State Health Reform Assistance Network
Charting the Road to Coverage

A Robert Wood Johnson Foundation program

Medicaid Capped Funding: Findings and Implications for Rhode Island

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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 Rhode Island-specific data provided here offers insight into how base payment calculations and trend rates, as well as state policies and demographics, could impact Rhode Island 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 $462 million in federal funding to Rhode Island 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 Rhode Island and to the State's budget.
    - More than 60,000 individuals are covered through the Medicaid expansion adult group in Rhode Island, 22% of the State's Medicaid population as of March 2016.
    - Rhode Island's uninsured rate dropped by nearly 56% from 2013 to 2015 (from 11.9% to 5.2%), an uninsured rate that ranks 7th lowest among states, due in large part to the Medicaid expansion.
    - Beyond coverage, reducing or repealing federal support for expansion would have a negative impact on Rhode Island's budget. Federal funding for new adults accounts for 30% of all federal Medicaid funding for Rhode Island.
- **Rhode Island'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 Rhode Island budget and other State priorities.
    - Federal Medicaid funding (nearly $1.6 billion in 2015) makes up approximately 50% of all federal funding in Rhode Island's budget – 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 9.2% of the federal funds received by the State.
- **Rhode Island 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, under some proposals, Rhode Island may be expected to move the state's per capita expenditures toward the median over time.
    - Rhode Island ranked 3rd among states in total per capita Medicaid spending per enrollee. In fiscal year 2011, average spending was $9,541 per enrollee, well above the national average of $6,502.
    - Rhode Island has relatively high spending across three of four eligibility groups: $4,290 per child compared to a national average of $2,492 (4th highest); $5,778 per adult compared to a national average of $4,141 (6th highest); and $21,417 per disabled individual compared to a national average of $18,518 (14th highest). Rhode Island's per capita spending for the elderly was $16,998 compared to a national average of $17,522.
    - Rhode Island already has relatively high use of managed care. In contrast to other states, it is not clear how much further Rhode Island could reduce per capita spending without reducing benefits or provider payment rates.
- **Between 2000-2011, Rhode Island's Medicaid spending on a per capita basis grew much more rapidly than the national trend rates typically advanced in capped funding proposals for children and adults.** If Rhode Island'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 Rhode Island's needs for these groups.

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- Rhode Island's average annual per enrollee spending growth was significantly above average for children and adults from 2000 - 2011: 9.4% for children (3rd in nation) and 10.7% for adults (6th in nation). In contrast, Rhode Island's per enrollee spending growth for the elderly and the disabled was among the lowest across states, ranking 8th lowest for the elderly and 4th lowest for the disabled.
- Rhode Island's spending growth for children and adults significantly outstripped per capita GDP (2.9%), CPI (2.5%), medical CPI (4%) during that period.

- **Rhode Island 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 Rhode Island to monitor.
  - DSH and UPL payments made up 5.9% of all Rhode Island's Medicaid benefit spending in 2015.
- **Rhode Island 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, 64% of Rhode Island's Medicaid spending was for elderly and disabled enrollees even though they accounted for 33% of the State's Medicaid enrollment.
  - The expansion of Medicaid to low-income adults in Rhode Island 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.

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