

# WHAT IS THE ACTUAL STATE COST OF MASSHEALTH IN STATE FISCAL YEAR 2022?

MassHealth is 36 percent of the total state budget, but 22 percent if you count only state dollars.

NOVEMBER 2021

## SUMMARY

MassHealth, the name for Massachusetts' Medicaid program and the Children's Health Insurance Program (CHIP), currently provides health benefits to more than 2 million residents of the Commonwealth. This publicly funded health insurance program directly touches the lives of more than one out of every four Massachusetts residents, including about 40 percent of people under age 21.<sup>1</sup>

MassHealth provides health insurance for children in low-income households, low wage workers, older adults in nursing homes, people with disabilities, and others with very low incomes who cannot afford insurance.<sup>2</sup> The MassHealth program plays a central role in ensuring access to coverage for people of color in the Commonwealth, as Black and Brown residents of Massachusetts are more likely to work in lower paying jobs and experience periods of instability in health insurance coverage.<sup>3</sup> This makes MassHealth a critical backstop that protects the health and financial stability of these families.

MassHealth has been especially important over the course of the COVID-19 pandemic, with coverage expanded to include prevention, testing, and treatment of COVID-19 without requiring members to share the cost.<sup>4</sup> In addition, during the economic downturn, MassHealth has been a critical health insurance safety net as businesses closed and unemployment rose. Most notably, MassHealth enrollment has increased by nearly 350,000 members (or almost 20%) since March 2020 when the governor declared a state of emergency.<sup>5</sup> MassHealth has provided important health and financial stability to people during this public health crisis and in this time of economic insecurity.

Not surprisingly, such a comprehensive program accounts for a large share of the state's budget. However, Medicaid is a "partnership" between the state and federal governments. Both the state and federal governments pay for a specific portion of MassHealth services (see callout box). The federal government covers more than half of the cost of MassHealth overall, and for some specific services, the federal government even pays the full cost. Yet, the extent of federal funding is not evident from a first look at the MassHealth budget.

## TOTAL STATE SPENDING

In state fiscal year (SFY) 2022, the state expects to spend approximately \$19.2 billion on MassHealth.<sup>6,7</sup> This total (or "gross") amount is approximately 36 percent of total estimated state spending for SFY 2022. The federal government reimburses Massachusetts for more than half of this spending, so the state's cost for MassHealth ("net of"—or minus—federal revenue) is \$8.5 billion. This net cost is only 22 percent of the total state spending net of federal revenue.

## FEDERAL REIMBURSEMENT PERCENTAGES DURING SFY 2022<sup>8</sup>

The Federal Medicaid Assistance Percentage (FMAP) is the portion of a state's total Medicaid spending that the federal government reimburses. Since the beginning of SFY 2022, the FMAP for most MassHealth expenditures has been 56.2%. This reimbursement includes a temporary 6.2 percentage point increase initiated during the COVID-19 public health emergency (see callout box on page 2), which as of now will extend at least through December 2021. After that, the FMAP for most MassHealth expenditures will return to 50%. There are key exceptions to this basic FMAP such as:

- 69.3% – Spending on children in the Children's Health Insurance Program (CHIP) and on the Breast and Cervical Cancer Treatment Program. Because of the way FMAP is calculated for these programs, the temporary FMAP increase associated with the COVID-19 public health emergency amounts to a 4.34 percentage point increase above their usual 65% FMAP. When the public health emergency expires, the FMAP rate for these programs will return to 65%. An additional 11.5 percentage point increase for CHIP associated with the Affordable Care Act, which was in place prior to the pandemic, expired on September 30, 2020.
- 75% – Spending on ongoing operational costs for claims and eligibility systems.
- 90% – Spending on members covered under the Affordable Care Act's Medicaid expansion.<sup>9</sup>
- 90% – Spending on design of claims and eligibility systems and on family planning services.

FIGURE 1:  
SFY 2022 TOTAL  
STATE SPENDING

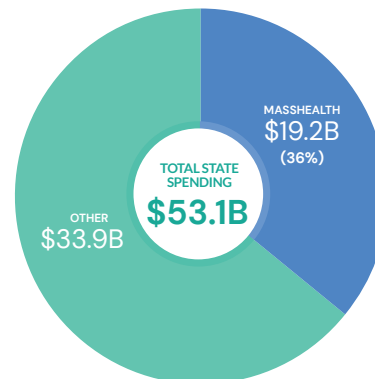
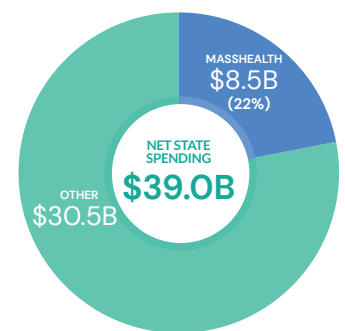


