Summary

State budget stress tests measure the effects of various hypothetical economic scenarios on long-term revenue and expenditure estimates. They then compare those scenarios to a more realistic baseline and measure potential value at risk. Finally, they inventory budget buffers and judge whether the buffers are adequate given that potential value at risk. In this Medicaid specific test, in addition to the analysis focused on the impact of various hypothetical economic scenarios on both traditional and expansion categories of Medicaid, we expand on prior work to assess the impact of potential Federal-induced changes to the Medicaid program, particularly changes in the Federal Medical Assistance Percentage (FMAP).

After evaluating the results of these scenarios, this analysis finds that the Medicaid ACA Fund is a sufficient buffer to cover the estimated 5-year Value at Risk (VaR) for the Medicaid Expansion population, even in the worst-case scenario; however, the Medicaid Budget Stabilization Restricted Account, the state's other primary Medicaid-specific buffer, is likely insufficient to cover the 5-year VaR for the Traditional Medicaid program in the worst-case scenario. Full details of this analysis, methodology, scenario assumptions, and discussion of the results can be found throughout the subsequent sections of this report.

Overview

In 2016, the Utah Office of the Legislative Fiscal Analyst (LFA) and the Governor's Office of Planning and Budget (GOPB) conducted their first stress testing exercise, following the passage of the Dodd-Frank Act of 2010, which required banks to conduct stress tests. The utility of this exercise resulted in the passage of 2018's H.B. 452, "Legislative Fiscal Analyst Amendments," which required LFA to conduct state budget stress testing every three years. Thus, Utah became the first state to adopt financial industry stress testing to state budgets and require stress testing regularly.

In 2024, the legislature passed H.B. 51, "Health and Human Services Funding Amendments" which expanded the stress test exercise by requiring an individual stress test for Medicaid. In keeping with the intent of this legislation, this report focuses specifically on Medicaid scenarios, including economic-induced shocks to enrollment and state sales tax supported revenue, inflation in Per Member Per Month (PMPM) costs, and changes in the state's share of program costs via the FMAP. By applying these various shocks through econometric modeling, the state's Medicaid program is evaluated both separately for the Traditional and Expansion components, as well as overall, to identify the total budget risk involved with all scenarios.

Utah's Medicaid program is comprised of two primary parts, Traditional Medicaid as well as Medicaid Expansion. Traditional Medicaid includes eligibility categories that have lower income limits and other rules governing them, which are unique to the specific population served. Some of these categories include children, blind and disabled, elderly, and pregnancy. Medicaid Expansion was created at the Federal level by the Affordable Care Act (ACA) in 2010, and it expanded benefits to new adult groups, including those without dependents whose income is

higher than allowed under the Traditional program, up to 138% of the federal poverty level. Following the passage of Proposition Three in 2018, this expansion population was incorporated into the state's program the following year. Besides these population-specific differences between the two components of Medicaid, a key point of differentiation from a budget perspective is that the Medicaid Expansion groups receive a higher proportion of funding from the Federal Government with an FMAP of 90%, meaning the state covers only 10% of associated costs.

This stress test consists of three main parts: forecasts of Utah's Medicaid-specific expenditures and revenues under four different economic scenarios (Section III); analysis of two additional scenarios focused on alternative futures with potential FMAP changes (Section IV); and a catalogue of available Medicaid-specific buffers to cover Medicaid costs in the event of an economic downturn or change in Federal funding (Section VI).

I. Scenarios

In keeping with previous stress tests, state economists tested four economic scenarios, purchased from Moody's Analytics: baseline, moderate recession, severe recession, and stagflation. The principal assumptions underlying these scenarios are outlined below:

Baseline

This scenario assumes no imminent recession. It assumes moderate economic momentum in the near term, with real GDP growth slightly stronger than in September but remaining below trend until at least 2027. Additionally, it assumes retail sales will follow the moderate momentum trend with an average of 4% year-over-year increase in sales. It forecasts that the labor market conditions remain stable, with unemployment expected to peak at 4.8% in 2026, near full-employment levels, along with an average of 5% year-over-year growth in wages. As the base case scenario, there is assumed to be a roughly 50% chance that the economy performs better than this baseline, and a 50% chance that it performs worse.

