

GAO Highlights

Highlights of [GAO-13-434](#), a report to congressional requesters

Why GAO Did This Study

Medicaid is the largest federal program assisting states in financing medical and health-related services for certain low-income individuals. States and the federal government share in the financing of the Medicaid program, with the federal government matching most state expenditures for Medicaid services on the basis of a statutory formula known as the FMAP, which is based solely on state PCI in relation to national PCI. Prior GAO work has raised concerns about the FMAP, noting that PCI does not accurately represent states' populations in need of Medicaid services or states' ability to finance services, and does not account for geographic cost differences among states. GAO was asked to examine ways to improve the allocation of Medicaid funding.

GAO considered whether available data sources could be used to develop measures to more equitably allocate Medicaid funding. To do so, GAO reviewed its prior reports and other studies, examined data sources produced by federal agencies, and illustrated how selected data could be used to develop measures to allocate Medicaid funding. GAO based its analysis on commonly used equity standards and focused its efforts on readily available data sources, which are not inclusive of all possibilities.

The Department of Health and Human Services provided technical comments, which GAO incorporated as appropriate.

View [GAO-13-434](#). For more information, contact Carolyn L. Yocom at (202) 512-7114 or yocomc@gao.gov.

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MEDICAID

Alternative Measures Could Be Used to Allocate Funding More Equitably

What GAO Found

GAO identified multiple data sources that could be used to develop measures to allocate Medicaid funding to states more equitably than the current funding formula—known as the Federal Medical Assistance Percentage (FMAP)—which is based solely on per capita income (PCI). To be equitable from the perspective of beneficiaries and allow states to provide a comparable level of services to each person in need, a funding allocation mechanism should take into account the demand for services in each state and geographic cost differences among states. To be equitable from the perspective of taxpayers, an allocation mechanism should ensure that taxpayers in poorer states are not more heavily burdened than those in wealthier ones, by taking into account state resources. To illustrate, GAO identified at least one federal data source that could be used to develop measures of each of these aspects, in order to allocate Medicaid funding more equitably.

- **Demand for services.** A measure of the demand for Medicaid services should account for both the size of the target population in need of services and the health services needs of that population. Nationally representative federal surveys, such as the U.S. Census Bureau's American Community Survey (ACS) and Current Population Survey (CPS), are available data sources that can be used to directly estimate the number of persons residing in each state with incomes low enough to qualify them as potentially in need of Medicaid services. These estimates can then be adjusted to reflect variation in health services needs within the identified population, using additional information collected in the surveys or from data sources external to the surveys, such as Medicaid data on enrollment or spending.
- **Geographic cost differences.** A measure of geographic cost differences should account for all components of health care costs, including the cost of the personnel who provide services, which represents the greatest share of costs. National data that can be used to estimate average wages for health care personnel by state include the Occupational Employment Statistics survey conducted by the Bureau of Labor Statistics.
- **State resources.** A measure of state resources should account for all income—regardless of whether the state taxes the income or not. While PCI includes the personal income of state residents, it excludes other taxable income, such as undistributed corporate profits. In contrast, the Total Taxable Resources (TTR) measure, as generated by the Department of the Treasury from multiple data sources, comprises not only the income included in PCI but also other significant sources of taxable income. As a result, nationwide, the TTR measure of income was 42 percent larger on a per capita basis than PCI in 2010, and provided a more comprehensive measure of state resources.

GAO's analysis shows that measures of the demand for services, geographic cost differences, and state resources can be combined in various ways to provide a basis for allocating Medicaid funds more equitably among states.