

# WHAT IS THE ACTUAL STATE COST OF MASSHEALTH IN STATE FISCAL YEAR 2025?

MassHealth is 31 percent of the total state budget, but 20 percent if you count only state dollars.

MAY 2024

## KEY TAKEAWAYS

MassHealth, the name for Massachusetts' Medicaid program and the Children's Health Insurance Program (CHIP), has always been a partnership between the state and federal governments. The state and the federal government both pay for MassHealth, with the federal government covering about half of the cost of MassHealth overall.<sup>1</sup> Because the federal government reimburses the state for a large portion of state spending on MassHealth, a detailed look at the state budget shows that the actual state cost of MassHealth is substantially less than may be evident at first glance.

In state fiscal year (SFY) 2025, the state projects it will spend approximately \$20.3 billion on MassHealth. This total (or "gross" amount) is approximately 31 percent of total estimated state spending for SFY 2025. However, due to federal government reimbursement, the state's actual cost for MassHealth ("net of" – or minus – federal revenue) is \$10.2 billion or 20 percent of the total net state spending in SFY 2025.

## BACKGROUND

MassHealth 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 more than 40 percent of people below age 21.<sup>2</sup> It 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.<sup>3</sup>

MassHealth plays a central role in ensuring access to health care for people of color in the Commonwealth, in part because Black and brown residents of Massachusetts are disproportionately left working in lower paying jobs and therefore more likely to experience periods of instability in health insurance coverage.<sup>4</sup> MassHealth is a critical backstop protecting those families' health and financial stability.

Not surprisingly, such a comprehensive program accounts for a large share of the state's 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 by revenue from any source. The "net state cost" on the other hand includes only the amount paid with state revenues. This distinction is important given how much of the state's MassHealth spending is directly paid for by the federal government. Unlike any other major expenditure area in the state's operating budget, the federal government reimburses the state for 50 percent of the cost of most MassHealth expenditures. For some specific services, the federal government pays even more (see call out box to the right).

## FEDERAL REIMBURSEMENT DURING SFY 2025

The Federal Medical Assistance Percentage (FMAP) is the federal government's reimbursement rate for a state's total Medicaid spending.

For most MassHealth spending, the FMAP is 50%. This means that the federal government reimburses Massachusetts for 50% of most MassHealth spending. There are key exceptions to this basic FMAP where the federal reimbursement is higher such as:

- 65% – Spending on children in the Children's Health Insurance Program (CHIP) and on the Breast and Cervical Cancer Treatment Program.
- 75% – Spending on ongoing operational costs for claims and eligibility systems.
- 90% – Spending on members covered under the Affordable Care Act's Medicaid expansion.
- 90% – Spending on design of claims and eligibility systems and on family planning services.

SFY 2025 will be the first full year since SFY 2020 in which Massachusetts will not receive COVID-19-related enhanced federal Medicaid reimbursements (see page 2 for more about how the state and federal Medicaid partnership changed over the course of the COVID-19 pandemic).

FIGURE 1:

### SFY 2025 TOTAL STATE SPENDING

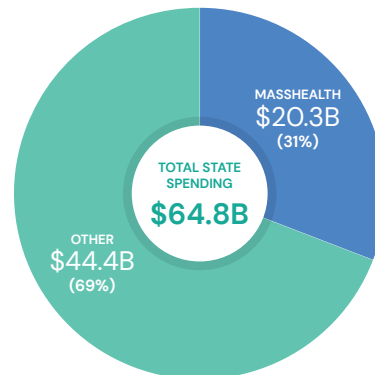
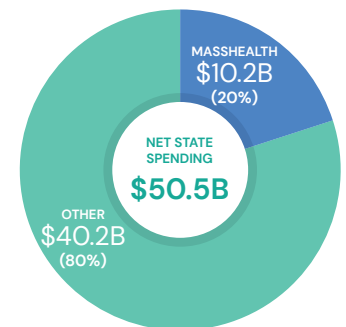


FIGURE 2:

### SFY 2025 TOTAL STATE SPENDING NET OF FEDERAL REVENUE



**THE COST OF MASSHEALTH**

In SFY 2025, the state expects to spend approximately \$20.3 billion on MassHealth programmatic costs.<sup>5</sup> As depicted in Figure 1, this total is approximately 31 percent of total estimated state spending for SFY 2025.<sup>6</sup>

However, the state’s cost for MassHealth (“net of” – or minus – federal revenue) is \$10.2 billion. As depicted in Figure 2, the net cost is 20 percent of total state spending (net of federal revenue).

There are also MassHealth-specific fees and assessments that are important revenues for MassHealth. These “departmental revenues” are levied on MassHealth providers and health insurers explicitly to expand funding for MassHealth. For example, there is an assessment levied on hospitals that helps fund MassHealth payment rates, and pharmaceutical companies pay rebates to the state to help fund the costs of prescription drugs. Considering these departmental revenues as well as the federal revenues yields a net state cost of MassHealth at \$8.2 billion. This is 18 percent of state spending (net of both federal and departmental revenues). Table 1 shows these gross and net spending totals.