Moderate Recession

This scenario assumes a recession begins in late 2025. It assumes a 2.6% cumulative GDP decline through mid-2026. Unemployment peaks at 8.4% by the end of 2026, with wages slowing to under 2% year-over-year growth. Despite Federal Reserve rate cuts and a drop in Treasury yields, the recovery is slow, with full employment not returning until 2030. Additionally, retail sales slow to an average of 2.2% year-over-year growth, with 2026 and 2027 having decreases in retail sales. There is roughly a 90% chance that the economy performs better than this scenario, and a 10% chance that it performs worse.

Severe Recession

This scenario assumes that the economy falls into a deep and prolonged recession in late 2025. This recession causes Real GDP to contract in 2026 and 2027 by -1.18% and -0.68%, respectively. Total employment decreases in 2025 with the recession and doesn't get back to full employment until late 2034. Wages also slow to an average of 3% year-over-year increase, with the major recession years essentially flat. Retail sales also slow to an average of 2% year-

over-year, with 2026 and 2027 having decreases in retail sales. There is roughly a 96% chance that the economy performs better than this scenario, and a 4% chance that it performs worse.

Stagflation

This scenario assumes that inflation accelerates in the U.S. economy, while never reaching full employment. It assumes that the accelerating inflation and a weakening economy lead to a moderate recession by early 2027, with negative growth in 2027 and 2028 at -1.24% in 2027 and -1.62% in 2028. Although the labor force dips below full employment, wages experience moderate year-over-year growth averaging 4%, driven by increased rates later in the period due to heightened inflation. However, there is a contraction in wages during 2027 and 2028, coinciding with the most severe phase of the recession.

FMAP Changes

In addition to these typical economic scenarios from prior stress tests, new for this report were two additional scenarios addressing risks from changes to the State's share of costs, also known as FMAP. Each year, the FMAP is recalculated and then used by the Department of Health and Human Services (DHHS), LFA, and GOPB to budget for Medicaid expenditures. For the FMAP change to Baseline, it was assumed as a hypothetical scenario that the Federal Government's expenditure on debt service crowds out other expenditures, compelling the Federal Government to adjust the FMAP in order to maintain spending elsewhere. Adding FMAP changes on top of the Moderate and Severe Recession scenarios, it was assumed as an alternative hypothetical that, due to the overall budgetary pressures induced by the recession, the Federal Government is compelled to shift costs to the States in order to prioritize other expenditures.

Although the causes of the FMAP shift may differ between these hypotheticals, the effects could be considered much the same from the state budget perspective, thus these cost shifts were applied at the same levels for all the base scenarios. To capture the budget impacts from such potential federal changes, each scenario was reevaluated assuming a 5% shift in the FMAP and then again assuming a shift to a 50/50 split, which is the current legal limit.

II.   Methodologies

State Medicaid programs are paid for with a mix of state and federal dollars. Each state's share is determined based on a calculation known as the FMAP, which compares a state's per capita personal income to the national per capita personal income; states with higher personal incomes are responsible for a greater share of their Medicaid program costs.

For this analysis, economists forecasted Medicaid enrollment in each enrollment category, as well as the PMPM rate in each year, based on assumptions related to each economic scenario. The forecasted PMPM was then multiplied by the total membership in each enrollment category to forecast an estimated aggregate expenditure for each fiscal year. Increased expenditures for both Traditional Medicaid and Medicaid Expansion categories were aggregated to capture total risk, although Medicaid Expansion expenditures would be paid to the extent possible out of the Medicaid ACA Fund.

For the two additional scenarios, we started with the same enrollment and PMPM forecasts under each economic scenario but adjusted the current FMAP to assess the state budget impact resulting from the increased coverage of Medicaid costs. This current FMAP split works out to be about 37.07% State coverage for Traditional Medicaid, 25.95% State coverage for Children's Health Insurance Program (CHIP), and 10% for Medicaid Expansion. As outlined above, we then reevaluated each scenario utilizing a modified FMAP, shifting five percentage points toward the state in the Traditional program and then again utilizing a FMAP fully shifted to 50% for the Traditional program. In our FMAP analysis, we primarily focused on Traditional Medicaid because, per UCA 26B-3-210 (5), if the Federal FMAP drops below 90%, the State's Expansion program would subsequently sunset automatically. Since both of the FMAP scenarios considered here would trigger this provision if applied to Expansion, for the purposes of this analysis we assumed the Expansion FMAP would not be modified, with only the scenario's economic impacts included for the Expansion population.

