

# Federal Proposals for Capped Medicaid Funding: Considerations and Implications

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Presentation to Alabama Legislature

February 16, 2017

# Agenda

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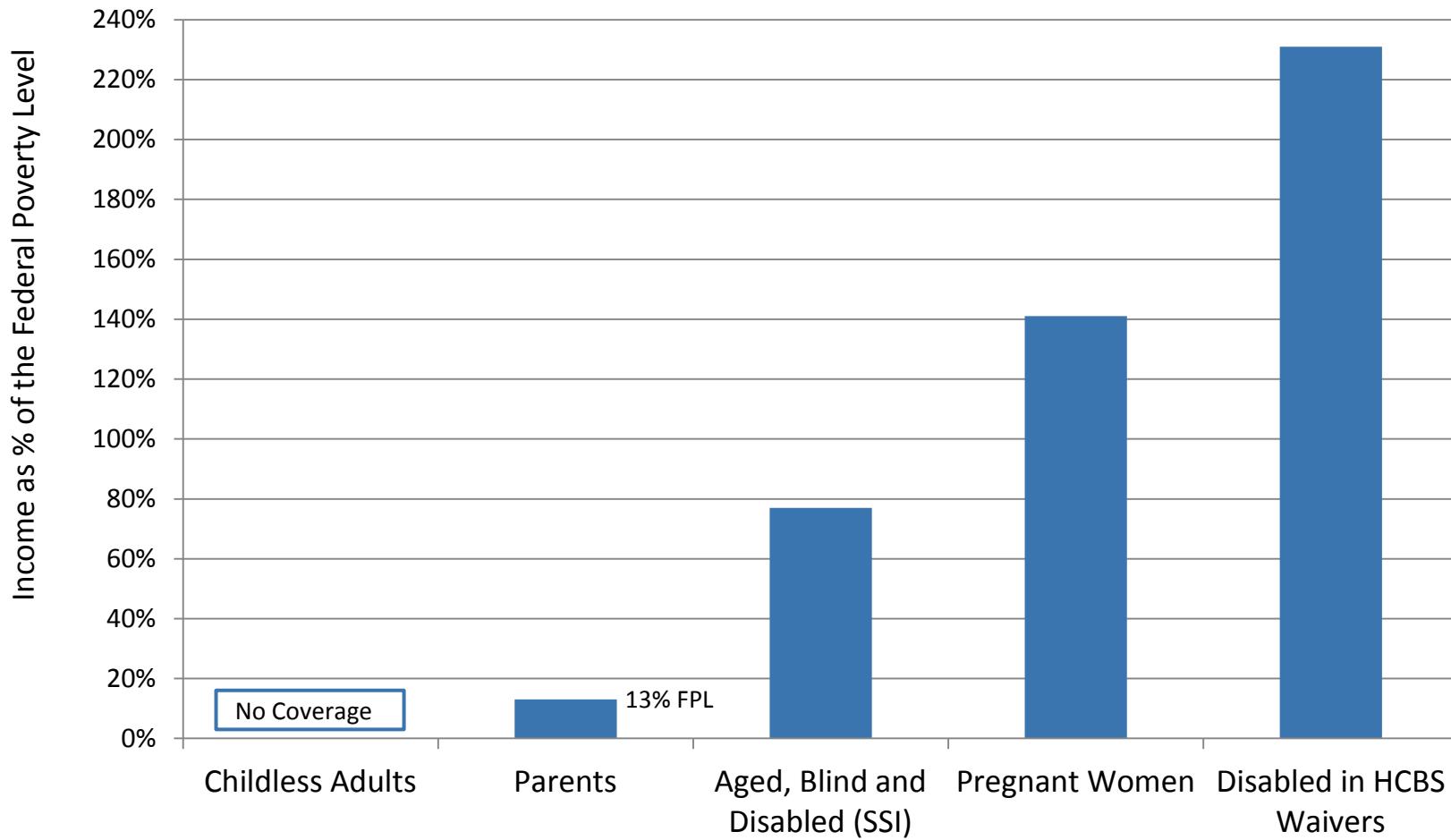
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- Alabama Medicaid Today
- Proposals to Cap Federal Medicaid Funding
- Implications of Capped Federal Funding Proposals
- Questions

