A debate about how to fund Medicaid, the public health insurance program that now covers 16 percent of Americans, is under consideration by state and federal policymakers alike.

And one idea that has received particular attention of late is shifting Medicaid to a block-grant program.

Currently, Medicaid is financed jointly by the states and the federal government through a matching formula: States must cover certain populations (such as pregnant women who meet income criteria and low-income individuals) and offer specific benefits; in return, they receive federal matching funds. Matching rates vary, with states receiving between 50 percent and 75 percent in federal funds, according to a formula that takes into account states’ poverty rates.

Under the existing system, the federal government has an open-ended commitment to providing assistance to states. That would change if Medicaid became a block-grant program: States would receive a capped amount of funding annually and, after that money runs out, would be required to cover any additional costs. At the same time, though, they would have more leeway in shaping their programs.

This arrangement would be similar to the one used for the State Children’s Health Insurance Program, or SCHIP, in which states receive block grants to cover children in low- to moderate-income families.

In April, the U.S. House of Representatives approved a budget plan (often referred to as the “Ryan plan,” named after its sponsor, U.S. Rep. Paul Ryan of Wisconsin) that would make significant changes to Medicaid. For one, by repealing parts of the Affordable Care Act, the bill would remove a requirement that states open Medicaid eligibility in 2014 to all Americans earning up to 133 percent of the federal poverty level.

The bill would also make Medicaid a block-grant program beginning in 2013. Although the legislation is unlikely to pass the U.S. Senate, it has sparked discussion among health care experts and policymakers about the merits of such a sweeping change.

Proponents say the change would motivate states to rein in health care costs in order to maximize federal funds and minimize state spending.
Others say that the Ryan plan would provide needed restraint on the entitlement program and result in more predictable federal spending levels.

A report by the Kaiser Commission on Medicaid and the Uninsured projects [4] that the House-approved bill would reduce federal Medicaid spending by a total of $1.4 trillion between 2012 and 2021, with $750 billion in savings resulting from making Medicaid a block-grant program.

But in order to maintain current benefit and eligibility levels, the Kaiser report says, states would need to increase their spending by anywhere from 45 percent ($152 billion) to 71 percent ($241 billion) over a 10-year period. By giving states more flexibility and taking away federal matching funds, critics of the block-grant approach say, millions of people could be dropped from the program and left uninsured.

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