

Medicaid Capped Funding: Findings and Implications for New Jersey
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 New Jersey-specific data provided here offers insight into how base payment calculations and trend rates, as well as state policies and demographics, could impact New Jersey 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 nearly \$3 billion in federal funding to New Jersey in 2015, and helped drive down the uninsurance rate.** If Medicaid restructuring eliminates or reduces funding for the Medicaid expansion, it would pose a significant threat to coverage in New Jersey and to the State's budget.
 - Nearly 537,000 individuals are covered through the Medicaid expansion adult group in New Jersey, 33% of the State's Medicaid population as of March 2016.
 - New Jersey's uninsured rate dropped by 34% from 2013 to 2015 (from 13.3% to 8.8%), due in large part to the Medicaid expansion.
 - Beyond coverage, reducing or repealing federal support for expansion would have a negative impact on New Jersey's budget. Federal funding for new adults accounts for 34% of all federal Medicaid funding for New Jersey.
- **New Jersey'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 New Jersey budget and other State priorities.
 - Federal Medicaid funding (nearly \$8.7 billion in 2015) makes up approximately 55% of all federal funding in New Jersey's budget – slightly below the average share among expansion states but still the single largest source of federal funding for the State. By comparison, the next largest source of federal funds—for transportation—is 9% of the federal funds received by the State
- **New Jersey 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, New Jersey may be expected to move the state's per capita expenditures toward the median over time.
 - New Jersey ranked 14th among states in total per capita Medicaid spending per enrollee. In fiscal year 2011, average spending was \$7,546 per enrollee, well above the national average of \$6,502.
 - New Jersey has relatively high spending across eligibility groups: \$4,684 per adult compared to \$4,141 nationally (16th highest); \$19,951 per disabled individual compared to \$18,518 nationally (17th highest); \$2,616 per child compared to a national average of \$2,492 (20th highest); and \$19,160 for per elderly enrollee compared to \$17,522 nationally (21st highest).
- **New Jersey's Medicaid spending per enrollee grew significantly more slowly for all eligibility groups than many other states between 2000-2011 but kept pace with or exceeded the national trend rates typically advanced in capped funding proposals.** If New Jersey 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.
 - New Jersey's per enrollee spending growth for all eligibility groups from 2000-2011: 2.6% for the elderly (9th lowest), 3.9% for the disabled (20th lowest), 5.1% for children (22nd lowest), and 7.1% for adults (25th lowest).
 - New Jersey's Medicaid spending growth for all groups outstripped per capita GDP (2.9%) and CPI (2.5%) during that period. New Jersey's spending growth for children and adults also exceeded medical CPI (4%) during that period.

- **New Jersey relies on DSH and waiver 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 New Jersey to monitor.
 - DSH and waiver payments made up 9.7% of all New Jersey's Medicaid benefit spending in 2015
- **New Jersey 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, 74% of New Jersey's Medicaid spending was for elderly and disabled enrollees even though they accounted for 31% of the State's Medicaid enrollment.
 - The expansion of Medicaid to low-income adults in New Jersey 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.