# **Alabama Medicaid Today**

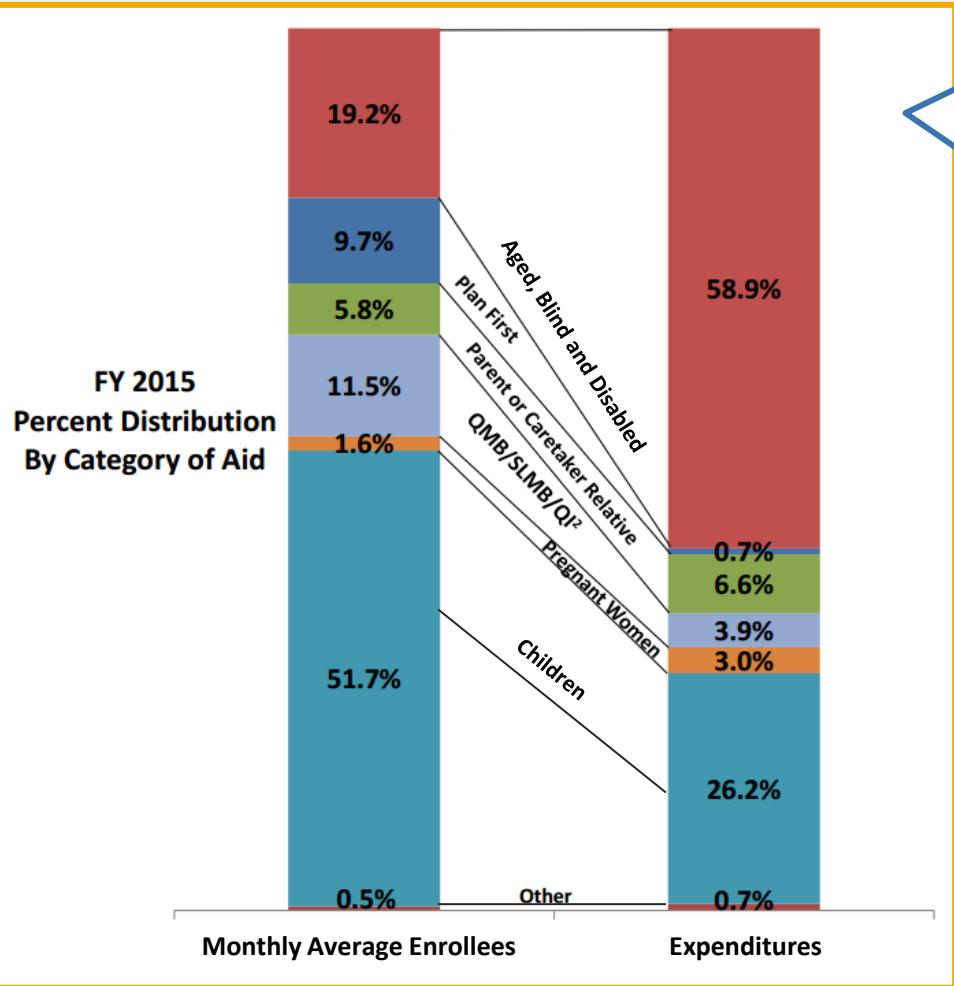
# Current Alabama Eligibility Levels for Adults

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# Alabama Medicaid Enrollment and Spending

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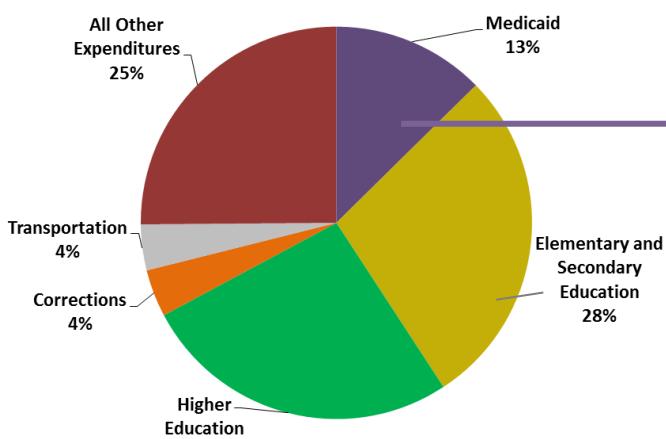


- Children represent more than 50% of Alabama Medicaid enrollment but just over 25% of costs
- Aged, blind and disabled enrollees represent less than 20% of Medicaid enrollment but almost 60% of costs

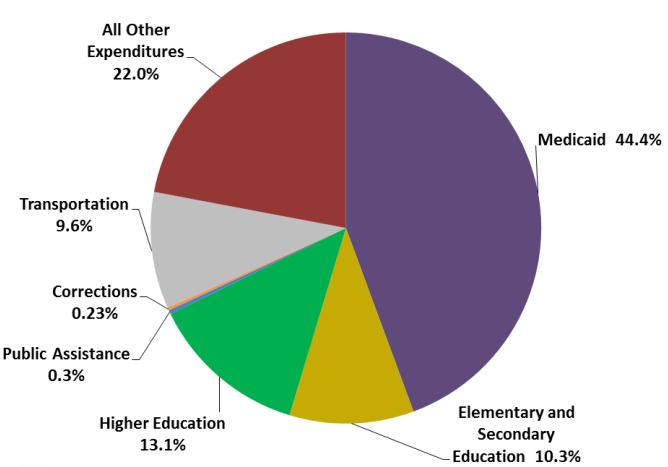
# Medicaid's Role in the Alabama Budget and Economy

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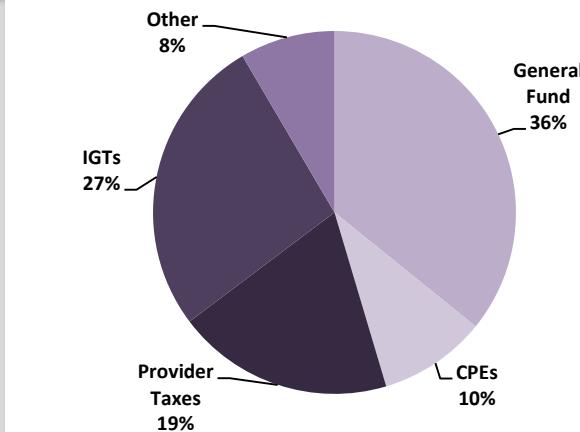
## Medicaid as a Share of Alabama State Spending in Budget, SFY 2015



## Sources of Federal Funds to Alabama Budget, SFY 2015



## Sources of Alabama State Share Medicaid Funding, SFY 2015



# Alabama Medicaid's Financing Structure Today

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## Alabama receives federal funding for all allowable program costs

