Study Snapshot:

Understanding the Tax Burden of Financing Medicaid with a Matching Grant

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key findings

- Following the intention of the matching grant, of the total $305 billion spent on Medicaid in 2004, $29.9 billion of the federal Medicaid tax burden was redistributed, with higher-income states helping to fund Medicaid in lower-income states.
- Due to strong business activity, valuable natural resources and other factors, some states also export large portions of their state Medicaid tax burden to other states, allowing residents to finance a lower share of their state's Medicaid spending than intended.
- When combining the state and federal burdens, residents of some states pay as little as $.55 in tax revenues for every $1 spent on Medicaid, while residents in states importing the tax burden pay up to $1.86.
- The proportion of high-income and low-income states that choose to expand Medicaid under the ACA will have significant implications for the total federal Medicaid tax burden and the overall equity of the Medicaid financing system.

The Question:
Who Really Pays for Medicaid?

Medicaid comprises a significant portion of state budgets and is expected to grow as states expand coverage under the Affordable Care Act (ACA). Given this projected growth, understanding Medicaid's financing structure, its burden on taxpayers, and any unintended consequences of the federal matching grant is particularly important. The matching grant, in place since the enactment of Medicaid, uses the Federal Medical Assistance Percentage (FMAP) to reimburse states for the federal share of states' Medicaid expenditures. In a HCFO-funded study,[1] Kathleen Adams, Ph.D., Emory University, Patricia Ketsche, Ph.D., Georgia State University, and colleagues estimate federal and state Medicaid tax burdens per family, accounting for the effects of the FMAP and differences in states' tax exportation – or the ability of states to shift some of the tax burden away from their own residents through interstate commerce, reliance on sales tax, and other means. The full results of their study are available in *Public Finance Review.*

The Implications:

In keeping with the intentions of the grant, the researchers find that low-income states export large portions of their federal Medicaid tax burdens to other states, with residents of high-income states helping to fund Medicaid programs in low-income states. However, the analysis shows that some states also export a large portion of their state Medicaid taxes due to factors such as the availability of natural resources, levels of business activity, and travel between states; some of the tax burden is exported internationally. This allows some states to finance a lower Medicaid share than intended and represents a distortion in the design of the matching grant. The findings suggest that if lower-income states choose not to expand Medicaid under the ACA while higher-income states elect to expand, there will be a significant transfer of the federal Medicaid tax burden from high-income to low-income states, eroding the overall equity of the Medicaid financing system. The findings also suggest that alternative approaches to Medicaid financing should consider the true incidence of both federal and state taxes and how the ability of states to export their tax burdens affects variation in spending across states.

Contact Us

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1. The Robert Wood Johnson Foundation Changes in Health Care Financing and Organization (HCFO) Initiative supports timely and policy relevant health services research on health care policy, financing, and organizational issues.

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If you would like to learn more about other HCFO-funded work, please contact:
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