

# Medicaid: The Basics

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## The Issue

Since its creation in 1965, Medicaid has evolved from a small welfare program to the nation's single largest health insurer, covering over 66 million people—one in five Americans—in a given month, including one-third of all children and nearly half of all births.<sup>1</sup> The \$565 billion program constitutes 17 percent of health expenditures nationally and serves as the largest single payer for long-term care, behavioral health services, and maternity care in the country.<sup>2</sup> It is the largest payer and the biggest source of federal revenue in states.<sup>3</sup> This brief outlines the basics of the Medicaid program for new state policymakers in order to lay the groundwork for considering the challenges and opportunities that lie ahead.

## Medicaid Financing

Medicaid is governed by a unique partnership in which states and the federal government share responsibility for program design, operations, and costs. Each state administers its own Medicaid program according to federal guidelines. In return, federal funds match state dollars to pay for Medicaid-covered services. Generally, the federal matching rate **ranges** from 50 percent to 76 percent.<sup>4</sup> Certain **programs and services** receive a higher federal match, including: family planning services (90 percent); **Health Home** services (90 percent); care provided in Indian Health Service facilities (100 percent); and care for low-income adults enrolled through state Medicaid expansion programs (93 percent in 2019 and 90 percent in 2020 and beyond).<sup>5</sup>

To pay the nonfederal share of Medicaid costs, states primarily rely on state general funds collected through sales and income taxes.<sup>6</sup> States also **finance** the program through intergovernmental transfers, using funds transferred within the state or between state and local governments (i.e., by using local tax revenue), and taxes or assessments on health plans and providers. These taxes are capped at six percent of a provider's net patient revenues, and must be levied uniformly on all providers in a class.

## Federal Medicaid Rules

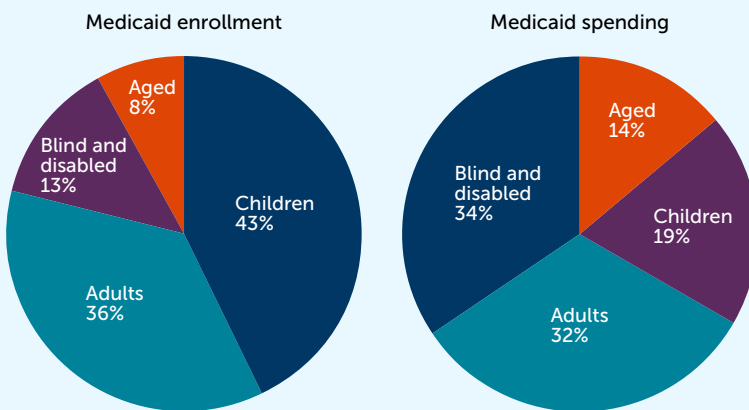
To qualify for federal matching funds, states must operate their Medicaid programs consistent with federal Medicaid law and file a State Plan and State Plan Amendments with the Centers for Medicare and Medicaid Services (CMS) **outlining** state rules and operating protocols for program administration. States seeking to test program features otherwise barred by federal Medicaid law may seek CMS approval to waive the applicable provisions under Section 1115 of the Social Security Act—also known as Section 1115 or Medicaid demonstration waivers. While CMS has broad discretion in approving waivers, it is not limitless: CMS may only approve a waiver if it finds that the waiver would advance the objectives of the Medicaid program. Currently, 46 states have **approved** Section 1115 waivers.<sup>7</sup> These waivers permit states, among other things, to test new health care delivery models; cover interventions that address social determinants of health; expand coverage for substance use disorder (SUD) treatment; and impose additional conditions on Medicaid coverage, such as premiums.

## Medicaid Eligibility and Benefits

Federal rules provide minimum standards for Medicaid eligibility and coverage. All Medicaid programs must cover low-income children, parents, pregnant women, elderly adults, and individuals with disabilities. To date, [37 states](#), including the District of Columbia, have also opted to expand eligibility to include adults with incomes up to 138 percent of the Federal Poverty Level under the Affordable Care Act (ACA). In 2018, Medicaid enrollment included 30 million children, six million seniors, 11 million people with disabilities, as well as 12.6 million adults eligible through Medicaid expansion programs.<sup>8</sup> Despite making up the smallest share of enrollees, the aged and disabled beneficiaries account for the largest portion—48 percent—of Medicaid costs (Figure 1).<sup>9</sup>

Reflecting the health care needs of the low-income and medically complex people Medicaid covers, federal law requires states to provide a comprehensive benefit package that includes medical services and nonemergency transportation to health care services and appointments.<sup>10</sup> For children under 21, Medicaid’s [Early and Periodic Screening, Diagnostic, and Treatment \(EPSDT\)](#) benefit covers medical, vision, hearing, dental screenings, and any medically necessary treatment services (regardless of whether a state covers such services for

**Figure 1. Enrollment and Spending in Medicaid**



Source: Spending and enrollment estimates for FY2015 from the Congressional Budget Office's March 2016 Medicaid baseline. Figures may not sum to 100 percent due to rounding.

adults). For adults and children, states may elect to provide additional [optional](#) benefits, such as prescription drugs, case management, personal care, and dental care. Unlike Medicare and most commercial plans, Medicaid also covers [long-term services and supports](#) provided in nursing homes or home and community-based settings.<sup>11</sup>

## Conclusion

Each state Medicaid program is different, reflecting states' diverse health care landscapes and economic, policy, and political priorities. Yet, there are common issues that have implications for state economies, Medicaid beneficiaries, and the future of the program. The briefs that follow in this series call out some of the issues that merit policymakers' immediate attention.