FIGURE 2:  
SFY 2022 TOTAL STATE  
SPENDING NET OF  
FEDERAL REVENUE

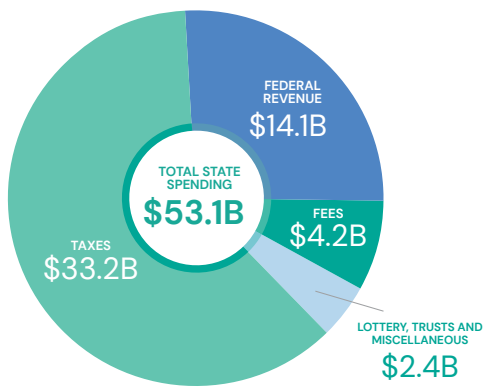


### CALCULATING NET STATE COST

The state budget relies on revenues of four types:

- Tax Revenues:** The SFY 2022 budget assumes \$33.2 billion in tax revenues. This total includes the tax revenues that directly support spending included in the budget totals (such as sales tax revenues to support spending at the MBTA or tobacco excise revenues supporting operations at the Health Connector, the state’s health insurance marketplace).
- Federal Revenues:** The SFY 2022 budget assumes \$14.1 billion in federal revenues. MassHealth is by far the largest source of federal revenues in the state budget, accounting for close to \$12.5 billion of the total. Much of the other federal revenues used to support the state budget comes through the federal block grants for child care and transitional assistance for families.
- Fees and Other Departmental Revenues:** The SFY 2022 budget assumes \$4.1 billion from a wide range of departmental revenues – mostly fees, fines, and assessments. For example, assessments on health care providers, premiums paid by MassHealth members, and rebates received from pharmaceutical companies are among the most significant departmental revenues. About half of all departmental revenues support the state’s health care spending.
- Lottery, Trusts, and Miscellaneous:** The SFY 2022 budget assumes \$2.4 billion in other revenues transferred from the lottery and assorted trusts.

FIGURE 3:  
FINANCING THE STATE BUDGET



The cost of MassHealth – or for that matter any state spending – can be thought of in two ways. The “total cost” (or “gross cost”) is the total amount spent on the program each year financed with state and federal revenue. The “net state cost,” on the other hand, includes only the share paid with state revenues. Table 1 shows MassHealth and total budget costs net of (or minus) federal revenue. Since health care provider assessments and drug rebates are also important for financing the MassHealth program, the table also shows the amounts net of fees, assessments, and other departmental revenues as well as net of federal revenues.

### INCREASED FEDERAL MEDICAID FUNDING DURING THE COVID-19 PANDEMIC

On March 18, 2020, Congress passed the Families First Coronavirus Response Act (FFCRA). The second of six major pieces of federal COVID-19 relief legislation, the FFCRA included a 6.2 percentage point increase in the basic Federal Medicaid Assistance Percentage (FMAP). As happened during the Great Recession, the federal government increased the Medicaid reimbursement rate as a mechanism to quickly distribute federal fiscal relief to states. FFCRA increased the basic Massachusetts FMAP from 50% to 56.2%. The temporary FMAP increase associated with the COVID-19 public health emergency amounts to a 4.34 percentage point increase in the FMAP for the Children’s Health Insurance Program (which typically has an FMAP of 65%). The increase was retroactive to January 1, 2020, and the legislation stated it would extend throughout the nationally declared public health emergency.

The enhanced FMAP had two important impacts: It recognized and helped pay for the expanded health care costs associated with the pandemic, and it provided necessary (although limited in scale) flexible fiscal relief for the state as the economy shut down and tax revenues plummeted.<sup>10</sup> To receive this funding increase the state could not make eligibility more restrictive or disenroll members unless a member moved out of state or voluntarily withdrew from the program, and the state could not exclude coverage of COVID-19 testing and treatment.<sup>11</sup>

Initially, Massachusetts anticipated that this enhanced FMAP would bring in a total of about \$1.08 billion in additional federal funding for use in the fiscal year 2020 and 2021 budgets.<sup>12</sup> In January 2021, when President Biden took office, he announced that states could expect the enhanced FMAP from FFCRA to continue through at least December 2021.<sup>13</sup> As of now and with this expanded timeframe, Massachusetts is expecting as much as \$2.08 billion in increased federal funding overall.<sup>14</sup> The administration has noted that the increase in FMAP has been sufficient to cover the costs so far from MassHealth’s enrollment growth through the COVID-19 pandemic. The current SFY 2022 budget assumes that the FFCRA FMAP increase will expire in December 2021 and that MassHealth enrollment will decline with the termination of the national public health emergency, when the state can once again resume processing eligibility redeterminations and as the economy continues to improve.<sup>15</sup>

