Medicaid Spending by Child Welfare Agencies in SFY 2020

Child welfare agencies across the United States are charged with protecting and promoting the welfare of children and youth who are at risk of or have been victims of maltreatment. State and local child welfare agencies rely on multiple funding streams to administer programs and services. In state fiscal year (SFY) 2020, state and local child welfare agencies spent $31.4 billion of federal, state, local, and other funds. While many funding sources are available to child welfare agencies, each source has its own unique purposes, eligibility requirements, and limitations creating a complex financing structure that is challenging to understand and administer. Each state's unique funding composition determines what services are available to children and families and the way in which child welfare agencies operate.

This document presents information about Medicaid spending by child welfare agencies in SFY 2020 collected through Child Trends' national survey of child welfare agency expenditures.[1]

Other available resources

This document is one of many child welfare financing resources available on the Child Trends website, including a summary of national findings and detailed information on the following funding sources used by child welfare agencies:

- Title IV-E
- Title IV-B
- Temporary Assistance for Needy Families
- Social Services Block Grant
- Medicaid
- Other federal funds
- State and local funds

Background

Medicaid is an entitlement program[2] that provides health coverage and services, including clinical behavioral health services, to individuals with low incomes. States and the federal government share the costs of Medicaid-covered expenditures, and the federal government reimburses states for eligible costs based on their Federal Medical Assistance Percentage (FMAP).[3]

Common Medicaid-covered services paid for by child welfare agencies are:

- **Rehabilitative services**: treatment portions of child welfare programs that can be reimbursed by Medicaid under certain circumstances
- **Targeted case management**: services to help certain groups of individuals (i.e., children involved with the child welfare system) gain access to needed services
- **Services for children in treatment or therapeutic foster home settings**: treatment or therapeutic foster homes are family-based, out-of-home placements for children with high needs

Children eligible for Title IV-E Foster Care, Adoption, or Guardianship programs are automatically eligible for Medicaid. Children involved in the child welfare system may also be eligible for Medicaid through other mechanisms, such as family income. Additionally, the Patient Protection and Affordable Care Act (ACA) of 2010[4] mandates that states extend Medicaid eligibility to youth up to age 26 who age out of the foster care system (and meet other criteria), regardless of their income. In SFY 2020, the federal mandate applied only to children who remain in the state where they had been in foster care, although some states have expanded this access to youth formerly in foster care who were in care in other states.[5] The

Substance Use-Disorder Prevention that Promotes Opioid Recovery and Treatment for Patients and Communities Act (SUPPORT for Patients and Communities Act) makes Medicaid coverage available to eligible young people formerly in foster care even if they move to another state beginning January 2023.[6]

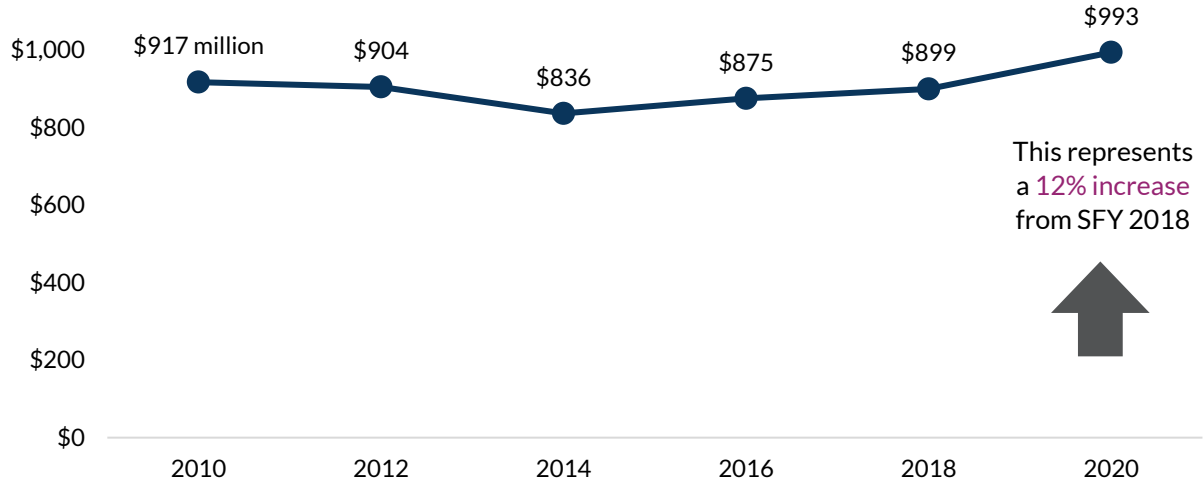
For the purposes of this survey, states reported only Medicaid funds that covered costs borne by the child welfare agency and/or for which the child welfare agency paid the non-federal match. It excludes Medicaid-funded costs borne by other agencies (e.g., the health department) unless the child welfare agency paid the non-federal match and so excludes costs associated with health care coverage.