III. Economic Scenarios: Impacts with Current FMAP

Economists estimate that between about $373.4 and $800.8 million in General Fund Medicaid expenditures are at risk over the next five fiscal years in case of an economic downturn.

Table 1

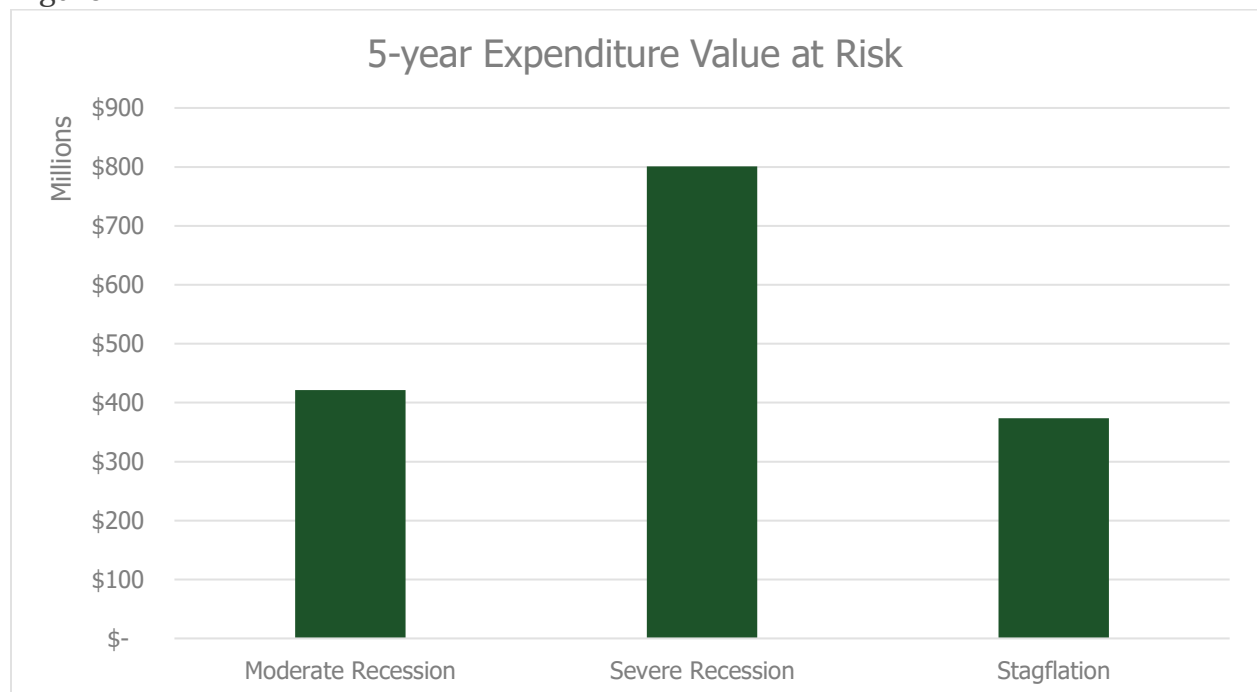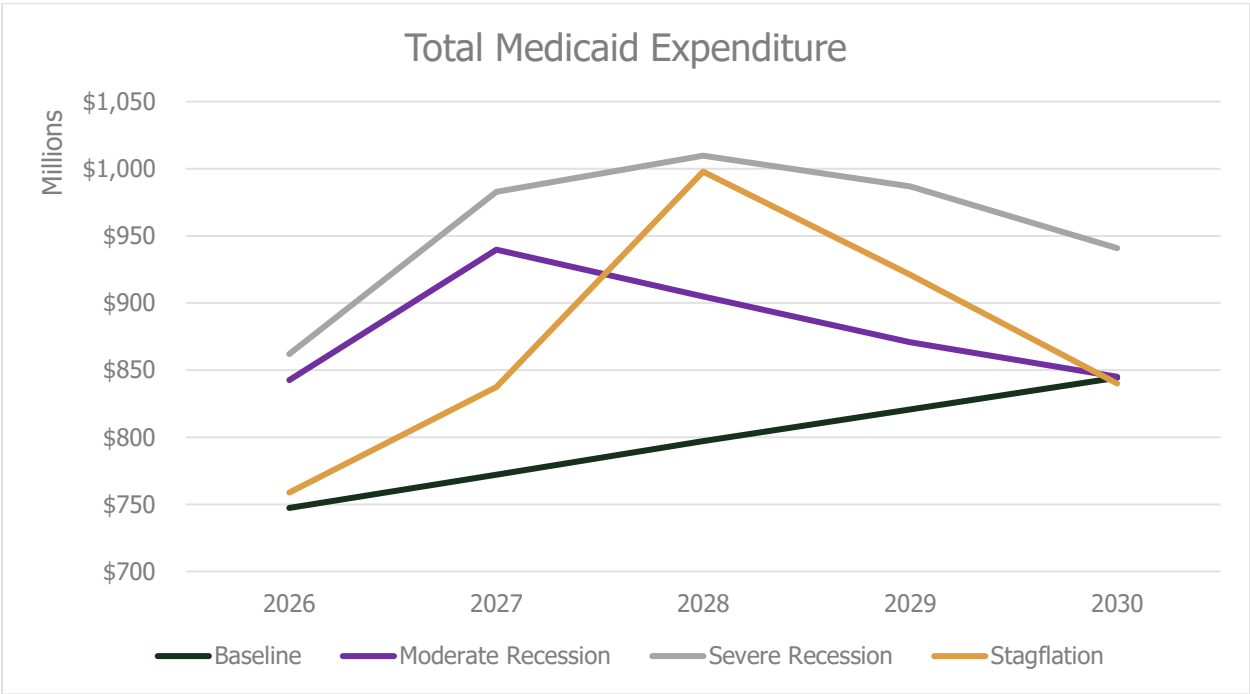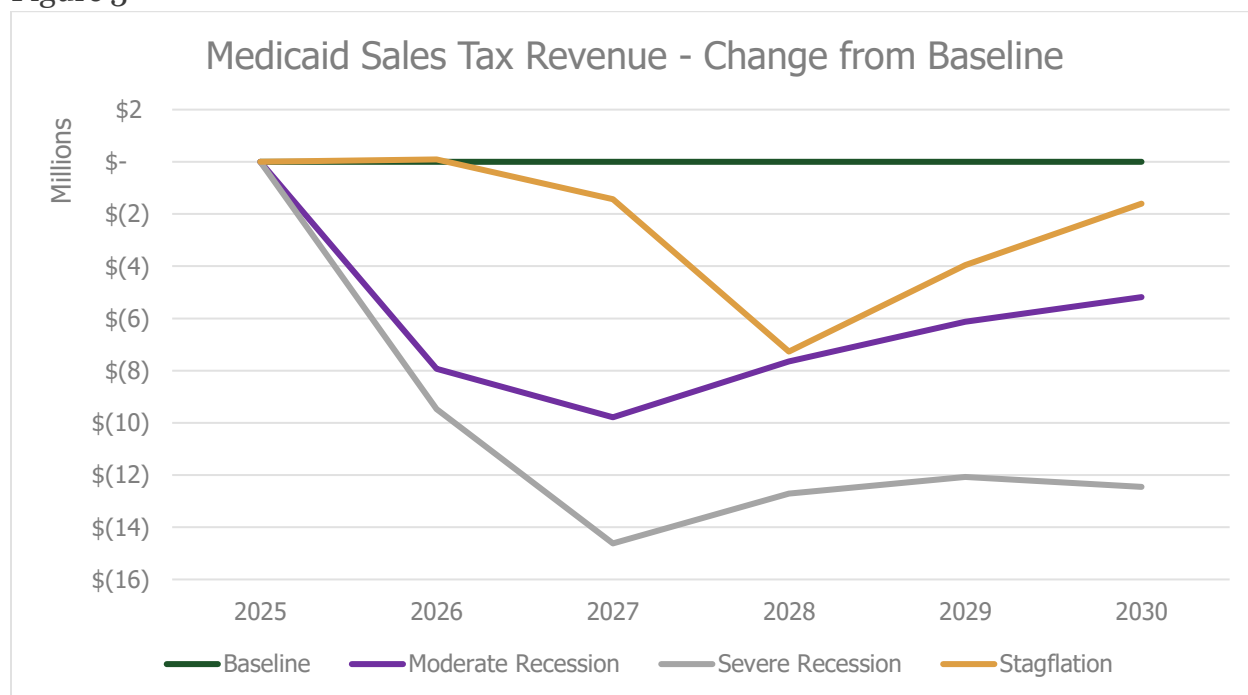| Economic Scenarios	5-year Expenditure Value at Risk
Moderate Recession	$ 421,400,000
Severe Recession	$ 800,800,000
Stagflation	$ 373,400,000

