State Health Reform Assistance Network
Charting the Road to Coverage

A Robert Wood Johnson Foundation program

Medicaid Capped Funding: Findings and Implications for Iowa

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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 Iowa-specific data provided here offers insight into how base payment calculations and trend rates, as well as state policies and demographics, could impact Iowa 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 Iowa in 2015, and helped drive the uninsurance rate to one 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 Iowa and to the State's budget.
    - Nearly 148,900 individuals are covered through the Medicaid expansion adult group in Iowa, 25% of the State's Medicaid population as of March 2016.
    - Iowa's uninsured rate dropped by over 44% from 2013 to 2015 (from 8.7% to 4.8%), due in large part to the Medicaid expansion.
    - Beyond coverage, reducing or repealing federal support for expansion would have an outsized impact on Iowa's budget. Federal funding for new adults (an estimated $749 million in 2015) accounts for 26% of all federal Medicaid funding for Iowa.
- **Iowa'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 Iowa budget and other State priorities, such as education.
    - Federal Medicaid funding ($2.9 billion in 2015) makes up almost half (46.1%) of all federal funding in Iowa'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 higher education—is just over 9% of the federal funds received by the State.
- **Iowa has an overall per capita Medicaid spending level that is below average compared to other states in the U.S., but relatively high per capita Medicaid spending levels for people with disabilities and the elderly, two costly groups.** Although nearly all capped funding proposals start with a state's historic spending, under some proposals, Iowa may be expected to move the state's per capita expenditures toward the median over time.
    - Iowa spent an average of $5,908 per enrollee in federal fiscal year 2011 (32nd among states), below the national average of $6,502.
    - Iowa has relatively high per capita spending for people with disabilities and the elderly: $20,242 per disabled enrollee compared $18,518 nationally (15th highest) and $21,163 per elderly enrollee compared to $17,522 nationally (18th highest).
    - Iowa has relatively low per capita spending for children – $2,116 per child enrollee compared to $2,492 nationally (16th lowest) – and the lowest per capita spending in the nation for adults – $2,056 per adult enrollee compared to $4,141 nationally.
- **Iowa 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, 70% of Iowa's Medicaid spending was for elderly and disabled enrollees even though they accounted for only 22% of the State's Medicaid enrollment.
    - The expansion of Medicaid to low-income adults in Iowa 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.

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- **Iowa's Medicaid spending per enrollee grew significantly more slowly for most eligibility groups than many other states between 2000-2011 but was on par with the national trend rates typically advanced in capped funding proposals for three out of four eligibility groups.** If Iowa decides that it needs to adjust its spending, for example, to ensure access to care, it is unlikely to have additional federal funding to rely on under capped funding.
    - Iowa's average annual per enrollee spending growth across eligibility groups from 2000-2011 was: 3.8% for the aged (29th in nation), 3.1% for disabled (41st in nation), 3.8% for children (37th in nation), and 0.3% for adults (lowest in nation).
    - Iowa's spending growth for aged, disabled, and children was above GDP (2.9%) and CPI (2.5%) but below slightly below medical CPI (4%).
- **Iowa relies on DSH and UPL 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 Iowa to monitor.
    - DSH and UPL payments made up 1.7% of all Iowa Medicaid benefit spending in 2015.

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