

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

- **Wisconsin has low per capita Medicaid spending levels relative to other states, putting it at risk of being “locked in” to a low capped payment.** Since nearly all capped funding proposals start with a state’s historic spending, Wisconsin is at risk of being locked into low capped federal payments.
 - Wisconsin spent an average of \$5,956 per enrollee in federal fiscal year 2011 (22nd lowest among states), below the national average of \$6,502.
 - Wisconsin has the lowest spending per child in the nation (\$1,656 compared to national average of \$2,492), and below average spending across all other eligibility groups (6th lowest for adults, 18th lowest for the disabled, and 19th lowest on the aged).
- **Under a capped funding model, Wisconsin 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.
- **Between 2000-2011, Wisconsin’s Medicaid spending on a per capita basis grew more slowly than many other states but, with the exception of per capita spending for the elderly, still largely tracked with the national trend rates typically advanced in capped funding proposals.** If Wisconsin 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.
 - With the exception of adults, Wisconsin’s average annual per enrollee spending growth was below average across other eligibility groups from 2000 - 2011: 2.8% for children (7th lowest in nation), 2.4% for disabled (8th lowest in nation), and 0.1% for the aged (5th lowest in nation). Spending for adults grew by 7.9%, which was slightly above average (17th highest in nation).
 - Wisconsin’s Medicaid spending growth on the disabled, children and adults kept pace with capita GDP (2.9%) and CPI (2.5%) during that period. Wisconsin’s Medicaid spending growth on adults also significantly outstripped medical CPI (4%) during that period.
- **Wisconsin Medicaid spending is disproportionately for seniors and people with disabilities.** As a result, capped funding is likely to disproportionately affect these populations.
 - In FY 2011, 71% of Wisconsin’s Medicaid spending was for elderly and disabled enrollees though they accounted for only about a quarter (25%) of the State’s Medicaid enrollment.
- **Wisconsin 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 Wisconsin to monitor.
 - DSH and UPL payments made up about 2% of all Wisconsin Medicaid benefit spending in 2015.
- **Wisconsin’s State budget relies heavily on federal Medicaid funding.** Medicaid represents the single largest source of federal funding for the State. Reduced, capped Medicaid funding

could shift costs to the State, posing a threat to the Wisconsin budget and other State priorities, such as education.

- Federal Medicaid funding (\$5 billion in 2015) makes up nearly half of all federal funding in Wisconsin's budget (45%) – a below average share among non-expansion states but still the largest single source of federal funding for the State. By comparison, the next largest source of federal funds—for higher education—is just under 15% of the federal funds received by the State.