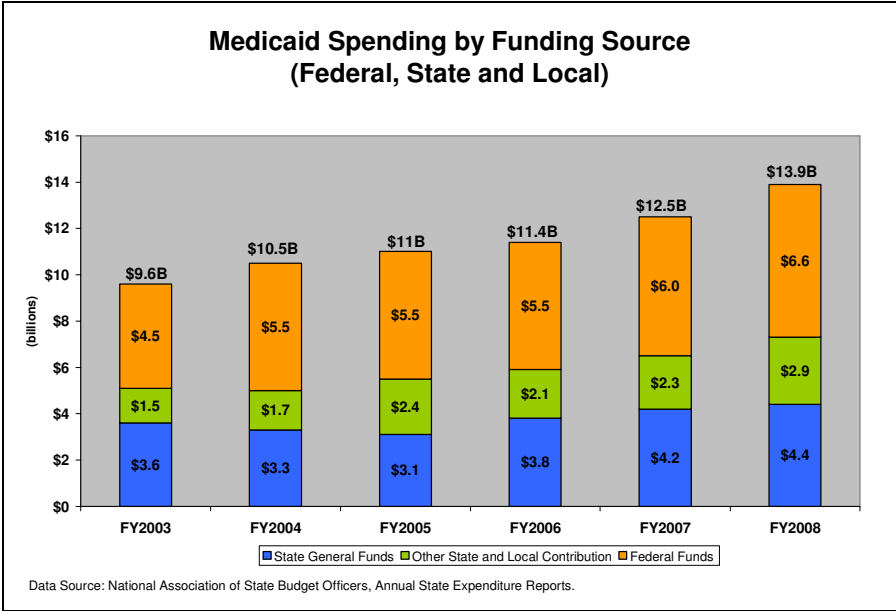




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MEDICAID’S FINANCING STRUCTURE BENEFITS ILLINOIS BY PULLING FEDERAL FUNDS INTO THE STATE’S ECONOMY

- ❖ Medicaid is financed jointly by the federal government and each state participating in the Medicaid Program.¹ Prior to the recent federal stimulus package, the cost of Illinois’ Medicaid program was shared approximately equally between the federal government and Illinois.² Under the federal stimulus bill, the federal contribution to Illinois’ Medicaid program increased from 50 percent of most Medicaid expenditures, to 61.88 percent.³
- ❖ Medicaid’s financing structure also allows the state to partner with local governments and providers to trigger federal matching funds.⁴ Illinois, like many states, has used partnerships with local governments, hospitals and nursing homes to leverage federal dollars to assist in funding the state’s portion of its Medicaid program. These contributions to Illinois’ Medicaid program from local public and private providers generate a substantial amount of additional federal matching funds without having to use additional state own-source revenue.
- ❖ The chart below reflects the annual breakdown of funding sources for the state’s Medicaid program for fiscal years 2003 through 2008.⁵ The state’s share of general fund spending on Medicaid ranged from a high of 38 percent of total Medicaid spending in 2003, to a low of 28 percent in 2005. Federal fiscal relief in the form of an increased federal matching rate in 2004 and 2005 enabled the state to decrease its contribution as a percentage of total Medicaid spending as the federal contribution expanded. The chart highlights that increased funding from the federal government and providers has enabled Illinois to decrease its percentage share of total Medicaid spending despite overall program growth.



- ❖ As the chart illustrates, in fiscal year 2008, the state spent an estimated \$13.9 billion on Medicaid.⁶ However, state general fund spending accounted for only one-third (\$4.4 billion) of total spending.⁷ Federal matching funds of \$6.6 billion and contributions from local governments and providers (\$2.9 billion) accounted for fully two-thirds of total Medicaid spending in 2008.⁸ The ability of the state to trigger federal dollars with state, local and private provider contributions allows Illinois to fund health care for many more people than it would be able to do alone.
- ❖ State and federal Medicaid spending has a positive ripple effect throughout the state and local economy. The economic impact begins with the reimbursement of direct providers for services delivered, but does not end there. As Medicaid dollars funnel through the local economy, they support wages, employment, business income, consumer spending, state tax revenue and overall economic output. In essence, Medicaid reimbursement to providers becomes, in part, the earnings of doctors, nurses, technicians, pharmacists and other staff, as well as local businesses throughout the medical industry. These earnings are then used to support mortgage payments, household and business expenses, and the purchases of goods and services in the local economies across Illinois.
- ❖ Medicaid's "multiplier effect," as economists call it, is enhanced at the state level by the program's financing structure. Federal matching funds are dollars injected into the local economy that would not come into the state but for state Medicaid spending.
- ❖ If state Medicaid spending is cut, Illinois will lose federal matching dollars. With the higher matching rate under the American Recovery and Reinvestment Act (ARRA), if the state cuts state Medicaid spending by \$10 million, it will lose an estimated \$16.2 million in federal matching funds, resulting in a net cut to Illinois' Medicaid program of approximately \$26.2 million.
- ❖ Despite the fast-pay provisions under ARRA, the positive economic impact of Medicaid spending on the state's economy is mitigated somewhat by Illinois' chronic payment delays to Medicaid providers. Because of the state's severe annual budget deficits, it has resorted to holding back Medicaid vendor payments for months after services have been delivered. This puts an enormous financial strain on private sector health care providers that serve Medicaid patients, sometimes forcing them to borrow to cover their own business costs while waiting for reimbursement. The state's unpaid Medicaid bills totaled \$2.1 billion at the end of fiscal year 2008.⁹
- ❖ Cuts in Illinois' Medicaid program would push thousands of impoverished people into the ranks of the uninsured, leaving them without access to health care. As a result, hospital and other providers around the state would be forced to bear the cost of providing additional charity and uncompensated care to the newly uninsured. In addition, reductions in Medicaid would reduce the flow of dollars to health care providers, reducing employment, family and business income, state tax revenue and general economic output.

For more detailed information, contact Heather O'Donnell, Policy Director for Healthcare and Human Services at (312) 332-1348 or hodonnell@ctbaonline.org.

¹ Currently all states participate in the Medicaid program.

² 42 USC §1396d(b).

³ Families USA, http://www.familiesusa.org/assets/pdfs/how-much-does-my-state-get-09-10_fmap_may-7.pdf.

⁴ 42 USC §1396a.

⁵ National Association of State Budget Officers, State Expenditure Reports, 2003 – 2008.

⁶ National Association of State Budget Officers, "2007 State Expenditure Report" (2008 Medicaid spending estimate).

⁷ *Id.*

⁸ *Id.*

⁹ Illinois State Comptroller, Section 25 Deferred Liabilities.