Figure 1

Figure 2

Total Medicaid Expenditure

Additionally, a portion of Medicaid is funded out of a 0.15% sales tax earmark. Economists estimate that between $14.2 and $61.3 million in Medicaid earmarked sales tax revenue is at risk over the next five fiscal years. A breakdown of the estimated change by scenario can be seen in the table below.

Table 2

Economic Scenario	5 Year Revenue Value at Risk
Moderate Recession	$ (36,700,000)
Severe Recession	$ (61,300,000)
Stagflation	$ (14,200,000)

Figure 3

Medicaid Sales Tax Revenue - Change from Baseline

Legend: Baseline, Moderate Recession, Severe Recession, Stagflation

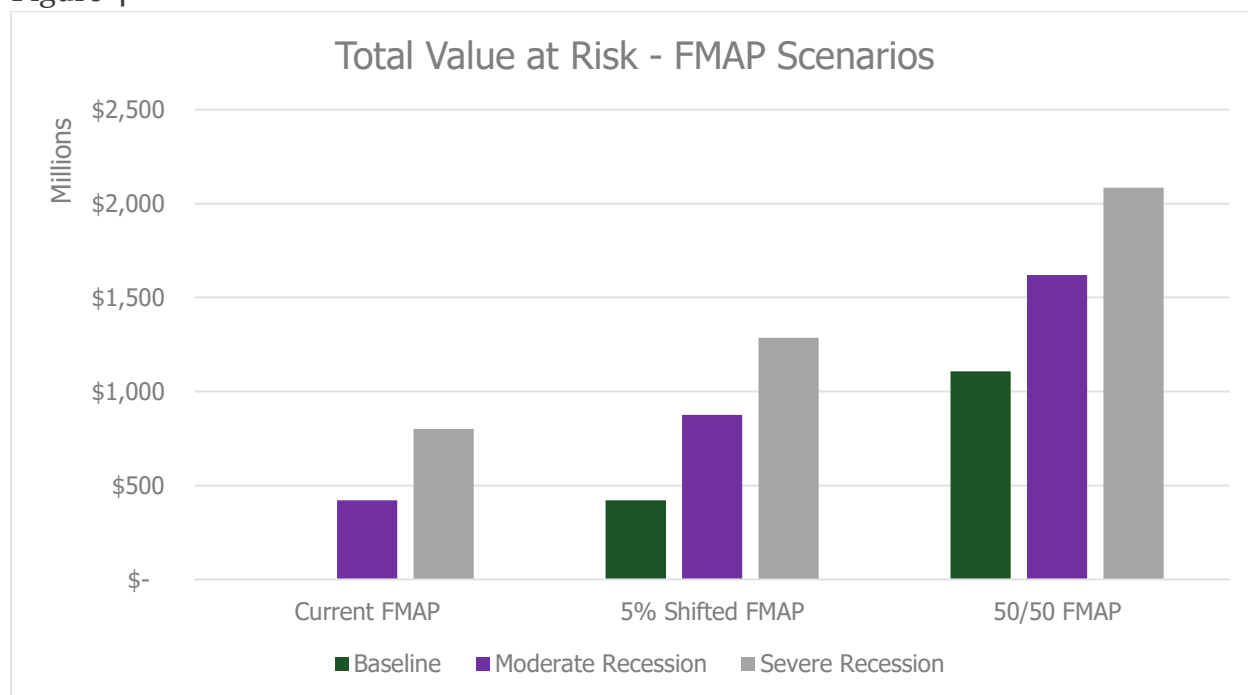# IV. FMAP Scenarios: Impacts with Alternate FMAP

