

## **Medicaid Capped Funding: Findings and Implications for Maine**

*April 13, 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 Maine-specific data provided here offers insight into how base payment calculations and trend rates, as well as state policies and demographics, could impact Maine 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.

<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

- **Maine’s overall spending per enrollee is modestly above average but it has among the lowest per capita Medicaid spending levels for people with disabilities and adults, putting it at risk of being “locked in” to a relatively low capped payment for these groups.** Since nearly all capped funding proposals start with a state’s historic spending, Maine may be locked into low capped federal payments for these groups.
  - While Maine’s overall spending per enrollee was modestly above the national average in FY 2011 (\$6,761 compared to \$6,502), the State has particularly low spending for adults (low-income parents and pregnant women) and people with disabilities.
  - Maine ranked 2<sup>nd</sup> lowest in per capita spending for adults (\$2,194 compared to the national average of \$4,141, and the highest spending state at \$6,928) and 20<sup>th</sup> lowest in per capita spending for people with disabilities (\$16,920 compared to national average of \$18,518, and the highest spending state at \$33,808).
  - These low 2011 spending levels reflect a decade of low spending growth. Maine’s per enrollee spending growth was among the lowest in the nation from 2000 - 2011: 0.4% for children (lowest in the nation), 1.8% for adults (3<sup>rd</sup> lowest), and 2.1% for the disabled (5<sup>th</sup> lowest). Maine’s Medicaid spending growth was below per capita GDP (2.9%), CPI (2.5%), and medical CPI (4%) during that period.
- **Under a capped funding model, Maine could be disadvantaged relative to states that receive federal funding for the ACA Medicaid expansion.** Expansion states and states with higher eligibility levels could see higher funding allowances than non-expansion states with respect to any block grant proposal.
  - The 31 expansion states received nearly \$73 billion in additional federal funding in 2016.
- **Maine 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 Maine to monitor.
  - DSH and UPL payments made up 2.3% of all Maine Medicaid benefit spending in 2015.
- **Maine 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, three quarters (75%) of Maine’s Medicaid spending was for elderly and disabled enrollees though they accounted for 38% of the State’s Medicaid enrollment. No other state spent a larger portion of their Medicaid dollars on these groups than Maine.
  - The potential impact for people with disabilities is particularly significant in light of the fact that Maine’s spending per disabled enrollee is below the national average.
- **Maine’s State budget relies heavily on federal Medicaid funding.** Medicaid represents the single largest source of federal funding for the State, the vast majority of which is for the care of seniors and people with disabilities. A loss of federal Medicaid funding could shift costs to the State, posing a threat to the Maine budget and other State priorities, such as education.
  - Federal Medicaid funding (\$1.6 billion in 2015) makes up 62% of all federal funding in Maine’s budget – the second highest share among non-expansion states. By comparison,

the next largest source of federal funds—for transportation—is just over 9% of the federal funds received by the State.