TABLE 1. FISCAL YEAR 2022 TOTAL AND NET SPENDING (BILLIONS)

DESCRIPTION	TOTAL (GROSS)	TOTAL NET OF FEDERAL REVENUE	TOTAL NET OF FEDERAL AND DEPARTMENTAL REVENUE
TOTAL BUDGET	\$53.08	\$38.96	\$34.79
MASSHEALTH (PROGRAM AND ADMINISTRATION)	\$19.17	\$8.51	\$6.90
MASSHEALTH (PROGRAM AND ADMINISTRATION) SHARE OF TOTAL BUDGET	36%	22%	20%

Because the federal government reimburses the state for so much of its MassHealth spending, it is necessary to account for this federal and state Medicaid partnership to understand the actual state cost of this essential and comprehensive program.

## ENDNOTES

- 1 MassHealth, “MassHealth caseload snapshot and enrollment summary – September 2021,” <https://www.mass.gov/lists/masshealth-measures#2021-masshealth-monthly-caseload-reports->. Population calculations based on 2020 state population estimates and 2019 ACS 1-Year Estimates from U.S. Census Bureau, available at [data.census.gov](https://data.census.gov).
- 2 Blue Cross Blue Shield of Massachusetts Foundation, MassHealth: The Basics – Facts and Trends, October 2020, <https://www.bluecrossmafoundation.org/publication/masshealth-basics-facts-and-trends-october-2020>.
- 3 See, for example, Economic Policy Institute’s State of Working America Data Library, [https://www.epi.org/data/#?subject=wage-avg&tr=\\*](https://www.epi.org/data/#?subject=wage-avg&tr=*). See also Mass. Center for Health Information and Analysis, Findings from the 2019 Massachusetts Health Insurance Survey, Tables B-2.3, B-3.3, April 2020, <https://www.mass.gov/info-details/masshealth-covid-19-guidance-for-all-providers>.
- 4 See MassHealth “All Provider Bulletins” at <https://www.mass.gov/info-details/masshealth-covid-19-guidance-for-all-providers>, especially numbers 289, 294, 296, 304. See also BCBSMA Foundation, Promoting Access to Care and Coverage During a Public Health Crisis: COVID-19–Related Changes Affecting MassHealth, Health Connector, and Health Safety Net, May 2021, <https://www.bluecrossmafoundation.org/publication/promoting-access-health-care-and-coverage-during-public-health-crisis-covid-19%E2%80%93related>.
- 5 MassHealth, “MassHealth caseload snapshot and enrollment summary – September 2021.”
- 6 Please note that due to rounding, some numbers in this brief may not appear to add exactly to the totals shown.
- 7 MassHealth typically uses only program expenditures (gross and net) in public-facing materials; this analysis also includes additional administrative accounts and revenue codes. The MassBudget state budget total is higher than typically presented by the state as it includes spending allocated prior to the legislative appropriations process (e.g., tobacco excise tax allocated for spending on health care). MassBudget makes parallel adjustments in accounting for state revenues. For details, see “Where Do MassBudget’s Numbers Come From?” available at <https://www.massbudget.org/reports/pdf/Where%20do%20MassBudgets%20Numbers%20Come%20From.pdf>.
- 10 Matt Stout, “April’s state tax revenue falls 50 percent from 2019, underlining pandemic’s pull,” Boston Globe, May 5, 2020, <https://www.bostonglobe.com/2020/05/05/nation/april-state-tax-revenue-drops-by-50-percent-2019-underlining-pandemics-pull/>.
- 11 Centers for Medicare & Medicaid Services, “COVID-19 FAQs for State Medicaid and CHIP Agencies,” pp. 114–117.
- 12 Matt Murphy, “Congress Passes Bill with \$1 Billion for MassHealth,” March 19, 2020, <https://www.statehousenews.com/news/2020521>.
- 13 Norris Cochran, Letter from the Secretary of Health and Human Services, January 22, 2021, <https://ccf.georgetown.edu/wp-content/uploads/2021/01/Public-Health-Emergency-Message-to-Governors.pdf>.
- 14 See Massachusetts Executive Office for Administration and Finance, “About COVID-19 Federal Funding,” <https://www.mass.gov/info-details/about-covid-19-federal-funds>.
- 15 Author’s private communication with administration officials and Massachusetts Governor’s Budget FY2022 Recommendations, “Governor’s Fiscal Health and Prospects,” <https://budget.digital.mass.gov/govbudget/fy22/fiscal-health-and-prospects>.