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Understanding Medicaid and CHIP: A Comprehensive Overview

What are Medicaid and CHIP?

Medicaid is a means-tested program jointly financed by states and the federal government, which provides healthcare coverage for millions of Americans, with over 72 million enrollees in 2024.[1] The federal government provides the majority of Medicaid's funding and sets parameters that all states must meet, while the states administer their own Medicaid program.[2]

The **Children's Health Insurance Program (CHIP)** is a joint federal and state program that supplements Medicaid by matching state funds for the health care coverage of children, inclusive of ages 0-18, whose families cannot afford private health insurance coverage but earn too much money to qualify for Medicaid.[2] In 2024, over 7 million children were enrolled in CHIP.[1]

Combined, Medicaid and CHIP cover nearly 80 million people, of which almost 38 million are children.[1]

Medicaid Acronyms to Know:

- CHIP – Children's Health Insurance Program
- FMAP – Federal Medical Assistance Percentages
- FPL – federal poverty level
- LTSS – long term care services and supports
- MCO – managed care organization

Who is Covered?

Medicaid

Although eligibility rules differ between states, Medicaid is federally required to cover low-income families, individuals who receive Supplemental Security Income, and qualified pregnant women and children, amongst others.[3] Families are considered low-income if their household income is below the federal poverty level (FPL) for their household size. Some people who meet Medicaid requirements may also qualify for dual coverage under Medicaid and Medicare, which covers individuals aged 65 years or older or individuals with qualifying disabilities.

CHIP

Eligibility rules for CHIP also differ on a state-by-state basis, but at a minimum, children qualify for CHIP if their family income is between the Medicaid income threshold and up to 50 percent above the Medicaid income threshold. In most states, for a family of four, children of households with incomes below $60,000 may qualify for CHIP. In other states, children can qualify for CHIP under a greater household income threshold.[4]

How is Medicaid Financed?

States that meet federal Medicaid guidelines are reimbursed a percentage of Medicaid costs based on that state's FMAP.[5] The

federal government pays 50-77 percent of Medicaid costs depending on the state, with larger federal shares in states with lower average incomes.[6] States must fund at least 40 percent of Medicaid costs, while local governments can be responsible for up to 60 percent.[7]

How are Providers Paid?

States typically pay for medical services through managed care plans or fee-for-service agreements. States determine Medicaid provider rates that are subject to federal requirements.[8]

Fee-for-service Model

Under a fee-for-service model, the state directly pays providers for each covered service that they administer to Medicaid beneficiaries. Notably, Medicaid fee-for-service payments are often much lower than those paid by other insurers.[8]

Managed Care Plan Model

Under a managed care plan model, the states contract and pay managed care organizations (MCO) for services for each plan enrollee. The MCO then pays providers for the Medicaid services that they administer to enrollees.[9]

The states use three main types of MCOs:

- **primary care case management**—enrollees have a designated primary care provider who is paid a case management fee for managing that patient's basic health care;
- **comprehensive risk-based**—states contract with MCOs to cover most Medicaid covered services and MCOs are paid a fixed monthly amount per patient; and
- **limited-benefit plans**—targeting highly specific benefits or selected subpopulations, such as inpatient mental health care or dental health.[9]

Does Medicaid Cover LTSS?

Medicaid pays for LTSS for eligible individuals in both institutional and home and community-based settings, although the portfolio of services offered differs substantially by state. Medicaid is the largest payer of LTSS in the United States, spending over $200 billion annually—or more than half of all United States spending on LTSS—and accounts for a large portion of Medicaid spending covering approximately 9 million individuals in the Medicaid program.[10]

What is Medicaid Expansion?

Under the Affordable Care Act, states have the option to expand Medicaid coverage to adults and families whose incomes are up to 138 percent of the FPL.[11] When states expand Medicaid coverage, the federal government covers 90 percent of the health care costs for the expanded population, which is known as the enhanced FMAP.[12] At this time, the majority of states have adopted the optional expansion. Ten states currently have chosen not to expand their Medicaid programs: Alabama, Florida, Georgia, Kansas, Mississippi, Tennessee, Texas, South Carolina, Wisconsin, and Wyoming.[13]

What are Medicaid Waivers?

States can apply to waive certain federal requirements to test new payment and care approaches within their Medicaid programs.[14] Medicaid waivers are not permanent, and renewal periods vary based on the type of waiver.

There are three main types of waivers:

- **Section 1915b**—known as "Freedom-of-Choice" waivers that allow states to restrict provider choice to mandate care management programs;
- **Section 1915c**—which allow states to offer home and community-based care services instead of institutional care; and
- **Section 1115**—which allow states to implement innovative approaches to meet Medicaid objectives, such as quality improvement, extending postpartum coverage, or targeting substance use disorder treatment.[14,15] Some states are looking to use Section 1115 waivers to institute work requirements for the Medicaid expansion population.[16]

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The American Nurses Association is the only association that represents and serves as the professional home for all registered nurses in every specialty and practice setting. We believe nurses are the heartbeat of healthcare. It is our calling to champion nurses and the causes they care about by working for improved work environments, topnotch education, smarter policies, and stronger partnerships. We advocate to amplify nurses' roles, their voices, and their value across healthcare and in society.

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