For more information on the Medicaid program structure, please refer to the resources below.

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## Additional Resources

### Resources on the Basics of Medicaid

- MACPAC. *MACStats: Medicaid and CHIP Data Book*. DC: MACPAC; 2018. [www.macpac.gov/wp-content/uploads/2018/12/December-2018-MACStats-Data-Book.pdf](http://www.macpac.gov/wp-content/uploads/2018/12/December-2018-MACStats-Data-Book.pdf).
- Medicaid 101. Medicaid and CHIP Payment and Access Commission (MACPAC) website. [www.macpac.gov/medicaid-101](http://www.macpac.gov/medicaid-101).
- Rudowitz, R. 10 Things About Medicaid: Setting the Facts Straight. Henry J. Kaiser Family Foundation. April 2018. <http://files.kff.org/attachment/Issue-Brief-10-Things-to-Know-about-Medicaid-Setting-the-Facts-Straight>.

### Resources on Medicaid Authorities and Programs

- Antonisse, L., Garfield, R., Rudowitz, R., Artiga, S. The Effects of Medicaid Expansion under the ACA: Updated Findings from a Literature Review. Henry J. Kaiser Family Foundation. March 2018. [www.kff.org/medicaid/issue-brief/the-effects-of-medicaid-expansion-under-the-aca-updated-findings-from-a-literature-review-march-2018](http://www.kff.org/medicaid/issue-brief/the-effects-of-medicaid-expansion-under-the-aca-updated-findings-from-a-literature-review-march-2018).
- Federal Policy Guidance. Center for Medicaid & CHIP Services (CMS) website. [www.medicaid.gov/federal-policy-Guidance/index.html](http://www.medicaid.gov/federal-policy-Guidance/index.html).
- State Overviews. CMS Medicaid website. [www.medicaid.gov/state-overviews](http://www.medicaid.gov/state-overviews).

### Resources on Medicaid State Administration and Financing

- Distribution of State General Fund Expenditures: SFY 2016. Henry J. Kaiser Family Foundation website. [www.kff.org/other/state-indicator/distribution-of-general-fund-spending](http://www.kff.org/other/state-indicator/distribution-of-general-fund-spending).
- MACPAC. *The Impact of State Approaches to Medicaid Financing on Federal Medicaid Spending*. DC: MACPAC; 2017. [www.macpac.gov/wp-content/uploads/2017/07/The-Impact-of-State-Approaches-to-Medicaid-Financing-on-Federal-Medicaid-Spending.pdf](http://www.macpac.gov/wp-content/uploads/2017/07/The-Impact-of-State-Approaches-to-Medicaid-Financing-on-Federal-Medicaid-Spending.pdf).
- Medicaid State Fact Sheets. Henry J. Kaiser Family Foundation website. September 2018. [www.kff.org/interactive/medicaid-state-fact-sheets](http://www.kff.org/interactive/medicaid-state-fact-sheets).

### Resources on Medicaid Trends

- Anthony, S., Bachrach, D., et al. Manatt on Medicaid: 10 Trends to Watch in 2018. Manatt Health. January 2018. [www.manatt.com/Insights/White-Papers/2018/Manatt-on-Medicaid-10-Trends-to-Watch-in-2018](http://www.manatt.com/Insights/White-Papers/2018/Manatt-on-Medicaid-10-Trends-to-Watch-in-2018)
- Mann, C., Bachrach, D., Osius, E. Medicaid at 50: The Program's Evolution and Future. The Commonwealth Fund. September 2015. [www.manatt.com/Insights/White-Papers/2015/Medicaid-at-50-The-Program%E2%80%99s-Evolution-and-Future](http://www.manatt.com/Insights/White-Papers/2015/Medicaid-at-50-The-Program%E2%80%99s-Evolution-and-Future).

## Endnotes

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5. Rudowitz, R. Understanding How States Access the ACA Enhanced Medicaid Match Rates. Henry J. Kaiser Family Foundation. September 2014. [www.kff.org/medicaid/issue-brief/understanding-how-states-access-the-aca-enhanced-medicaid-match-rates](http://www.kff.org/medicaid/issue-brief/understanding-how-states-access-the-aca-enhanced-medicaid-match-rates).
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11. Bachrach, D., Boozang, P., Traub, A.