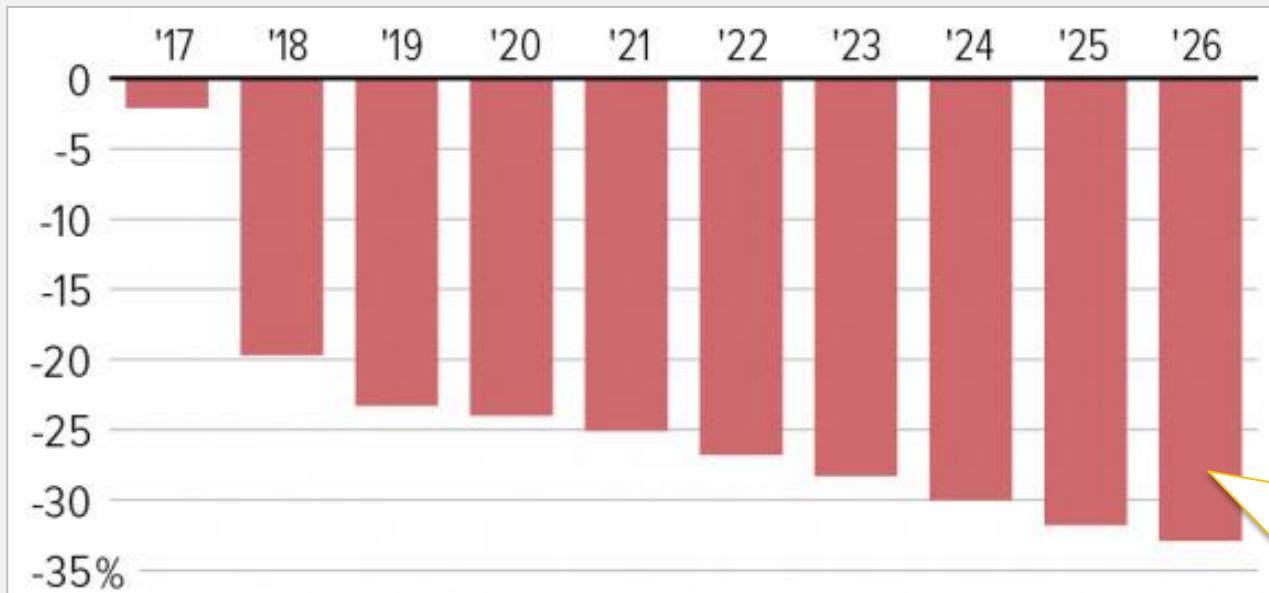
- Federal dollars are guaranteed as match to state spending so long as state complies with federal Medicaid law, rules and the terms and conditions of any state waivers
- Alabama claims federal dollars for: medical and administrative services, supplemental payments to providers (e.g. DSH, UPL, GME) and payments under waiver authority
- Alabama received \$4.1 billion in federal Medicaid funds in FY 2015, as a “match” to \$1.9 billion in state share
  - The state share is raised as follows: \$685 million in general funds; \$513 million in intergovernmental transfers; \$369 million from provider taxes; \$183 million from certified public expenditures; and \$162 million in other funding
- Alabama's FMAP is 70.16% in FY 2017; for \$3 that Alabama spends, the federal government provides \$7 in federal match

## **Proposals to Cap Federal Medicaid Funding to States**

# Proposals Sharply Reduce Federal Payments to States

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**Percent Cut in Federal Medicaid and CHIP Funds  
(House FY 2017 Plan Relative to Current Law)**



Proposal would cut federal Medicaid funds by \$1 trillion (or 25%) over ten years, resulting in a combined 33% reduction in federal funds for Medicaid and CHIP.

# Overview of Proposals to Cap Federal Medicaid Funding

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## Features of All Capped Funding Proposals

- Limits federal Medicaid spending
- Limits are based on historical spending in each state in a selected “base year”
- Base amount trended at a specified national trend rate (below medical inflation)
- Some increased state flexibility

### Block Grants

#### *Shifts enrollment and cost risk to states*

- States receive a fixed amount of federal funding each year for all Medicaid costs
- States generally have some state spending requirement
- Provides funding certainty to federal government
- Other programs currently operating as block grants (e.g. TANF, Social Services) have seen reduced federal investments over time

### Per Capita Caps

#### *Shifts cost risk to states*

- States receive fixed amount of federal funding per Medicaid enrollee; overall funding may also be capped
- Caps vary by eligibility category (e.g., people with disabilities, children)
- State match typically required, with federal match provided for state expenditures up to per enrollee cap

# **Implications of Capped Federal Funding Proposals for Alabama**

# Capped Funding: Unanticipated Needs and Costs

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Capped funding constrains ability to respond to events beyond states' control

- Neither block grants nor per capita caps account for:

- Public health crises such as HIV/AIDs, Opioid epidemic, Zika
- New block-buster drugs or other medical advances
- Natural disasters such as Hurricane Katrina
- Man-made disasters such as 9/11 and lead poisoning

