



**COLORADO FISCAL
POLICY INSTITUTE**

Justice and Economic Security for all Coloradans

**Detailed Explanation of Colorado's FMAP
Under the American Recovery and Reinvestment Act
February 19, 2009**

The American Recovery and Reinvestment Act (ARRA) provides a total of \$87 billion for a temporary increase in the share of Medicaid that the federal government pays, otherwise known as the Federal Medical Assistance Percentage (FMAP). The enhanced FMAP will be available to states October 1, 2008 through December 31, 2010, a total of nine quarters. Over the nine quarters, Colorado is expected to receive an estimated \$880 million. Broken down by fiscal year, Colorado will see an additional \$250 million in FY2009, \$430 million in FY2010 and \$220 in FY2011.¹ In order to receive the enhanced FMAP, however, Colorado must maintain eligibility levels as of July 1, 2008.

Under the ARRA, all states are eligible to receive a base increase in their FMAP of 6.2 percentage points. States corresponding share of cost is decreased by 6.2 percentage points so that: State share = 100 – (Federal share + 6.2). For those states that were scheduled to see a reduction in their FMAP after 2008, a hold harmless provision temporarily freezes that reduction. Colorado already has the lowest FMAP rate possible at 50 percent, so there was no reduction anticipated in Colorado.

In addition to the base increase, Colorado could receive additional FMAP based on the increase in the state's unemployment. This additional assistance works by reducing the state's share of cost by a certain percentage which is applied after the base increase. The additional assistance reduces the share of Medicaid the state pays by a given percentage. There are three levels of additional assistance depending on how much unemployment has increased in the state. The base period for determining the increase in unemployment is the lowest average monthly unemployment rate during any three month period after January 1, 2006. The table below breaks down the unemployment tiers and corresponding additional FMAP assistance.

Additional Relief Based on Unemployment

Unemployment rate increase above lowest unemployment base period	Additional FMAP
1.5-2.5 percentage points	5.5 percent
2.5-3.5 percentage points	8.5 percent
3.5+ percentage points	11.5 percent

¹ Lay, Iris, et. al., "Recovery Act Provides Much-Needed, Targeted Medicaid Assistance to States," February 13, 2009, www.cbpp.org.

Colorado’s most recent three-month average unemployment rate is 5.9 percent; the lowest three month average since January 1, 2006 was 3.5 percent.² The 2.4 percentage point difference places Colorado in the first tier (5.5 percent) for additional FMAP. However, if the state’s unemployment continues to rise, as is expected, the level of additional assistance received can be adjusted accordingly.

The formula for applying the additional unemployment based increases is somewhat complicated because it is not a straight percentage point increase over the base. The table below applies the various increases to Colorado’s FMAP. A methodology follows.

Colorado FMAP under various unemployment scenarios

Current FMAP	50 percent
Base Increase	6.2 percentage points
Colorado FMAP plus base increase	56.2 percent
Colorado share of cost with base increase	43.8 percent
Colorado FMAP, 1.5-2.5 percentage point increase in unemployment (5.5% additional FMAP)	58.8 percent
Colorado FMAP, 2.5-3.5 percentage point increase in unemployment (8.5% additional FMAP)	60.2 percent
Colorado FMAP, 3.5+ percentage point increase in unemployment (11.5% additional FMAP)	61.6 percent

Methodology³: The following is an explanation of how to calculate the state’s additional FMAP assistance in cases of high unemployment. Colorado’s FMAP is 50 percent. After application of the base increase, its FMAP is 56.2 percent. The ARRA requires application of the various levels of additional assistance to the state share after half the base increase is calculated. Half of the base increase brings Colorado’s FMAP to 53.1 percent, making the state’s share 46.9 percent. Thus, a 5.5 percent reduction in the state’s share equals 2.6 percentage points. Thus, if Colorado experiences an increase in unemployment between 1.5 and 2.5 percentage points above the base period, then its FMAP would be equal to 58.8 percent (56.2 + 2.6). Similarly, an 8.5 percent reduction in the state’s share equals 4 percentage points bringing the FMAP to 60.2 percent if state unemployment increases 2.5-3.5 percentage points. If state unemployment rises over 3.5 percentage points, then Colorado would see a reduction in state share of Medicaid of 5.4 percentage points, bringing the FMAP to 61.6 percent.

² Colorado Department of Labor and Employment. Unemployment for the most recent three months was 6.1 percent for January 2009, 5.9 percent in December 2008, and 5.7 percent in November 2008. Unemployment was 3.8 percent in March 2007, 3.4 percent in April 2007, and 3.3 percent in May 2007.

³ Lay, Iris, et. al., “Recovery Act Provides Much-Needed, Targeted Medicaid Assistance to States,” February 13, 2009, www.cbpp.org. See also, text of American Recovery and Reinvestment Act, starting at page 510, http://www.house.gov/billtext/hr1_legtext_crb.pdf.