

Medicaid Capped Funding: Findings and Implications for Delaware
April 5, 2017

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 Delaware-specific data provided here offers insight into how base payment calculations and trend rates, as well as state policies and demographics, could impact Delaware 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 millions in federal funding to Delaware in 2015, and helped drive the uninsurance rate to one of the lowest in the U.S.** If Medicaid restructuring eliminates or reduces funding for the Medicaid expansion, it would pose a significant threat to coverage in Delaware and to the State's budget.
 - More than 66,700 individuals are covered through the Medicaid expansion adult group in Delaware, 31% of the State's Medicaid population as of March 2016.
 - Delaware's uninsured rate dropped by 44% from 2013 to 2015 (from 10% to 5.6%), due in large part to the Medicaid expansion.
 - Beyond coverage, reducing or repealing federal support for expansion would have an outsized impact on Delaware's budget. Federal funding for new adults (an estimated \$341 million in 2015) accounts for 31% of all federal Medicaid funding for Delaware.
- **Delaware'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 Delaware budget and other State priorities, such as education.
 - Federal Medicaid funding (\$1.1 billion in 2015) makes up more than half (57.8%) of all federal funding in Delaware's budget – below the average share (59.3%) among expansion states but still the largest source of federal funding for the State. By comparison, the next largest source of federal funds—for transportation—is 12% of the federal funds received by the State.
- **Delaware has above average 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, Delaware may be expected to move the state's per capita expenditures toward the median over time.
 - Delaware ranked 20th among states in total per capita Medicaid spending per enrollee. In fiscal year 2011, average spending was \$6,661 per enrollee, just above the national average of \$6,502.
 - Delaware has relatively high spending across eligibility groups: \$27,666 per elderly enrollee compared to \$17,522 nationally (5th highest); \$22,972 per disabled individual compared to \$18,518 nationally (9th highest); \$2,942 per child compared to \$2,492 nationally (13th highest); and \$5,430 per adult compared to \$4,141 nationally (8th highest).
- **Between 2000-2011, Delaware's Medicaid spending on a per capita basis grew more rapidly across three of its four eligibility categories than the national trend rates advanced in capped funding proposals, and faster than many other states.** If Delaware'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 Delaware's needs.
 - Delaware's average annual per enrollee spending growth was above average in most eligibility groups from 2000 - 2011: 4.7% for the elderly (21st in nation), 5.8% for children (21st in nation), and 7.1% for adults (26th in nation); the State's growth rate in per capita spending for the disabled (3.7%) was below the national average (4.5%).
 - Delaware's Medicaid spending growth for three of its four eligibility groups significantly outstripped per capita GDP (2.9%), CPI (2.5%), and medical CPI (4%) during that

period. The State's spending growth for the disabled (3.7%) exceeded per capita GDP and CPI and was just below medical CPI.

- Delaware already has relatively high use of managed care. In contrast to other states, it is not clear how much further Delaware could reduce per capita spending without reducing benefits or provider payment rates.
- **Delaware Medicaid spending is disproportionately for seniors and people with disabilities.** As a result, capped funding is likely to disproportionately impact these populations.
 - In FY 2011, nearly half (46%) of Delaware's Medicaid spending was for elderly and disabled enrollees even though they accounted for 17% of the State's Medicaid enrollment.
 - The expansion of Medicaid to low-income adults in Delaware undoubtedly has shifted the distribution of spending across eligibility groups, but there is little doubt that when updated data become available, they will indicate that spending on the elderly and disabled remains substantial.
- **Delaware is a fast growing state, especially for the elderly (65+), 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 other 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.
 - By 2025, Delaware is expected to see its senior (age 65+) population – a group with high Medicaid costs – grow by 40%. Delaware's Medicaid enrollment of aged individuals from 2000 - 2011 likewise grew quickly – at an average annual rate of 4.2%, compared to the national average of 2.3%, the 7th fastest growth rate for this Medicaid population in the nation.