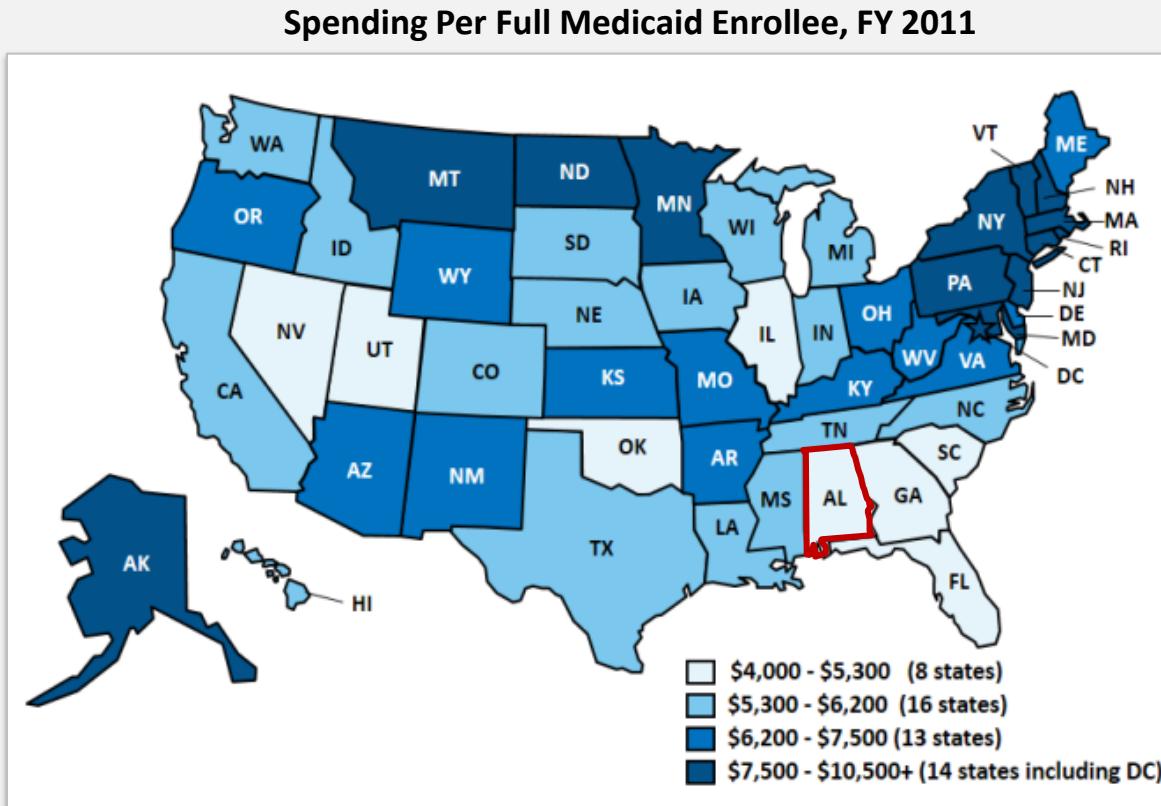
- In addition, block grants do not account for:

- Economic downturns or other causes of higher-than-anticipated enrollment

# Capped Funding: Locks in Disparities Across States

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Capped funding freezes in historic differences in spending



Source: Rudowitz, R., Garfield, R., and Young, K., "Overview of Medicaid Per Capita Cap Proposals," Kaiser Family Foundation, June 2016. Available at: <http://kff.org/report-section/overview-of-medicaid-per-capita-cap-proposals-issue-brief>

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# Alabama Per Enrollee Medicaid Spending Relatively Low

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## State Ranking of Medicaid Spending (Federal and State) per Full Benefit Enrollee, FY 2011

