State Health Reform Assistance Network
Charting the Road to Coverage

A Robert Wood Johnson Foundation program

Medicaid Capped Funding: Findings and Implications for New Mexico

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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 New Mexico-specific data provided here offers insight into how base payment calculations and trend rates, as well as state policies and demographics, could impact New Mexico 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 $1.4 billion in federal funding to New Mexico 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 Mexico and to the State's budget.
    - More than 243,000 individuals are covered through the Medicaid expansion adult group in New Mexico, 28% of the State's Medicaid population as of March 2016.
    - New Mexico's uninsured rate dropped by 43% from 2013 to 2015 (from 19.1% to 10.8%), due in large part to the Medicaid expansion.
    - Beyond coverage, reducing or repealing federal support for expansion would have a negative impact on New Mexico's budget. Federal funding for new adults accounts for 36% of all federal Medicaid funding for New Mexico.
    - Even if it could absorb the fiscal hit of a reduction in federal support for expansion, New Mexico 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.
- **New Mexico'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 Mexico budget and other State priorities.
    - Federal Medicaid funding (nearly $4 billion in 2015) makes up approximately 62% of all federal funding in New Mexico' budget – slightly above the average share among expansion states. By comparison, the next largest source of federal funds—for higher education—is just 10% of the federal funds received by the State.
- **While New Mexico's total per capita Medicaid spending level is slightly below the U.S. average, the data does not capture spending for the elderly.** New Mexico spent an average of $6,328 per enrollee in federal fiscal year 2011 (24th among states), slightly below the national average of $6,502 (without consideration of spending for the elderly).
    - In 2011, New Mexico had the 3rd highest spending level for children relative to other states ($4,550 per child compared to a national average of $2,492) and the highest spending level for adults relative to other states ($6,928 per adult compared to a national average of $4,141), but its spending level for people with disabilities was close to the U.S. average ($18,500 compared to a national average of $18,518).
- **Between 2000-2011, New Mexico's Medicaid spending on a per capita basis grew much more rapidly than the national trend rates typically advanced in capped funding proposals, and significantly faster than most other states.** If New Mexico'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 New Mexico's needs.
    - New Mexico's average annual per enrollee spending growth was above average in most eligibility groups from 2000 - 2011: 11.6% for children (highest in nation), 14.4% for adults (highest in nation), and 4.8% for disabled (19th in nation).
    - New Mexico's Medicaid spending growth on these groups significantly outstripped per capita GDP (2.9%), CPI (2.5%), and medical CPI (4%) during that period.

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    - New Mexico already has relatively high use of managed care. In contrast to other states, it is not clear how much further New Mexico could reduce per capita spending without reducing benefits or provider payment rates.

- **New Mexico relies on DSH and other supplemental 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 Mexico to monitor.
    - These payments made up 2.7% of all New Mexico's Medicaid benefit spending in 2015.

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