



Background on Block Grants

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On January 30, the Department of Health and Human Services (HHS) released a new Medicaid guidance inviting states to submit Section 1115 applications for block grants. Any such block grant would be devastating for states and unfair to federal taxpayers. Block grants will slash the amount of federal funding available to states for health care, leaving state taxpayers on the hook and residents at risk of losing care. At the same time, there would be insufficient accountability for how the federal taxpayers' dollars are being spent in the state. This fact sheet provides general background on block grants and how they negatively impact the health of low-income people.

Spending caps, such as block grants and per capita caps, place an artificial and arbitrary limit on health care coverage. For the past 55 years under Medicaid, states have received guaranteed federal matching funds based on how much states actually need to provide health care. Under a block grant, the federal government would impose a low and fixed funding limit on a state, and once the state hits the limit the federal funding for health care stops regardless of whether the state needs more.

Block grants are health care cuts that would lead to huge losses of federal funding state. Depending on the state, federal funds account for about 50% to 77% of a state's Medicaid spending. The Administration's objective is to design block grants with extremely low caps, effectively slashing your state's funding. In 2017, for example, the Administration supported legislative block grant proposals would have cut Medicaid by nearly a trillion dollars over 10 years. The impacts of a cut that large would be devastating for states, and there is no way any state could pay the difference.

Block grants are fiscally irresponsible and a huge budget risk for states. Under a block grant, a state would be stuck with all of the health care costs in Medicaid once it hits the preset federal cap. This means that the state's budget would be at risk for all kinds of health cost increases, such as those related to health care inflation, natural disasters, new prescription medicine or medical technology, and health epidemics (for example, Zika, coronavirus, opioid use disorders, etc.). States will also not have the money to keep up with spending increases when the economy falters and more people become uninsured. Under a block grant, states face big risks for big losses.

Block grants will force states to slash enrollment and health care services. Under a block grant, states will lose millions of dollars in federal funding that pay for vital health care services. The magnitude of the losses will mean it is impossible for states -- already facing budget challenges -- to make up for the difference using state funds. The only “solution” in states will be to cut Medicaid services, or eligibility, or both. States will also cut provider payment rates, which will harm access to healthcare providers, clinics and hospitals, particularly in rural areas. And when state residents lose federally-funded Medicaid it will push many individuals towards state-funded services, creating additional new costs for states.

States with capped federal funding will continue to pay taxes towards Medicaid in other states. Under a block grant, a state will take a huge federal funding cut, but its residents’ federal taxes will continue to finance Medicaid in every other state. Essentially, the state will be voluntarily taking a huge federal cut but continue to foot the bill for the other 49 states. The block grant prevents state residents from reaping the full benefits of their federal taxes.

Block grants in Medicaid make it harder for states to pay for other state priorities. Once a block grant is in place, a state will lose millions or billions of dollars in federal health care funding, and when individuals lose Medicaid coverage the state will also see an increase in new spending in state-funded health care programs. The huge decrease in federal funding and the new state spending will harm the state’s ability to address other state priorities, such as education. Medicaid does not interfere with other state priorities: Since it is heavily federally funded and replaces state health care spending, Medicaid helps states support other state priorities. Reducing federal funding through block grants will also have ripple effects throughout a state’s economy, hurting health care providers, small businesses, and reducing employment.

Block grants will have administrative and legal costs. Requesting block grants will require states to negotiate “waivers” from HHS to reinvent the wheel in state funding. This is will be a waste of time and money for the state. Furthermore, if the state did get a waiver approved by HHS, the approval would immediately be challenged in court and likely struck down, since there is no authority in Medicaid law to allow block grants. This would mean heavy legal costs for the state, and in the end all of the effort would be a waste of money, since the courts would likely strike down the block grant. In addition, if there is a new Administration in 2021, it would almost certainly stop block grant waivers. Requests for a block grant waiver will be a huge state investment that will likely go nowhere.