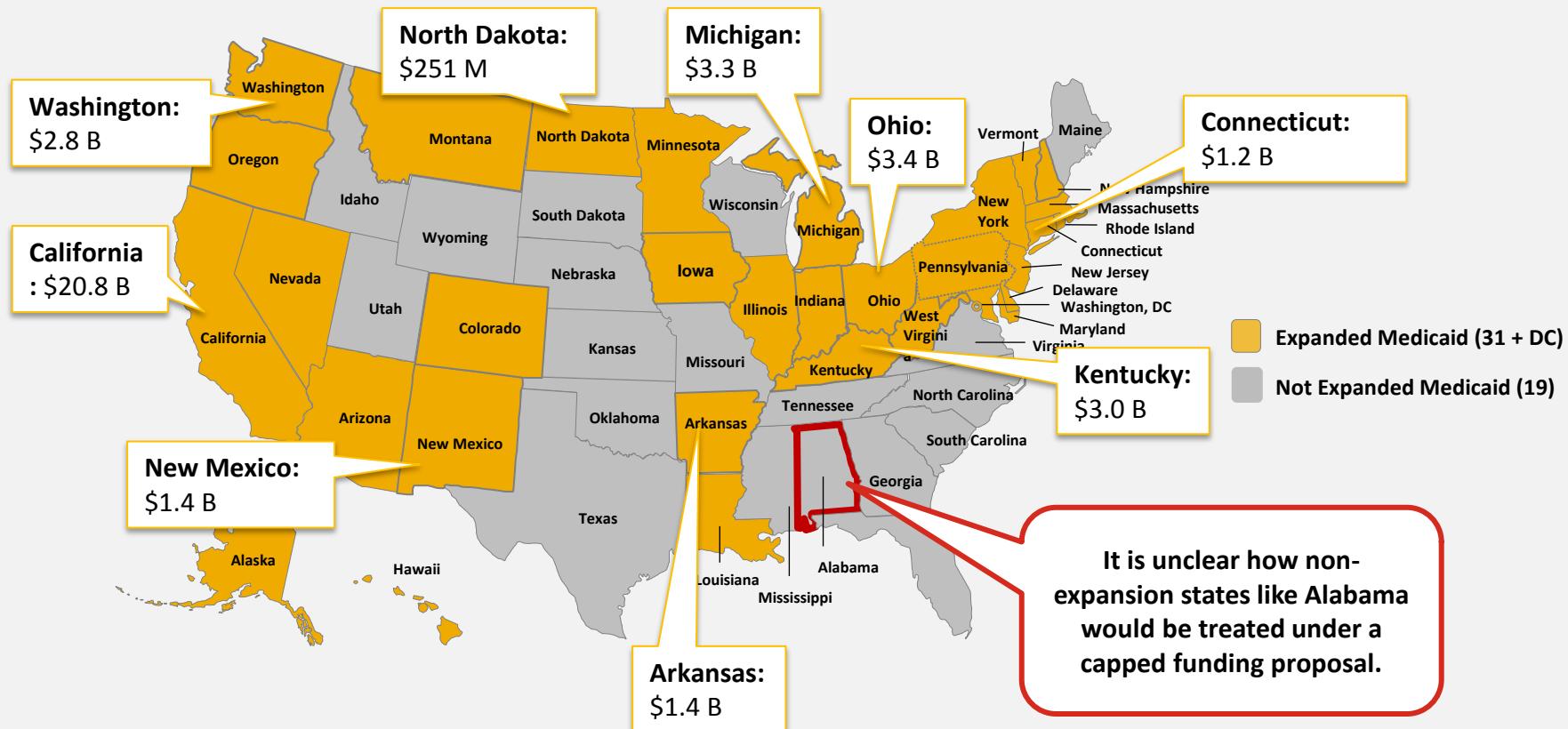
#	Total	Adults*	Children	Aged	Disabled
1	MA (\$11,091)	NM (\$6,928)	VT (\$5,214)	WY (\$32,199)	NY (\$33,808)
2	NY (\$10,307)	MT (\$6,539)	AK (\$4,682)	ND (\$31,155)	CT (\$31,004)
3	RI (\$9,541)	AK (\$6,471)	NM (\$4,550)	CT (\$30,560)	AK (\$28,790)
4	AK (\$9,481)	AZ (\$6,460)	RI (\$4,290)	NY (\$28,336)	ND (\$28,692)
5	DC (\$9,083)	VT (\$6,062)	MA (\$4,173)	DE (\$27,666)	DC (\$28,604)
	...				
24	NM (\$6,328)	SD (\$4,356)	SD (\$2,503)	AL (\$18,473)	OR (\$18,255)
	...				
34	NE (\$5,777)	AL (\$3,899)	AL (\$2,156)	AZ (\$16,145)	WI (\$16,599)
	...				
47	AL (\$4,976)	FL (\$2,993)	NV (\$1,940)	CA (\$12,019)	MS (\$12,960)
48	FL (\$4,893)	CA (\$2,855)	MI (\$1,926)	UT (\$11,763)	KY (\$12,856)
49	IL (\$4,682)	NV (\$2,367)	IN (\$1,858)	IL (\$11,431)	SC (\$12,830)
50	GA (\$4,245)	ME (\$2,194)	FL (\$1,707)	NC (\$10,518)	GA (\$10,639)
51	NV (\$4,010)	IA (\$2,056)	WI (\$1,656)	NM (N/A)	AL (\$10,142)
U.S. Average		\$6,502	\$4,141	\$2,492	\$17,522
					\$18,518

\* Includes low-income parents and pregnant women.

# Adding to the Disparities: \$72.6 B in Expansion Funding

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## Examples of federal funds for new adult group in 2016



Note: Federal funding does not reflect enhanced funding provided by the ACA to states that expanded before the ACA ("early expansion states"). Total federal funding for all expansion adult enrollees (not just those that are newly eligible) from January 2014 - June 2015 was \$78.8 billion.

