

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

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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 Louisiana-specific data provided here offers insight into how base payment calculations and trend rates, as well as state policies and demographics, could impact Louisiana 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.<sup>1</sup>

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.

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

## Key Data Findings

- **Since its implementation in June 2016, Medicaid expansion has sharply increased coverage in Louisiana.** If Medicaid restructuring eliminates or reduces funding for the Medicaid expansion, it would pose a significant threat to coverage in Louisiana and to the State's budget.
  - Nearly 305,000 individuals are covered through the Medicaid expansion adult group in Louisiana, 20% of the State's Medicaid population as of September 2016.<sup>2</sup>
  - Louisiana's uninsured rate dropped by 28% from 2013 to 2015 (from 16.7% to 12%), an uninsured rate that is still relatively high, ranking 8<sup>th</sup> among states. However, it is very likely that the uninsured rate decreased further in 2016 due to expansion.
- **Even without accounting for additional federal funding for new adults under expansion, Louisiana'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 Louisiana budget and other state priorities, such as education.
  - Federal Medicaid funding (\$4.7 billion in 2015) makes up 54% of all federal funding in Louisiana's budget before accounting for expansion. By comparison, the next largest source of federal funds received by the State—for primary and secondary education—is 12%, followed closely by the State's federal funds received for transportation (8%).
- **Louisiana has low per capita Medicaid spending levels relative to other states, putting it at risk of being "locked in" to a relatively low capped payment.** Since nearly all capped funding proposals start with a state's historic spending, Louisiana may be locked into low capped federal payments.
  - Louisiana spent an average of \$5,567 per enrollee in federal fiscal year 2011 (13<sup>th</sup> lowest among states), well below the national average of \$6,502.
  - Louisiana has relatively low spending for people with disabilities, the elderly and children – \$15,099 per disabled enrollee compared to \$18,518 nationally (12<sup>th</sup> lowest), \$15,491 per aged enrollee compared to \$17,522 nationally (13<sup>th</sup> lowest), and \$2,082 per child enrollee compared to \$2,492 nationally (12<sup>th</sup> lowest).
- **Louisiana 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 Louisiana to monitor.
  - DSH and UPL payments made up 20% of all Louisiana Medicaid benefit spending in 2015—the 3<sup>rd</sup> highest share in the nation.
- **Between 2000-2011, Louisiana'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 Louisiana'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 Louisiana's needs.

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<sup>2</sup> <http://new.dhh.louisiana.gov/assets/medicaid/MedicaidEnrollmentReports/EnrollmentTrends/EnrollmentTrends-09.2016.pdf>

- Louisiana's average annual per enrollee spending growth was above average in all eligibility groups from 2000-2011: 7.3% for the aged (6<sup>th</sup> in nation), 8% for children (7<sup>th</sup> in nation), 5.6% for the disabled (11<sup>th</sup> in nation), and 7.7% for adults (19<sup>th</sup> in nation).
- Louisiana's Medicaid spending growth on these groups significantly outstripped per capita GDP (2.9%), CPI (2.5%), and medical CPI (4%) during that period.
- **Louisiana 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, approximately two-thirds (66%) of Louisiana's Medicaid spending was for elderly and disabled enrollees even though they accounted for only 28% of the State's Medicaid enrollment.
  - The expansion of Medicaid to low-income adults in Louisiana 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.