State Health Reform Assistance Network
Charting the Road to Coverage

A Robert Wood Johnson Foundation program

Medicaid Capped Funding: Findings and Implications for Montana

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 Montana-specific data provided here offers insight into how base payment calculations and trend rates, as well as state policies and demographics, could impact Montana 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

- **Since its implementation in November 2015, Medicaid expansion has sharply increased coverage in Montana.** If Medicaid restructuring eliminates or reduces funding for the Medicaid expansion, it would pose a significant threat to coverage in Montana and to the State's budget.
    - More than 61,000 individuals are covered through the Medicaid expansion adult group in Montana as of November 2016,[2] representing approximately 20% of the State's Medicaid population.[3]
    - Montana's uninsured rate dropped by more than 30% from 2013 to 2015 (from 16.5% to 11.5%), an uninsured rate that ranks 9th highest among states but is likely to have decreased further in 2016 with continued expansion enrollment.
    - Even if it could absorb the fiscal hit of a reduction in federal support for expansion, Montana 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.
- **Even without accounting for additional federal funding for new adults under expansion, Montana's State budget relies heavily on federal Medicaid funding**. A loss of federal Medicaid funding could shift costs to the State, posing a threat to the Montana budget and other state priorities, such as education.
    - In 2015, federal Medicaid funding ($809 million) made up 34% of all federal funding in Montana's budget – below the average share (50.1%) among non-expansion states, but still the largest single source of federal funding for the State. By comparison, the next largest source of federal funds received by the State—for transportation—is 19.8%.
- **Montana 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, Montana may be expected to move the state's per capita expenditures toward the median over time.
    - Montana ranked 13th among states in total per capita Medicaid spending per enrollee. In fiscal year 2011, average spending was $7,573 per enrollee, well above the national average of $6,502.
    - Montana has relatively high spending across most eligibility groups: $6,539 per adult compared to a national average of $4,141 (2nd highest in the nation), $26,704 per aged enrollee compared to a national average of $17,522 (10th highest), and $2,919 per child compared to a national average of $2,492 (13th highest).
- **Between 2000-2011, Montana's Medicaid spending on a per capita basis grew more rapidly than the national trend rates typically advanced in capped funding proposals, and faster than most other states.** If Montana's historical spending rates are indicative of its future spending rates, over time, federal Medicaid funding under a capped funding proposal would fall short of Montana's needs.

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[2] http://statenetwork.org/wp-content/uploads/2016/12/State-Network-Manatt-Repeal-of-the-ACA-Medicaid-Expansion-Critical-Questions-for-States-December-2016.pdf

[3] The latest full year for which expenditure data are available is calendar year 2015. Montana's Medicaid expansion had been in place for a brief period during that timeframe – since November 2015 – and the State did not yet have federal Medicaid funding reflected.

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- Montana's average annual per enrollee spending growth was 5.9% for the aged (14th in the nation), 4.9% for the disabled (18th in the nation), 6% for children (20th in the nation), and 9.1% for adults (11th in the nation).
- Montana's Medicaid spending growth significantly outstripped per capita GDP (2.9%), CPI (2.5%), and medical CPI (4%) during that period.

- **Montana 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 Montana to monitor.
  - DSH and UPL payments made up 7.3% of all Montana Medicaid benefit spending in 2015.
- **Montana 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 (65%) of Montana's Medicaid spending was on these two groups, though they accounted for only one-quarter (25%) of the State's Medicaid enrollment.
  - The expansion of Medicaid to low-income adults in Montana 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.
- **Montana has one of the fastest growing elderly populations 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 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, Montana is expected to see its senior population – a group with high Medicaid costs – grow substantially. The State's age 65+ population is expected to grow by 43%, among the fastest growth rates in the country (ranking 12th), and its 85+ population is expected to grow by 23% (ranking 15th).

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