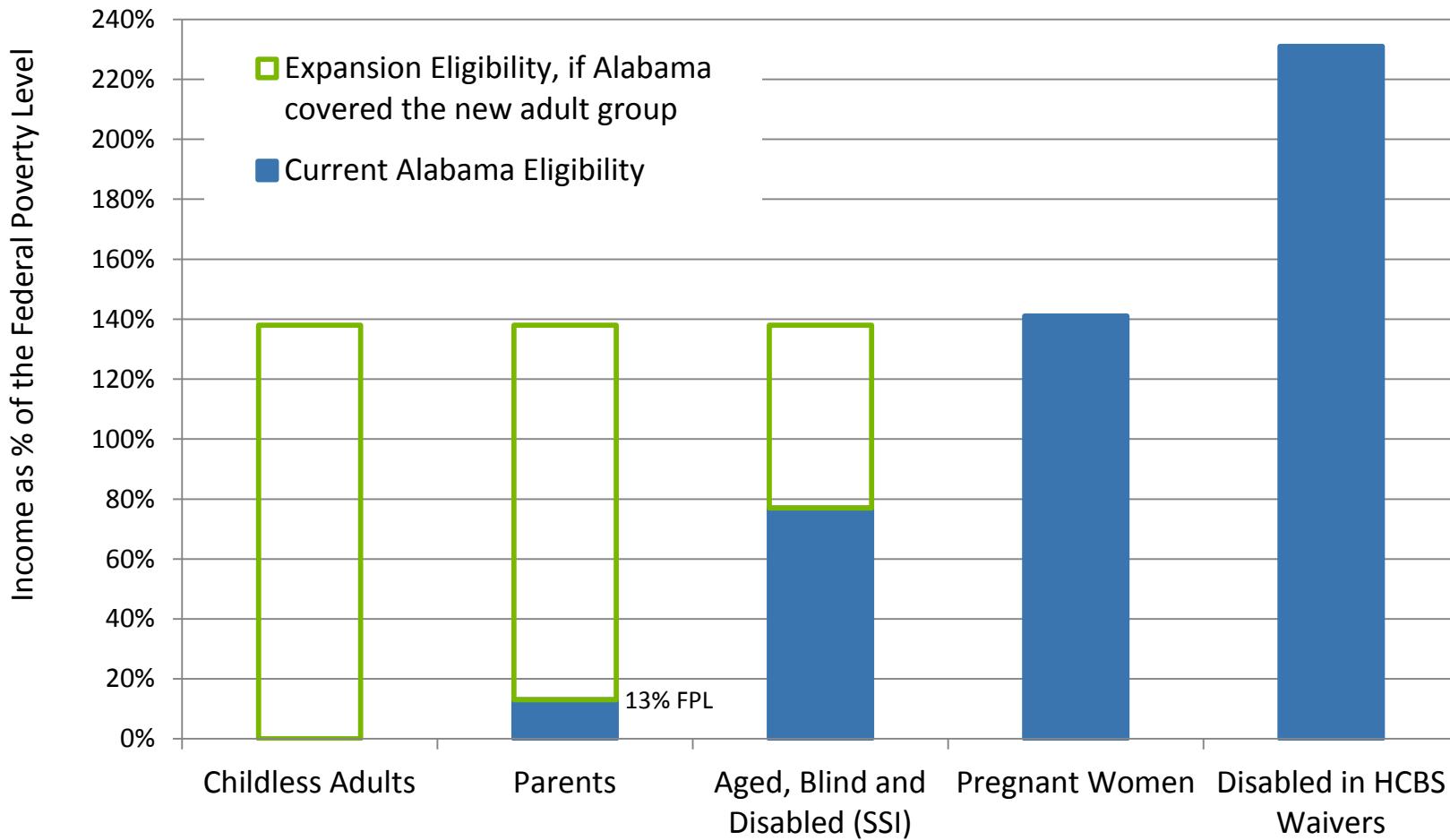
Sources: Manatt analysis based on December 2016 CMS-64 expenditure data. Data available online at: <https://www.medicaid.gov/medicaid/financing-and-reimbursement/state-expenditure-reporting/expenditure-reports/index.html>; Current Status of State Medicaid Expansion Decisions, Kaiser Family Foundation, July 2016. Available at: <http://kff.org/health-reform/slide/current-status-of-the-medicaid-expansion-decision/>

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# Non-Expansion States Are at a Disadvantage

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In Alabama, low eligibility levels increase funding gap relative to expansion states

