Medicaid Capped Funding: Findings and Implications for Texas
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 Texas-specific data provided here offers insight into how base payment calculations and trend rates, as well as state policies and demographics, could impact Texas 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

- **Texas has low per capita Medicaid spending levels relative to other states, putting it at risk of being "locked in" to a relatively low capped payment.** Since nearly all capped funding proposals start with a state's historic spending, Texas may be locked into low capped federal payments.
  - Texas spent an average of $5,668 per enrollee in federal fiscal year 2011 (16th lowest among states), well below the national average of $6,502.
  - Texas has particularly low spending for the aged – ranking 11th lowest on per capita spending per aged enrollees ($14,739 compared to national average of $17,522, and the highest spending state at $32,199).
- **Under a capped funding model, Texas could be disadvantaged relative to states that receive federal funding for the ACA Medicaid expansion.** Expansion states and states with higher eligibility levels could see higher funding allowances than non-expansion states with respect to any block grant proposal.
  - The 31 expansion states received nearly $73 billion in additional federal funding in 2016.
  - Texas has the second-lowest eligibility levels for adults in the country (15% FPL for parents, 0% FPL for childless adults), which contributes to the risk of a relatively small allotment under any model using a block grant.
- **Between 2000-2011, Texas'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 many other states.** If Texas'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 Texas's needs.
  - Texas's average annual per enrollee spending growth was above average in most eligibility groups from 2000 - 2011: 8.4% for children (5th in nation), 5.6% for the aged (15th in nation), 4.7% for disabled (22nd in nation), and 6.3% for adults (32nd in nation).
  - Texas's Medicaid spending growth on these groups outstripped per capita GDP (2.9%), CPI (2.5%), and medical CPI (4%) during that period.
  - Texas already has relatively high use of managed care. It is not clear how much further Texas could reduce per capita spending without reducing benefits or provider payment rates.
- **Texas relies heavily on DSH, UPL 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 Texas to monitor.
  - DSH, UPL and waiver payments made up nearly one quarter (23.5%) of all Texas Medicaid benefit spending in 2015, the highest share in the nation.
- **Texas is one of the fastest growing states 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.

This product was prepared with support from the Robert Wood Johnson Foundation through its State Health Reform Assistance Network program.

    - Texas is the 4th fastest growing state in the country. While the country is expected to see its population grow by 8.4% by 2025, Texas is looking at a 16.1% growth rate, or an additional 4.3 million people.
    - By 2025, Texas is expected to see its senior population – a group with high Medicaid costs – grow by 45%, again, amongst the fastest growth rates in the country (ranking 8th). Projected growth in the elderly population will be a particular challenge in Texas in light of its relative low spending base for the elderly (12th lowest in the nation).

- **Texas has the highest uninsured population in the nation – leaving Texas with a bigger "hole" to address if the state is looking to cover additional residents.** Capped funding proposals to date do not take into account the size of each state's remaining uninsured population.
    - As of 2015, the overall uninsured rate in Texas was 16.9% - the highest in the nation; uninsurance rates were also the highest in the nation for both children (9.9%) and adults (23.1%).
    - While the current Medicaid structure preserves Texas's option to expand its Medicaid coverage, a capped model may eliminate or reduce federal financial support for any such expansion.

- **Texas'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 Texas budget and other State priorities, such as education.
    - Federal Medicaid funding ($22 billion in 2015) makes up half (50.6%) of all federal funding in Texas's budget, an average share among non-expansion states. By comparison, the next largest source of federal funds—for primary and secondary education—is just under 12% of the federal funds received by the State.

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