Overview of Medicaid spending

$1 billion

In SFY 2020, child welfare agencies reported spending $1.0 billion in Medicaid funds for child welfare activities.[7]

Medicaid expenditures have increased by 8 percent over the decade (among states with sufficient data in SFYs 2010 and 2020). This graph shows the trend line over the decade.[8]



To enable comparisons, all dollar amounts from previous years have been inflated to 2020 levels. The figures presented in this graph reflect an analysis of 40 states with sufficient data across all six surveys conducted between 2010 and 2020 (surveys conducted every two years). Therefore, the total amount of SFY 2020 Medicaid expenditures presented in this graph ($993 million) differs from the total amount presented in the text ($1.0 billion).

Decreases in Medicaid expenditures between the late 2000s and early 2010s were largely due to changes in how state child welfare agencies used Medicaid, rather than reflecting a decrease in Medicaid services for children known to the child welfare agency. During that period, spending on the kinds of Medicaid services child welfare agencies typically pay for decreased, but overall Medicaid spending on this population held relatively steady.[9]

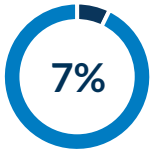
The results from this survey now show an increase in child welfare agency Medicaid spending. The increased FMAP rates contributed to this increase but do not account for the full 12 percent increase. While the reason for the remainder of this increase is not entirely clear, it is possible child welfare agencies are using Medicaid more frequently to cover the costs of institutional placements because of restrictions on Title IV-E congregate care reimbursement and rules governing Medicaid reimbursement

for services for children in certain congregate care settings.[10,11] This explanation is supported by SFY 2020 survey data indicating that Medicaid became a top funding source for congregate care expenditures. This explanation could help explain the increase in Medicaid expenditures by child welfare agencies, although it is important to consider this explanation as a hypothesis that requires more exploration.

Between SFYs 2018 and 2020, more states reported an increase as opposed to a decrease in the use of Medicaid funds by child welfare agencies.[12] Changes in Medicaid expenditures ranged from -100 percent to 88 percent depending on the state.

States experiencing changes in the use of Medicaid funds

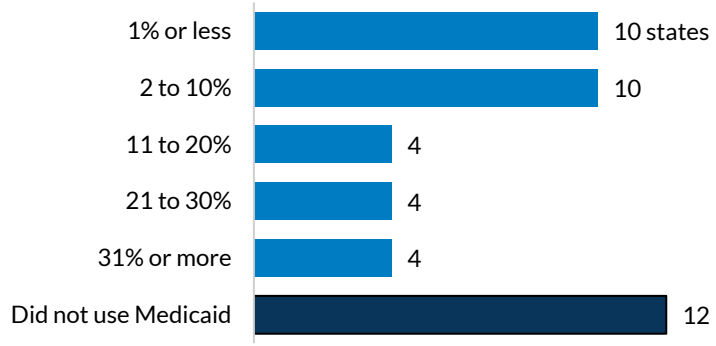
Medicaid as a share of all federal funds



Medicaid funds comprised a small proportion of federal funds spent by child welfare agencies in SFY 2020.[13] This proportion has remained stable since SFY 2010.[14]

Medicaid funds accounted for zero to 60 percent of federal dollars spent by child welfare agencies in SFY 2020, depending on the state.

Percent of federal expenditures



[1] See the main report (*Child Welfare Financing SFY 2020: A survey of federal, state, and local expenditures*) for more specific information about the methodology, interpretation of findings, and important caveats.

Each state reported data based on its SFY 2020, which for most states is July 1, 2019, to June 30, 2020. Of the 46 participating states, only five (Alabama, the District of Columbia, Michigan, New York, and Texas) reported a different SFY period.

The survey instrument has been revised over the 12 rounds of the survey, so some data are not directly comparable. See the main report for more details about changes to the survey and comparability.

For the purposes of the survey, the District of Columbia and Puerto Rico are considered states.

This year, Georgia, Hawai'i, Idaho, North Dakota, Washington, and West Virginia were unable to participate, resulting in a total of 46 participating states.

[2] Entitlement programs require payments to persons, state and local governments, or other entities if eligibility criteria established in law are met. Entitlement payments are legal obligations of the federal government and do not have a set funding ceiling.