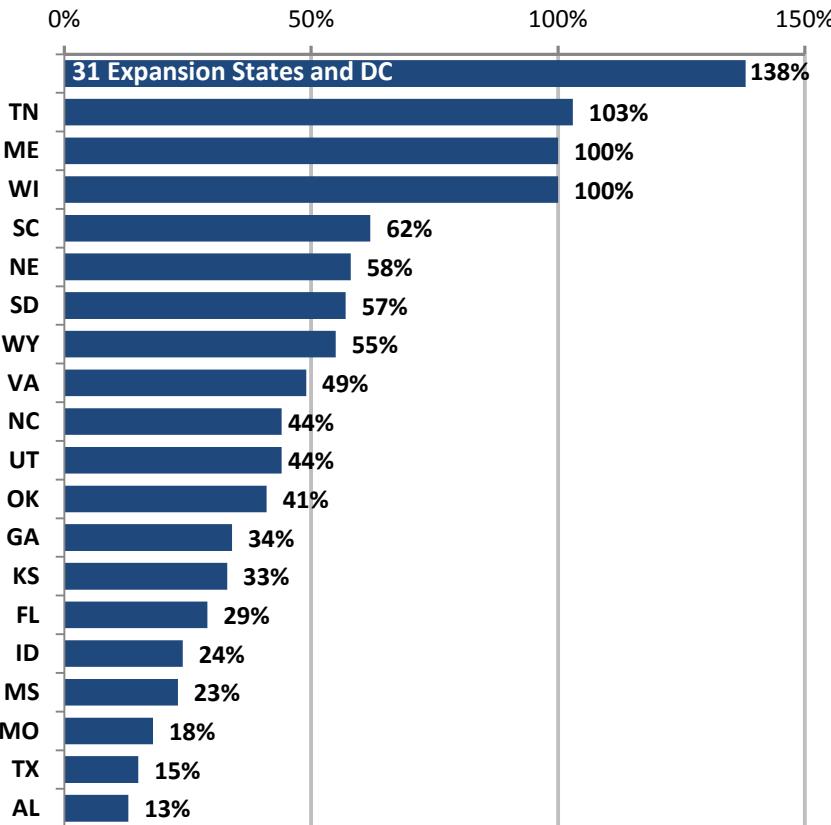


# Alabama Has Lowest Eligibility Levels in U.S.

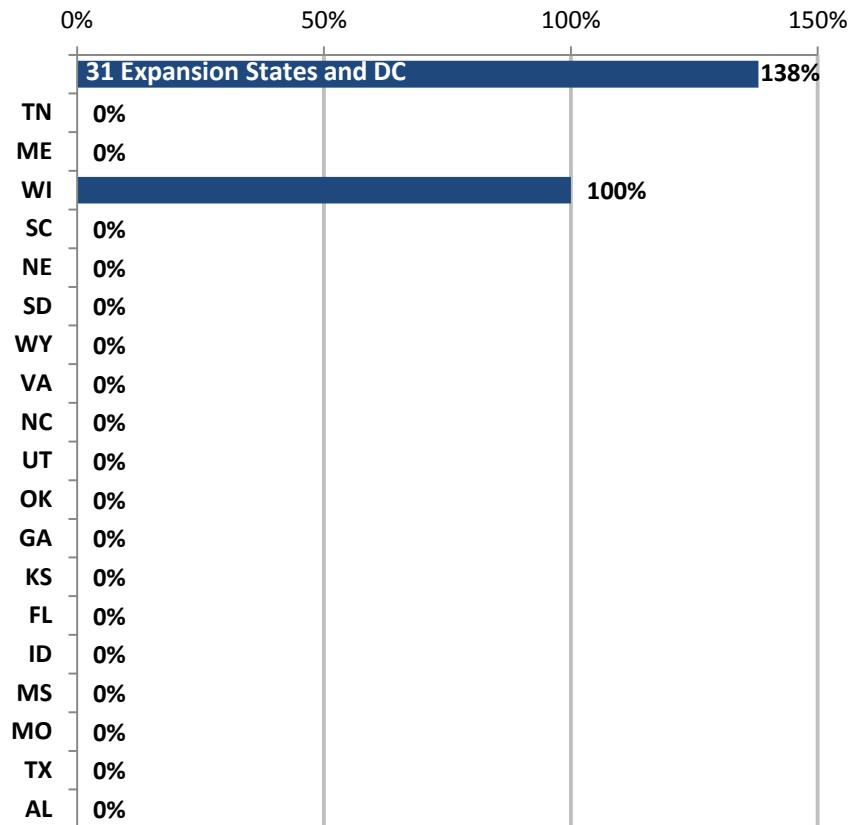
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## Medicaid Income Eligibility Levels Across States in 2017

