State Health Reform Assistance Network
Charting the Road to Coverage

A Robert Wood Johnson Foundation program

Medicaid Capped Funding: Findings and Implications for Washington State

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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 Washington-specific data provided here offers insight into how base payment calculations and trend rates, as well as state policies and demographics, could impact Washington 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 billions in federal funding to Washington and sharply increased coverage.** If Medicaid restructuring eliminates or reduces funding for the Medicaid expansion, it would pose a significant threat to coverage in Washington and to the State's budget.
    - Nearly 593,000 individuals are covered through the Medicaid expansion adult group in Washington, 33% of the State's Medicaid population as of March 2016.
    - Washington's uninsured rate dropped by nearly 53% from 2013 to 2015 (from 13.9% to 6.5%), an uninsured rate that ranks 16th lowest among states, due in large part to the Medicaid expansion.
    - Beyond coverage, reducing or repealing federal support for expansion would have an outsized impact on Washington's budget. Federal funding for new adults (an estimated $2.9 billion in 2015) accounts for 42% of all federal Medicaid funding for Washington.
    - Even if it could absorb the fiscal hit of a reduction in federal support for expansion, Washington 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.
- **Washington'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 Washington budget and other state priorities, such as education.
    - Federal Medicaid funding ($6.8 billion in 2015) makes up nearly 47% of all federal funding in Washington'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 received by the State—for primary and secondary education—is 7.2%, followed closely by the State's federal funds received for transportation (6.7%).
- **Washington has very 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, Washington may be locked into low capped federal payments.
    - Washington spent an average of $5,318 per enrollee in federal fiscal year 2011 (9th lowest among states), well below the national average of $6,502.
    - Washington has relatively low spending for children, the disabled and the elderly – ranking 15th lowest on both per capita spending per child ($2,111 vs. $2,492 nationally) and per disabled individual ($16,208 vs. $18,518 nationally), and 18th lowest on per capita spending for the aged ($16,183 vs. $17,522 nationally).
- **Between 2000-2011, Washington's Medicaid spending per enrollee grew more slowly than many other states but still more rapidly than the national trend rates typically advanced in capped funding proposals for three of four eligibility groups.** If Washington 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.
    - Washington's per enrollee spending growth for children and adults was among the lowest across states (ranking 20th lowest and 10th lowest, respectively), and cost growth for the aged even declined at a rate of -1.4% (lowest in the nation).

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- With the exception of its aged group, however, Washington's spending growth significantly outstripped per capita GDP (2.9%), CPI (2.5%) and medical CPI (4%) during that period.

- **Washington 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 Washington to monitor.
    - DSH and UPL payments made up 4% of all Washington Medicaid benefit spending in 2015.
- **Washington 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, more than 60% of Washington's Medicaid spending was for elderly and disabled enrollees even though they accounted for only 22% of the State's Medicaid enrollment.
    - The expansion of Medicaid to low-income adults in Washington 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.
- **Washington 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 others 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.
    - Washington is the 6th fastest growing state in the country. While the country is expected to see its population grow by 8.4% by 2025, Washington is looking at a 15% growth rate, or an additional 1 million people.
    - By 2025, Washington is expected to see its senior (age 65+) population – a group with high Medicaid costs – grow by 43%, among the fastest growth rates in the country (ranking 11th). Washington's Medicaid enrollment of aged individuals from 2000 - 2011 likewise grew quickly – at an average annual rate of 3.3%, compared to the national average of 2.3%, the 13th fastest growth rate for this Medicaid population in the nation.
    - Projected growth in the elderly population will be a particular challenge in Washington in light of its extremely low per capita spending base for the elderly (19th lowest in the nation).

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