**TABLE 1. STATE FISCAL YEAR 2025 TOTAL GROSS AND NET SPENDING (BILLIONS)**

DESCRIPTION	TOTAL (Gross)	TOTAL (Net of Federal Revenue)	TOTAL (Net of Federal and Departmental Revenues)
State Budget Total	\$64.8	\$50.5	\$45.2
MassHealth Programs	\$20.3	\$10.2	\$8.2
MassHealth Programs Share of Total Budget	31%	20%	18%

**DETERMINING NET STATE COST**

The state budget relies on revenues of four types described below and depicted in Figure 3.<sup>7</sup> Total or gross revenue includes all four types. Net state cost can be either total revenue less federal revenue, or alternately, total revenue less federal *and* departmental revenue.

**Tax Revenues:** The SFY 2025 budget assumes \$41.8 billion in tax revenues. This total includes tax revenues available for appropriation by the legislature as well as the tax revenues that are directed to specific spending based on statute (“pre-budget transfers”), such as sales tax revenues to support spending at the MBTA, gambling revenue to fund some local economic development and public health efforts, or cigarette excise revenues supporting operations at the Health Connector, the state’s health insurance marketplace.

**Federal Revenues:** The SFY 2025 budget assumes \$14.3 billion in federal revenues. The federal Medicaid funds are by far the largest source of federal revenues in the state budget, accounting for \$12.3 billion or 86 percent of the total of the federal revenues that fund the state budget in SFY 2025.<sup>8</sup> Most of the other federal revenues used to support the state budget come through the federal block grants for childcare and transitional assistance for families.

**Fees and Other Departmental Revenues:** The SFY 2025 budget assumes \$5.2 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 that pay for MassHealth. Non-health-related fees include licensing fees and assorted fines. About half of all departmental revenues support the state’s health care spending.

**Lottery, Trusts, and Miscellaneous:** The SFY 2025 budget assumes \$3.3 billion in other revenues transferred from the state lottery and assorted trusts.

**FINANCING MASSHEALTH AFTER THE PANDEMIC**

To help states pay for the health care costs associated with the pandemic, in 2020 the federal government provided a temporary 6.2 percentage point increase in the reimbursement rate for most state Medicaid spending. A major condition of this enhanced funding was that states were required not to make eligibility more restrictive nor to disenroll members unless a member moved out of state or voluntarily withdrew from the program. This was known as “the continuous enrollment provision.”<sup>9</sup>

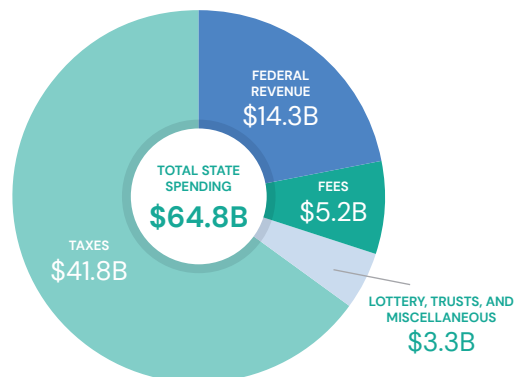
The U.S. Department of Health and Human Services declared the expiration of the COVID-19 national public health emergency in March 2023. With the COVID-19 public health emergency declaration officially over, the continuous enrollment provision ended on March 31, 2023. The pandemic-related enhanced federal Medicaid reimbursement rates ended on December 31, 2023.<sup>10</sup>

Even though the public health emergency declaration is officially over, the COVID-19 pandemic continues to have an impact on the state fiscal year (SFY) 2025 MassHealth budget in two ways: 1) MassHealth enrollment continues to be higher than it was pre-pandemic; and 2) the state must absorb the loss of temporary enhanced federal funding that helped to finance MassHealth over the past four fiscal years. Each of these impacts are discussed in greater detail below.

**Increased enrollment.** The economic impacts of the COVID-19 pandemic on individuals and families and the “continuous enrollment condition” led to a dramatic increase in enrollment in MassHealth. From a pre-pandemic caseload of about 1.8 million in SFY 2020, MassHealth enrollment increased by about 650,000, to more than 2.4 million in SFY 2023. As the state “winds down” the continuous coverage provisions, the administration projects enrollment will return to about 2 million in SFY 2025 – still about 11% greater than pre-pandemic levels.<sup>11</sup>

**Loss of enhanced federal reimbursements.** Since 2020, Massachusetts has received \$3.3 billion in increased federal funding from the temporary 6.2 percentage point increase in the federal reimbursement rate for most state Medicaid spending.<sup>12</sup> With the end of the public health emergency, the administration estimates that the state budget will have to absorb the impact of close to \$1 billion in reduced federal revenue. The administration estimates an \$820 million net impact on just SFY 2025 alone.<sup>13</sup>