Economists estimate that if the State's FMAP were to increase by 5%— from 37.07% to 42.07% for Traditional Medicaid and from 25.95% to 30.95% for CHIP— the State's baseline Medicaid expenditure value at risk would increase by an average of $84.3 million per year relative to the current FMAP. If this FMAP adjustment were to occur during a Moderate or Severe Recession, the associated Medicaid expenditure value at risk is projected to increase by an average of $175.2 million to $257.4 million per year compared to the baseline scenario under the current FMAP.

Economists further estimate that, if the State's FMAP were adjusted to a uniform 50%, the State's baseline Medicaid expenditure value at risk would increase by an average of $221.4 million per year relative to the current FMAP. Under Moderate or Severe Recession conditions, this FMAP shift is projected to increase the Medicaid expenditure value at risk by an average of $324.1 million to $416.8 million per year compared to the baseline scenario at the current FMAP.

Figure 4 below presents the total five-year expenditure value at risk under the current FMAP, the 5% shift scenario, and the 50/50 FMAP scenario.

Figure 4

Total Value at Risk - FMAP Scenarios

V.   Total Value at Risk

When combining both revenues and expenditures at risk over five years, economists estimate a total value at risk of between $387.5 and $862.1 million.

Table 3

Economic Scenario	Expenditures at Risk	Revenue at Risk	Total
Moderate Recession	$ 421,400,000	$ 36,700,000	$ 458,000,000
Severe Recession	$ 800,800,000	$ 61,300,000	$ 862,100,000
Stagflation	$ 373,400,000	$ 14,200,000	$ 387,500,000

Figure 5

Total Value at Risk

VI. Inventory of Buffers

Finally, for this Medicaid-focused stress test exercise, economists also evaluated the amount of reserve funding available in the Medicaid-related buffer accounts to assess the state's current capacity to address the potential 5-year budget impacts estimated under each scenario. The Medicaid ACA Fund and the Medicaid Budget Stabilization Restricted Account are the two buffers that pertain directly to Medicaid; however, it is important to note that the Legislature may potentially use other available reserve funds to cover the total value at risk beyond only those specific to Medicaid. These remaining buffers will be reviewed in the full Stress Test, which will be released in December.

With the above in mind, economists have estimated that as of the end of fiscal year 2025, the state has a maximum of $449.2 million in Medicaid buffers.

Table 4

Buffer Accounts	Amount
Medicaid ACA Fund	$ 342,000,000
Medicaid Budget Stabilization Restricted Account	$ 107,200,000
Total:	$ 449,200,000

VII. Conclusion

Economists have determined that, while the Medicaid ACA Fund is estimated to be sufficient to cover the five-year Medicaid Expansion value at risk under the worst-case scenario, the Medicaid Budget Stabilization Restricted Account is insufficient to cover the corresponding value at risk for Traditional Medicaid. Under the worst-case scenario, the five-year value at risk for Medicaid Expansion is estimated at $323.3 million, compared to the current Medicaid ACA Fund balance of $342.0 million.

In contrast, the worst-case scenario for Traditional Medicaid— defined as a Severe Recession combined with a shift to a 50/50 FMAP— could result in an estimated $2.1 billion in five-year value at risk. This far exceeds the current balance of the Medicaid Budget Stabilization Restricted Account, which is approximately $107.2 million. Even absent the additional value at risk associated with an FMAP shift, the Account would be insufficient to cover the Severe Recession estimate of $800.8 million in five-year value at risk. Under current funding levels, the Medicaid Budget Stabilization Restricted Account would be capable of covering only a portion of the first year of costs in such a scenario.

Although the Legislature retains access to additional budgetary reserves to address Medicaid expenditure pressures, ensuring that the Medicaid Budget Stabilization Restricted Account can independently cover the worst-case scenario for Traditional Medicaid would require increasing the Account's dedicated balance.

Figure 6 below compares the maximum five-year value at risk for Traditional Medicaid and Medicaid Expansion to the balances available in their respective reserve accounts.

Figure 6

Medicaid Value at Risk vs Buffers