State Health Reform Assistance Network
Charting the Road to Coverage

A Robert Wood Johnson Foundation program

Medicaid Capped Funding: Findings and Implications for Arizona

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On March 24, 2017, the House of Representatives determined not to move ahead with the American Health Care Act (AHCA), its proposal to repeal and replace the Affordable Care Act (ACA). The AHCA included provisions that would have capped federal Medicaid funds through per capita caps and block grants, and reduced or eliminated federal funding for the expansion of Medicaid to low-income adults. While the AHCA failed to advance, these Medicaid proposals are likely to remain a priority for Congressional leadership. To assist states in evaluating how they might fare under a capped funding model, Manatt Health analyzed state-specific data for all 50 states and the District of Columbia. The Arizona-specific data provided here offers insight into how base payment calculations and trend rates, as well as state policies and demographics, could impact Arizona under capped funding proposals. The data are drawn from a tool kit prepared by Manatt Health for the Robert Wood Johnson Foundation's State Health Reform Assistance Network.[1]

Medicaid capped funding proposals are designed to provide the federal government with greater budget certainty and to reduce federal spending, and thereby reduce federal Medicaid funding for states, especially in the out years. In several recent proposals, including the AHCA, the size of the cap for each state is set based on its historical spending in Medicaid, trended forward by an annual, national "trend rate," rather than a state-specific trend. As a result, under a capped financing formula, federal Medicaid funding to states would no longer respond automatically to increases in state-specific health care expenditure growth, break-through therapies, public health crises, or, depending on the design of the cap, increases in enrollment due to growing populations, changing demographics, economic downturns or other factors. States might have additional flexibility to reduce eligibility, benefits or provider payment rates, but ultimately they bear the risk of costs exceeding the cap.

Data Considerations

This memo relies on the most recent publicly available data, and in some instances, it references 2011 data. While a state might have more recent data on its own program spending, 2011 is the most recent year for which per enrollee spending and historical growth rates are publicly available by eligibility group for all states. The lack of more recent 50-state data is challenging, but the comparison across states is helpful. In any event, faced with the lack of more recent 50-state data, Congress will likely need to rely on older and aggregated data in setting capped funding levels.

[1] http://statenetwork.org/resource/data-points-to-consider-when-assessing-proposals-to-cap-federal-medicaid-funding-a-toolkit-for-states/

Key Data Findings

- **Expansion brought billions in federal funding to Arizona and sharply increased coverage.** If Medicaid restructuring eliminates or reduces funding for the Medicaid expansion, it would pose a significant threat to coverage in Arizona and to the State's budget.
    - Over 416,000 individuals are covered through the Medicaid expansion adult group in Arizona, 22% of the State's Medicaid population as of March 2016.
    - Arizona's uninsured rate dropped by nearly 36% from 2013 to 2015 (from 17.3% to 11.1%), due in large part to the Medicaid expansion.
    - Beyond coverage, reducing or repealing federal support for expansion would have an outsized impact on Arizona's budget. Federal funding for new adults (an estimated $2.1 billion in 2015) accounts for 26% of all federal Medicaid funding for Arizona.
    - Even if it could absorb the fiscal hit of a reduction in federal support for expansion, Arizona is one of at least nine states that is required by state law to reduce or eliminate Medicaid eligibility and/or benefits for the expansion population if the Medicaid matching rate is reduced.
- **Arizona's State budget relies heavily on federal Medicaid funding**. Medicaid represents the single largest source of federal funding for the State. A loss of federal Medicaid funding could shift costs to the State, posing a threat to the Arizona budget and other state priorities, such as education.
    - Federal Medicaid funding ($8 billion in 2015) makes up nearly 60% of all federal funding in Arizona's budget – on par with other expansion states. By comparison, the next largest source of federal funds—for elementary and secondary education—is just over 7% of the federal funds received by the State.
- **Arizona has high per capita Medicaid spending levels relative to other states.** Although nearly all capped funding proposals start with a state's historic spending, under some proposals, Arizona may be expected to move the state's per capita expenditures toward the median over time.
    - Arizona ranked 15th among states in total per capita Medicaid spending per enrollee. In fiscal year 2011, average spending was $7,167 per enrollee, well above the national average of $6,502.
    - Arizona has relatively high spending for the disabled, children and adults: $22,040 per disabled individual compared to $18,518 nationally (10th highest); $3,052 per child compared to $2,492 nationally (10th highest); and $6,460 per adult compared to $4,141 nationally (4th highest).
- **Between 2000-2011, Arizona's spending on a per capita basis grew much more rapidly than the national trend rates typically advanced in capped funding proposals, and faster than most other states.** If Arizona's historical spending rates are indicative of its future spending rates, over time federal Medicaid funding under a capped funding proposal would be short of Arizona's needs.
    - Arizona's average annual per enrollee spending growth was among the highest in the nation in nearly all eligibility groups from 2000-2011: 8.1% for the disabled (2nd in nation), 8.3% for children (6th in nation), and 9.9% for adults (9th in nation).

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- Arizona's Medicaid spending growth on these groups significantly outstripped per capita GDP (2.9%), CPI (2.5%), and medical CPI (4%) during that period.
- Arizona already has relatively high use of managed care. In contrast to other states, it is not clear how much further Arizona could reduce per capita spending without reducing benefits or provider payment rates.

- **Arizona relies on DSH, UPL and waiver payments; depending on how they are treated in a capped funding approach, these federal funds may be at risk.** This is a critical issue for Arizona to monitor.
  - DSH, UPL and waiver payments made up more than 4% of all Arizona Medicaid benefit spending in 2015.
- **Arizona is the fastest growing state in the country, which puts it at particularly high risk under capped funding.** A capped funding formula that does not take enrollment into account would leave the State at higher risk than others states. Even if enrollment growth is accommodated by a per capita cap model, it would be at risk for the higher costs attributable to an aging population.
  - Arizona is the fastest growing state in the country. While the country is expected to see its population grow by 8.4% by 2025, Arizona is looking at a 27.2% growth rate, or over 2 million people.
  - By 2025, Arizona is expected to see its senior (age 65+) population – a group with high Medicaid costs – grow by 64%, the fastest growth rate in the country. Arizona's Medicaid enrollment of aged individuals from 2000-2011 likewise grew quickly – at an average annual rate of 6.8%, compared to the national average of 2.3%, the 2nd fastest growth rate for this Medicaid population in the nation.
  - Projected growth in the elderly population will be a particular challenge in Arizona in light of its relatively low per capita spending base for the elderly (17th lowest in the nation).
- **Arizona has among the highest uninsured rates in the nation – leaving Arizona with a bigger "hole" to address if and when the State is looking to cover additional residents.** Capped funding proposals to date do not take into account the size of each state's remaining uninsured population.
  - As of 2015, the uninsured rate in Arizona was 11.1% - the 12th highest in the nation.
  - While the current Medicaid structure preserves Arizona's option to expand its Medicaid coverage, a capped model may eliminate or reduce federal financial support for any such expansion.

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