**FIGURE 3: FINANCING THE SFY 2025 STATE BUDGET**



## ENDNOTES

- 1 See Federal Register (2023, November 21), 88 FR 81090, <https://www.federalregister.gov/documents/2023/11/21/2023-25636/federal-financial-participation-in-state-assistance-expenditures-federal-matching-shares-for>; and Medicaid and CHIP Payment and Access Commission (MACPAC), Federal Match Rates for Medicaid Administrative Activities, <https://www.macpac.gov/federal-match-rates-for-medicaid-administrative-activities/> (accessed March 11, 2024).
- 2 MassHealth (2024), April MassHealth Redeterminations Dashboard, <https://www.mass.gov/info-details/masshealth-redetermination-dashboard>. Population calculations based on 2020 state population estimates and 2022 ACS 1-Year Estimates from U.S. Census Bureau, available at <https://data.census.gov/>.
- 3 Blue Cross Blue Shield of Massachusetts Foundation (2023, October), *MassHealth: The Basics – Facts and Trends*, <https://www.bluecrossmafoundation.org/publication/masshealth-basics-facts-and-trends-october-2023>.
- 4 See, for example, wage gap information in the Economic Policy Institute’s State of Working America Data Library, <https://www.epi.org/data/>. See also Center for Health Information and Analysis (2021, December), *Health Insurance Coverage and Care in Massachusetts, 2015-2019: A Baseline Assessment of Gaps by Age, Race & Ethnicity, and Income*, pp. 13, 15, 16, <https://www.chiamass.gov/assets/docs/r/pubs/2021/health-equity-report.pdf>.
- 5 Budget and revenue data are based on the SFY 2025 governor’s budget proposal released January 24, 2024. Please note that due to rounding, some numbers in this brief may not appear to add exactly to the totals shown.
- 6 The administration typically uses only MassHealth program expenditures (gross and net) in public-facing materials, and this brief does as well. In past years this analysis would also include additional MassHealth administrative budgetary accounts and related revenues. For simplicity and because it is difficult to match revenues exactly to these specific administrative spending accounts, this brief follows the administration’s practice and focuses on MassHealth program costs only. Moreover, note that the MassBudget state budget total is higher than typically presented by the state as it includes spending allocated prior to the legislative appropriations process. For example, the MassBudget budget total includes in its spending totals, the appropriation of sales tax revenue directed to the MBTA or for school building assistance, gaming revenues directed to economic development, and cigarette excise tax revenue designated for spending on health care. MassBudget’s spending totals do not include the spending on employee health insurance for municipalities that operate their health insurance programs through the state’s group insurance program. MassBudget makes comparable adjustments in its revenue totals. 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>.
- 7 Just as MassBudget’s budget totals are different from those presented by the administration, MassBudget’s revenue totals are different from those presented by the administration. For example, MassBudget’s revenue totals include sale taxes statutorily designated for spending by the MBTA or for school building assistance, gaming revenues directed to economic development, and cigarette excise tax revenue designated for spending on health care. MassBudget’s revenue totals also do not include the reimbursements from municipalities that operate their employee health insurance programs through the state’s group insurance program. MassBudget makes comparable adjustments in its spending totals. 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>.
- 8 Most of the \$12.3 billion in federal Medicaid funds are used to reimburse the state for its MassHealth health insurance coverage. The remainder of these funds pay for a wide variety of other health and human services programs, administered outside of the MassHealth program, such as community-based residential care for adults with disabilities, support for residents of state-operated mental health facilities, community-based long-term care for elders, and more.
- 9 Centers for Medicare & Medicaid Services (2021, January 6), “COVID-19 FAQs for State Medicaid and CHIP Agencies,” pp. 114–117, <https://www.medicaid.gov/sites/default/files/2021-01/covid-19-faqs.pdf>.
- 10 Centers for Medicare & Medicaid Services (2023, January 5), CMCS Informational Bulletin, “Key Dates Related to the Medicaid Continuous Enrollment Condition Provisions in the Consolidated Appropriations Act, 2023,” p. 1.
- 11 Governor of Massachusetts (2024, January), “FY 2025 Recommendation Budget Brief: MassHealth,” p. 70, available at [https://budget.digital.mass.gov/govbudget/fy25/static/b190ef25ea9dff82d414ace0866e0a21/fy2025h2\\_budget\\_briefs.pdf](https://budget.digital.mass.gov/govbudget/fy25/static/b190ef25ea9dff82d414ace0866e0a21/fy2025h2_budget_briefs.pdf). With the federally declared end to the pandemic health emergency, states were given 12 months starting April 1, 2023, to redetermine eligibility for enrollees in Medicaid. Before the pandemic, in February 2020, MassHealth enrollment stood at 1,757,000, a number which grew to 2,122,500 at the end of January 2024. See MassHealth Redetermination Dashboard, Commonwealth of Massachusetts, at <https://www.mass.gov/info-details/masshealth-redetermination-dashboard>.
- 12 See Massachusetts Executive Office for Administration and Finance, COVID-19 Federal Funds Office, “Overview of COVID-19 Related Federal Legislation,” <https://www.mass.gov/info-details/covid-19-related-federal-funds-to-the-commonwealth>. See in particular the updated data table with information about “Enhanced FMAP grant.”
- 13 Governor of Massachusetts, “FY 2025 Budget Recommendation,” p. 69.

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