

Medicaid Capped Funding: Findings and Implications for North Dakota

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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 North Dakota-specific data provided here offers insight into how base payment calculations and trend rates, as well as state policies and demographics, could impact North Dakota 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 North Dakota in 2015 and sharply increased coverage.** If Medicaid restructuring eliminates or reduces funding for the Medicaid expansion, it would pose a significant threat to coverage in North Dakota and to the State's budget.
 - Nearly 19,520 individuals are covered through the Medicaid expansion adult group in North Dakota, 22% of the State's Medicaid population as of March 2016.
 - North Dakota's uninsured rate dropped by nearly 21% from 2013 to 2015 (from 10.2% to 8.1%), due in large part to the Medicaid expansion.
 - Beyond coverage, reducing or repealing federal support for expansion would have an outsized impact on North Dakota's budget. Federal funding for new adults (an estimated \$255 million in 2015) accounts for 37% of all federal Medicaid funding for North Dakota.
- **North Dakota'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 North Dakota budget and other State priorities, such as education.
 - Federal Medicaid funding (\$692 million in 2015) makes up 39% of all federal funding in North Dakota's budget – a below average share among expansion states but still the single largest source of federal funding. By comparison, the next largest source of federal funds—for transportation—is just over 17% of the federal funds received by the State.
- **North Dakota has among the highest per capita Medicaid spending levels relative to other states.** Although nearly all capped funding proposals start with a state's historic spending is likely, under some proposals, North Dakota may be expected to move the state's per capita expenditures toward the median over time.
 - North Dakota ranked 6th among states in total per capita Medicaid spending per enrollee. In fiscal year 2011, average spending was \$8,645 per enrollee, well above the national average of \$6,502.
 - North Dakota has relatively high spending for the aged, the disabled and children: \$31,155 for per elderly enrollee compared to \$17,522 nationally (2nd highest); \$28,692 per disabled individual compared to \$18,518 nationally (4th highest); and \$2,531 per child compared to \$2,492 nationally (21st highest).
 - North Dakota spends less on average per adult enrollee relative to other states: \$3,652 compared to \$4,141 nationally (ranking 39th).
- **North Dakota's Medicaid spending per enrollee grew more slowly in three of its four eligibility groups than many other states between 2000-2011 but kept pace with or was above the national trend rates typically advanced in capped funding proposals.** If North Dakota 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.
 - North Dakota's average annual spending growth was above average for the aged, but below average for the disabled, children and adults from 2000-2011: 5.2% for the aged (33rd lowest in nation); 3.1% for the disabled (10th lowest in nation); 4% for children (18th lowest in nation); and 4.8% for adults (13th lowest in nation).

- During that period, North Dakota's Medicaid spending growth on these groups outstripped per capita GDP (2.9%) and CPI (2.5%). The state's Medicaid spending growth for the elderly and adults also exceeded medical CPI (4%).
- **North Dakota 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 75% of North Dakota's Medicaid spending was for elderly and disabled enrollees even though they accounted for only 25% of the State's Medicaid enrollment.
 - The expansion of Medicaid to low-income adults in North Dakota 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.
- **North Dakota 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 an important issue for North Dakota to monitor.
 - DSH and UPL payments made up 0.3% of all North Dakota Medicaid benefit spending in 2015.