[3] The FMAP determines the amount the federal government reimburses states for eligible costs. The FMAP rates are reassessed and updated annually and are higher for states with lower average per capita incomes. Though reimbursement for most Medicaid costs (including services) is generally at the state's FMAP, some classes of expenses are subject to other reimbursement rates. For example, costs considered to be program administration are reimbursed at 50 percent. [Mitchell, A. (2020). *Medicaid's Federal Medical Assistance Percentage (FMAP)*. Congressional Research Service, (R43847; July 29, 2020), Washington, D.C. Available at: https://fas.org/sgp/crs/misc/R43847.pdf]

[4] Patient Protection and Affordable Care Act of 2010. Public Law No. 111-148. Available at: https://www.congress.gov/bill/111th-congress/house-bill/3590

[5] Fernandes-Alcantara, A.L. & Baumrucker, E.P. (2020). *Medicaid Coverage for Former Foster Youth Up to Age 26*. Congressional Research Service (IF11010; February 25, 2020), Washington, D.C. Available at: https://crsreports.congress.gov/product/pdf/IF/IF11010

[6] SUPPORT for Patients and Communities Act of 2018. Public Law No. 115-271. Available at: https://www.congress.gov/bill/115th-congress/house-bill/6

[7] Alabama and Oklahoma were unable to report Medicaid spending in SFY 2020.

[8] To enable comparisons, all dollar amounts from previous years have been inflated to 2020 levels using the gross domestic product deflator (accessed at www.measuringworth.com/uscompare/).

When comparing expenditures or funding proportions between two or more years, we restricted the analysis to states with sufficient data in the years being compared. This is because some states provided incomplete information or did not respond to the survey in some years.

The percentage change between SFYs 2010 and 2020 is based on an analysis of 44 states with sufficient data.

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[9] Rosinsky, K., Williams, S.C., Fischer, M., & Haas, M. (2021). *Child Welfare Financing SFY 2018: A survey of federal, state, and local expenditures*. Bethesda, MD: Child Trends. Available at: https://cms.childtrends.org/wp-content/uploads/2021/03/ChildWelfareFinancingReport_ChildTrends_March2021.pdf

[10] Medicaid and CHIP Payment and Access Commission. (2021). *Medicaid Coverage of Qualified Residential Treatment Programs for Children in Foster Care*. Available at: https://www.macpac.gov/wp-content/uploads/2021/08/Medicaid-Coverage-of-Qualified-Residential-Treatment-Programs-for-Children-in-Foster-Care.pdf

[11] The Family First Act restricted the use of Title IV-E for congregate care placements with some exceptions. One exception was that Title IV-E could be used for congregate care if the placement was a Qualified Residential Treatment Program (QRTP). QRTPs must provide a "trauma-informed model of care to address the clinical and other needs of children with serious emotional or behavioral disorders" (MACPAC, 2021). In addition, a Medicaid rule prevents states from seeking Medicaid reimbursement for services provided to people living in Institutions for Mental Diseases (IMDs). IMDs are a "hospital, nursing facility, or other institution of more than 16 beds that is primarily engaged in providing diagnosis, treatment, or care of individuals with mental diseases" (MACPAC, 2021). This is known as the IMD exclusion. However, Medicaid can be used to pay for services to youth under age 21 who reside in an IMD considered a psychiatric facility. QRTPs can be considered IMDs but are unlikely to be considered psychiatric facilities. This means that child welfare agencies may not be reimbursed through Medicaid for services provided to children in foster care who are placed in a QRTP considered an IMD but not a psychiatric facility. To address this challenge, states have considered moving children in foster care to psychiatric facilities, so their placement and services are covered by Medicaid. The downside is that the level of care these facilities provide may be overly restrictive compared to the child's needs. Therefore, it is plausible that the Family First Act has provided an incentive for states to place children in more restrictive psychiatric placements paid for by Medicaid (assuming such facilities have open beds) to avoid losing the ability to use Medicaid for the children's services (MACPAC, 2021).

[12] Based on an analysis of 44 states with sufficient data. We counted any positive change as an increase, and any negative change as a decrease, regardless of magnitude.

[13] This percentage is based on an analysis of 43 states with complete federal expenditure data in SFY 2020.

[14] Based on an analysis of 38 states with sufficient data across all six surveys conducted between 2010 and 2020 (surveys conducted every two years).

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Main Report: Rosinsky, K., Fischer, M., & Haas, M. (2023). *Child Welfare Financing SFY 2020: A survey of federal, state, and local expenditures*. Child Trends. doi: 10.56417/6695l9085q. https://www.childtrends.org/publications/child-welfare-financing-survey-sfy2020

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