### Parents



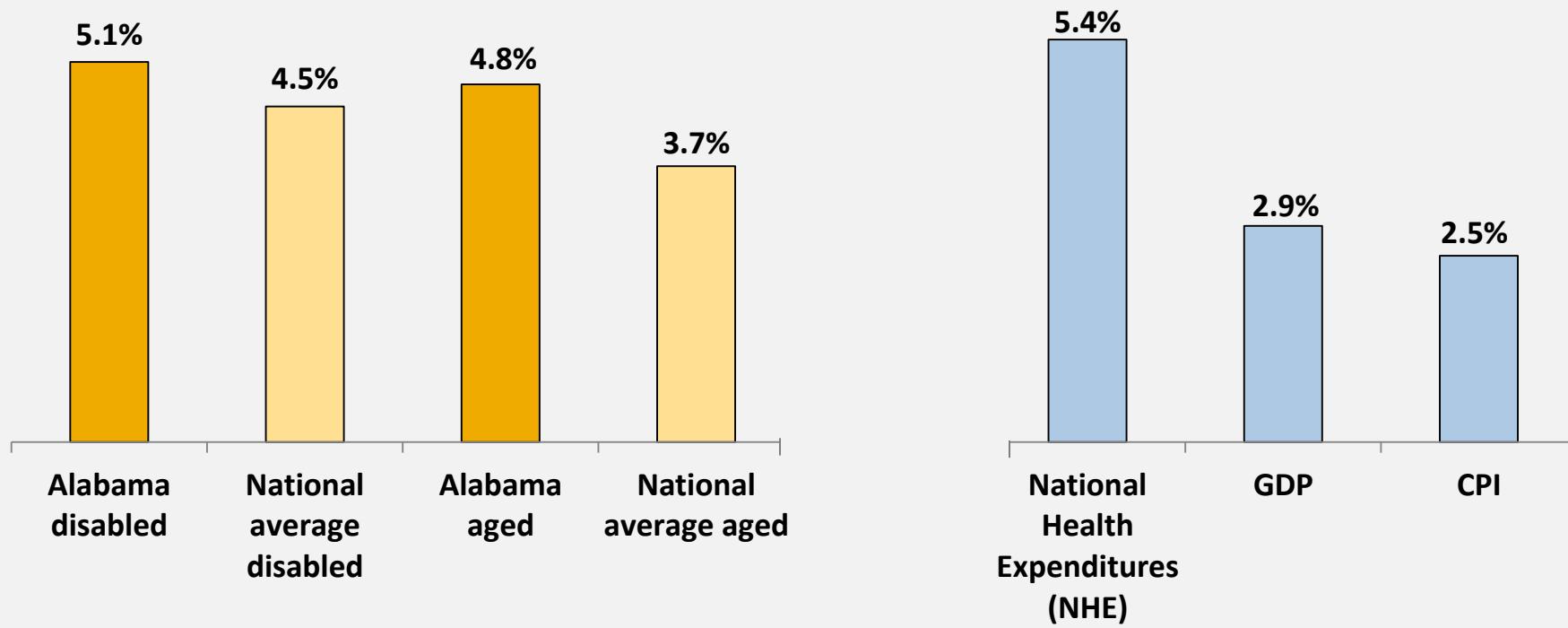
### Childless Adults



# Capped Funding: One-Size-Fits-All Growth Rate

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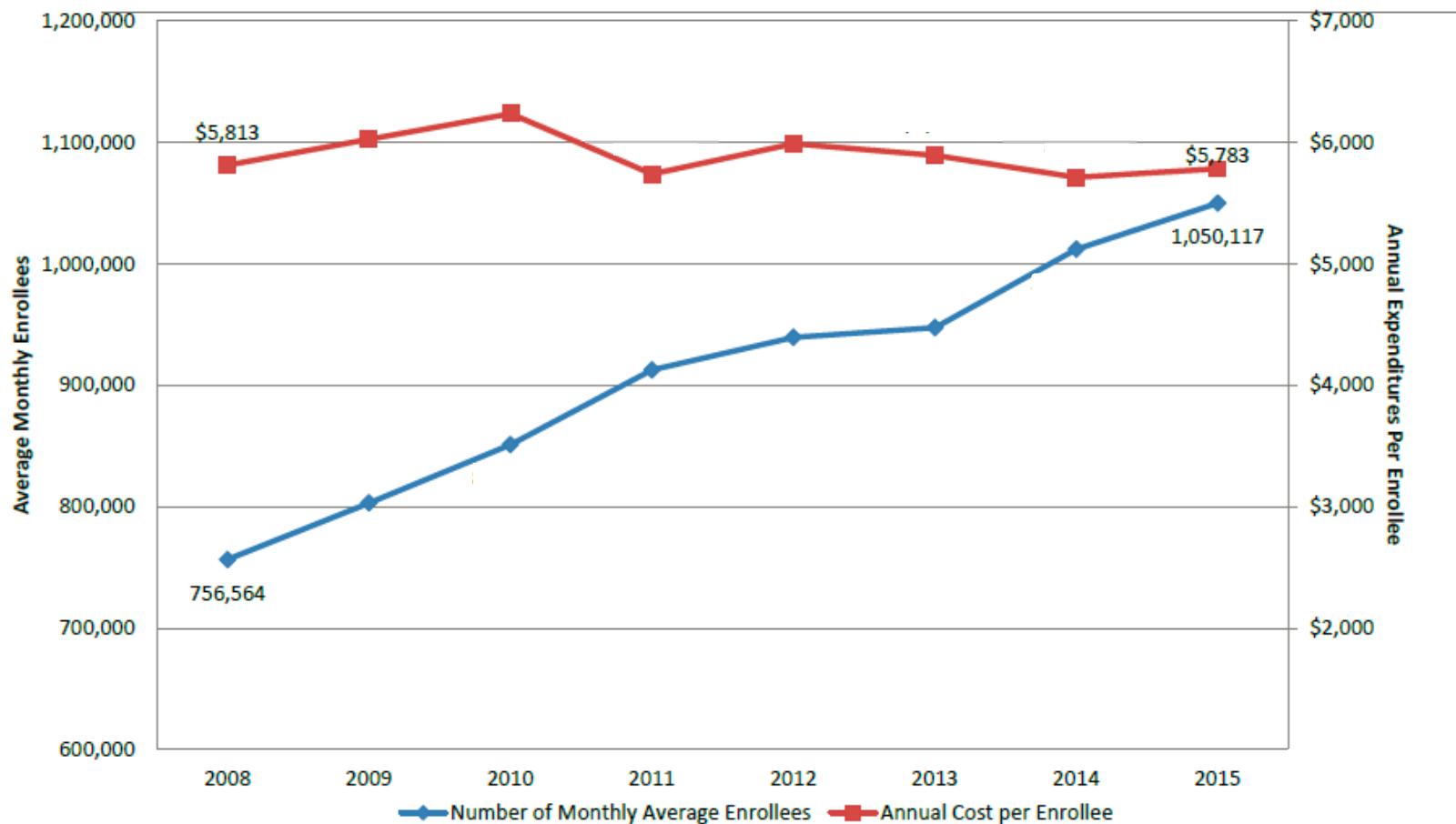
Average Annual Growth in Medicaid Spending per Full-Benefit Enrollee  
Relative to Benchmarks  
FYs 2000 – 2011



# Enrollment and Annual Cost Per Enrollee

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## Alabama Medicaid Enrollment and Annual Cost Per Enrollee, 2008 - 2015



# Capped Funding and Waivers

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Proposals are mostly silent on treatment of waiver funding

States with Waiver Funding

State	Delivery System Transformation	Uncompensated Care Pool
Alabama	X	
Arizona		X
California	X	X
Florida		X
Hawaii		X
Kansas	X	X
Massachusetts	X	X
New Hampshire	X	
New Jersey	X	
New Mexico	X	X
New York	X	
Oregon	X	
Rhode Island	X	
Tennessee		X
Texas	X	X
Virginia	<i>Pending</i>	
Washington	X	

# The Trade Off: Less Funding vs. More Flexibility

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## How to Manage Reduced Funding?

- Will Alabama be permitted to cut eligibility below current levels?
- Where would Alabama cut eligibility?
  - Alabama's adult eligibility levels lowest in nation
  - Most spending is for elderly and disabled
- Which benefits would Alabama cut?
- What other steps would Alabama take to adjust to a cut in funding?
- What would be the ripple effect of such cuts?

## How Much Flexibility?

- Minimum eligibility and benefit requirements may be in any fixed funding bill
- Some reporting and audit requirements are likely in any fixed funding bill
- Additional flexibility can be obtained today under a section 1115 waiver
- Federal review of waivers and State Plan Amendments can be streamlined and expedited under current law

# Thank you!

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