Policy Summary: Reducing Enhanced FMAP/FMAP Floor

Proposals Under Review

FMAP for Expansion

This policy would eliminate enhanced FMAP for expansion populations from 90% to states' traditional FMAP percentage.

Estimated Ten-Year Savings (2025-2034) - House Republicans' Estimated Savings: $561B; CBO Score: $604B [1]

FMAP Floor

This policy would reduce FMAP from 50% to 40-45%.

House Estimated Savings: $387B, $8B for D.C.; CBO Score: $530B [1]

Background

The Federal Medical Assistance Percentage (FMAP) determines the federal funding that states receive to support Medicaid beneficiaries, with rates varying based on each state's per capita income. The FMAP has a statutory minimum of 50%, ensuring wealthier states still receive federal support. States are eligible for an enhanced FMAP of 90% for Medicaid expansion enrollees.

One proposed policy change recommends phasing down the enhanced 90% FMAP for Medicaid expansion populations and aligning it with each state's standard FMAP rate. This change could significantly impact states that have expanded Medicaid. Additionally, several states (as noted under "Key Considerations" section below) have expansion "trigger" laws" that would automatically terminate coverage for expansion populations if the match rate fell below 90%.

Another proposal under review seeks to reduce the FMAP floor from 50% to 40-45%, directly impacting both the District of Columbia and high-income states that currently receive the statutory minimum FMAP of 50%, including Connecticut, Massachusetts, New York, New Jersey, Maryland, New Hampshire, Washington, California, and Colorado. Because wealthier states already receive the lowest FMAP, they bear a larger share of Medicaid costs relative to the federal contribution. Lowering the FMAP floor would further widen this gap, requiring these states to fully compensate for the reduced federal funding with state funds. A mandatory change in the federal matching structure would require a directive from Congress.

The District of Columbia's FMAP has been statutorily set at 70% since 1998. This proposal would eliminate this codification and reduce it in connection with proposed changes to reduce the FMAP floor. The District of Columbia has high income disparities based on a high average income from top earners alongside populations below the federal poverty level. The high average would drive down its FMAP, likely below the existing 50% floor, causing significant shortfalls.

[1] https://www.politico.com/live-updates/2025/01/13/congress/gop-sweeping-budget-cuts-00198940

Historical Traction

The Affordable Care Act (ACA), signed into law in 2010, aimed to provide a path to universal coverage by requiring states to expand Medicaid eligibility to individuals with incomes up to 133% of the FPL. To facilitate this expansion, the ACA offered significant federal financial incentives, including a 90% matching rate for the newly Medicaid-eligible populations, compared to the traditional FMAP of around 50% for other Medicaid beneficiaries. However, in 2012, the Supreme Court ruled in *National Federation of Independent Business v. Sebelius* that Congress could not compel states to expand Medicaid, effectively making the expansion a state-by-state decision. During the same period, amendments to the Patient Protection and Affordable Care Act were introduced in Congress seeking to lower the FMAP floor from the existing statutory requirement of 50%. This proposal received significant opposition from a coalition of governors, state legislators, and healthcare advocacy groups.

Additionally, the 2018 budget proposal from the Trump administration included recommendations to modify the structure of federal Medicaid funding, including enhanced FMAP. While otherwise vague, the overarching narrative suggested a willingness to reconsider how federal matching rates are determined.

Key Considerations

FMAP for Expansion

- **Potential Unwinding of Medicaid Expansion**
  States may choose to unwind Medicaid expansion if the financial burden becomes too overwhelming, potentially pushing individuals toward private market insurance options.

- **Trigger Laws and Immediate Responses**
  Medicaid expansion trigger laws are designed to automatically end or modify coverage if the FMAP drops below the pre-determined threshold. This places financial burdens on hospitals and providers who may need to absorb the costs of uncompensated care for individuals who can no longer access Medicaid services. Additionally, these laws may be activated by state budget constraints, where financial pressures compel states to reduce or eliminate Medicaid expansion benefits. There are nine states with Medicaid expansion trigger laws: Arizona, Utah, Montana, Arkansas, Illinois, Indiana, New Hampshire, Virginia, and North Carolina. Most of the nine states' triggers activate if federal funding falls below the 90% threshold (or 80% for Arizona). Notably, Iowa, Idaho, and New Mexico require their governments to mitigate the financial impact of losing federal Medicaid expansion funding but do not automatically end expansions.

- **Lowering Medicaid Expansion Income Limits**
  Lowering Medicaid expansion income limits to 100% of the FPL may push beneficiaries into the private marketplace, potentially making coverage for these enrollees less comprehensive and more expensive.

FMAP Floor

- **Significant Implications for States**
  The proposed reduction in the FMAP floor would target wealthier states with higher incomes. Although it may appear to be a minor adjustment, a 2%-point reduction in the FMAP floor could lead to millions of dollars in additional costs, impacting state budgets and providers.

- **Implementation Challenges**
  Efforts required by CMS and states to implement the proposed reductions in FMAP, including reprogramming the Medicaid Management Information System (MMIS), could be extensive and administratively burdensome.

Scenarios Under Review

FMAP for Expansion

- **Eliminate the Enhanced FMAP Rate**
  - Proposed to control overall federal Medicaid spending, refocus resources on traditional enrollees, encourage private insurance and ensure more equitable distribution of federal funds by equalizing reimbursement rates.

FMAP Floor (Special Treatment for D.C.)

- **Reduce FMAP floor from 50% to 40-45%**
  - Proposes to reduce the federal FMAP floor of 50% to 45%, which would impact several wealthier blue states, or to reduce floor to 40% which would specifically impact the District of Columbia.