State Health Reform Assistance Network
Charting the Road to Coverage

A Robert Wood Johnson Foundation program

Medicaid Capped Funding: Findings and Implications for Vermont

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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 Vermont-specific data provided here offers insight into how base payment calculations and trend rates, as well as state policies and demographics, could impact Vermont 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 $218 million in federal funding to Vermont 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 Vermont and to the State's budget.
    - More than 63,000 individuals are covered through the Medicaid expansion adult group in Vermont, 30% of the State's Medicaid population as of March 2016.
    - Vermont's uninsured rate dropped by 40% from 2013 to 2015 (from 6.9% to 4.1%), an uninsured rate that is now 4th lowest in the nation, due in large part to the Medicaid expansion.
    - Beyond coverage, reducing or repealing federal support for expansion would have a negative impact on Vermont's budget. Federal funding for new adults accounts for 23% of all federal Medicaid funding for Vermont.
- **Vermont'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 Vermont budget and other State priorities.
    - Federal Medicaid funding (nearly $966 million in 2015) makes up approximately 48% of all federal funding in Vermont's budget – below the average share among expansion states but still the State's single largest source of federal funds. By comparison, the next largest source of federal funds—for transportation—is just 17% of the federal funds received by the State.
- **Vermont 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, Vermont may be expected to move the state's per capita expenditures toward the median over time.
    - Vermont ranked 10th among states in total per capita Medicaid spending per enrollee. In fiscal year 2011, average spending was $7,951 per enrollee, well above the national average of $6,502.
    - Vermont has relatively high per enrollee spending for children and adults: $5,214 per child compared to a national average of $2,492 (highest in the nation) and $6,062 per adult compared to a national average of $4,141 (5th highest). Vermont has below average per enrollee spending for disabled individuals and the elderly: $17,789 compared to $18,518 nationally for the disabled (25th in nation) and $14,258 compared to $17,522 nationally for the aged (41st in nation).
- **Between 2000-2011, Vermont's Medicaid spending on a per capita basis generally kept pace with or exceeded the national trend rates typically advanced in capped funding proposal**. If Vermont'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 Vermont's needs.
    - Vermont's average annual per enrollee spending growth was significantly above average for children and adults from 2000 - 2011: 10.2% for children (2nd highest in nation) and 12% for adults (3rd highest in nation). In contrast, Vermont's per enrollee spending growth for the disabled and the aged was among the lowest across states,

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ranking: 3.5% for the disabled (16th lowest in nation) and 2.8% for the elderly (11th lowest in nation).

  - Vermont's spending growth on all groups was near or above per capita GDP (2.9%) and CPI (2.5%) during that period. Vermont's spending growth for children and adults also significantly outstripped medical CPI (4%) during that period.

- **Vermont 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, 42% of Vermont's Medicaid spending was for elderly and disabled enrollees even though they accounted for 24% of the State's Medicaid enrollment.
  - The expansion of Medicaid to low-income adults in Vermont 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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