MACPAC

Alternative Approaches to Federal Medicaid Financing

Medicaid and CHIP Payment and Access Commission

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Context

- Concerns about the level and rate of growth has prompted discussions of altering the Medicaid financing structure
- Growth reflects a number of factors
  - Federal and state policy decisions
  - External factors such as population aging and changes in the economy
- The nature of the cost growth has implications for alternative approaches
  - Amount of federal savings from alternatives
  - Appropriate mechanisms to slow these trends

Per Capita Caps

- Instead of an open-ended federal match, a per capita cap would place per enrollee limits on federal payments to the states
- A fixed growth rate would be established to increase per person spending
- Unlike a block grant, federal spending would increase based on the number of enrollees
- States would be responsible for any spending above the fixed per capita payment

Design Considerations

- Determining which programmatic pieces to include
- Establishing spending limits
  - Base year
  - Growth factors
  - State-specific caps
  - Enrollee-specific caps
- Defining the level of state contribution
- Determining the level of state flexibility and accountability

Congressional Action

- American Health Care Act (AHCA, H.R. 1628)
  - Passed House of Representatives on May 4, 2017
- Better Care Reconciliation Act
  - Failed procedural vote in Senate on July 25, 2017
- Congressional Budget Office (CBO) estimates:
  - Coverage provisions (including changes to Medicaid expansion) were projected to save between $756-$840 billion in federal outlays for Medicaid over the 2017-2026 period
- Unclear what next steps will be

Financing Alternatives

- Both bills would have shifted federal Medicaid financing from an open-ended match to a per capita cap beginning in FY 2020
- States would have had the option to use a block grant for certain populations:
  - House bill – non-elderly, non-disabled, non-expansion adults only or these adults and children
  - Senate bill – non-elderly, non-disabled, non-expansion adults, or expansion enrollees, or both

Enrollee Groups

- Per capita caps set for defined eligibility groups:
  - aged
  - disabled
  - children
  - non-expansion adults
  - new adult group
- Senate bill excluded children who qualify on the basis of disability

Excluded Populations and Expenditures

- Excluded populations
  - Individuals covered by CHIP
  - Individuals who receive services under Indian Health Services or the Breast and Cervical Cancer Treatment program
  - Partial benefit enrollees
- Excluded expenditures
  - Disproportionate Share Hospital (DSH) payments
  - Medicare cost sharing
  - Vaccines for children
  - Administration

Base Years

- House bill:
  - FY 2016 trended to FY 2019
  - Adjustment to reflect state spending on non-DSH supplemental payments
- Senate bill:
  - State may choose a base period
  - Any eight consecutive quarters between the first quarter of 2014 and the third quarter of FY 2017
  - Same non-DSH supplemental payment adjustment

Growth Factors

- House bill:
  - FY 2016 to FY 2019: CPI-M
  - FY 2019 to FY 2020 and subsequent years
    - aged and disabled per capita spending: CPI-M + 1 percentage point
    - children, non-expansion adults, and new adults: CPI-M
- Senate bill:
  - Same growth factors as House bill through FY 2024
  - Beginning in FY 2025, growth factor is CPI-U
  - Includes an adjustment for states with spending 25 percent above or below the national average

Growth Factors Compared to Projected Annual Growth in Spending

	2020	2021	2022	2023	2024	2025 +
Aged and disabled						
AHCA growth factor (CPI-M +1)	5.2%	5.2%	5.2%	5.2%	5.2%	5.2 %
BCRA growth factor (CPI-M +1/CPI-U)[1]	5.2	5.2	5.2	5.2	5.2	2.4
Projected spending - aged	4.1	3.9	4.0	4.1	4.3	4.4
Projected spending - disabled	4.8	5.0	5.1	5.2	5.3	5.3
Child, non-expansion adult, expansion adult						
AHCA growth factor (CPI-M)	4.2%	4.2	4.2	4.2	4.2	4.2
BCRA growth factor (CPI-M/CPI-U)[1]	4.2	4.2	4.2	4.2	4.2	2.4
Projected spending - child	4.8	4.8	4.9	4.9	5.0	5.0
Projected spending - non-expansion adult	5.2	5.1	5.2	5.2	5.3	5.3
Projected spending - expansion adult	5.6	5.5	5.5	5.5	5.6	5.6

Aggregate Federal Spending Limit

- The per capita cap amount for each enrollee group is multiplied by number of enrollees to calculate a total medical expenditure limit
- The federal share of any excess spending over the aggregate limit is offset the following year on a quarterly basis

Other Design Considerations

- Defining the level of state contribution
  - Under both bills, states continue to provide funds under existing matching system
- Determining the level of state flexibility and accountability
  - Little change to the level of state flexibility
  - More state options under the block grant alternative

Potential Effect of Restructuring Federal Financing

- Depends on the design and the level of funding
- States may raise revenues to fill gap or make changes to eligibility, benefits, provider payments
- Effect on enrollees and providers depends on state reaction
- Other programs that serve low-income individuals

Additional Resources

- Design Issues in Medicaid Per Capita Caps: An Update
  - https://www.macpac.gov/publication/design-issues-in-medicaid-per-capita-caps-an-update/
- Alternative Approaches to Federal Medicaid Financing
  - https://www.macpac.gov/publication/alternative-approaches-to-federal-medicaid-financing/

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