State Health Reform Assistance Network
Charting the Road to Coverage

A Robert Wood Johnson Foundation program

Medicaid Capped Funding: Findings and Implications for Alabama

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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 Alabama-specific data provided here offers insight into how base payment calculations and trend rates, as well as state policies and demographics, could impact Alabama 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

- **Alabama has among the lowest per capita Medicaid spending levels in the U.S., 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, Alabama may be locked into low capped federal payments.
    - Alabama spent an average of $4,976 per enrollee in federal fiscal year 2011 (47th among states), well below the national average of $6,502.
    - Alabama has relatively low spending across most eligibility groups – $10,142 per disabled enrollee compared to $18,518 (lowest in the nation), $2,156 per child compared to $2,492 nationally (18th lowest), and $3,899 per adult compared to $4,141 nationally (18th lowest).
- **Under a capped funding model, Alabama 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.
    - Alabama has the lowest eligibility levels for adults in the country (13% 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, Alabama's Medicaid spending on a per capita basis grew much more rapidly than the national trend rates typically advanced in capped funding proposals, and faster than many other states.** If Alabama'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 Alabama's needs.
    - Alabama's average annual per enrollee spending growth was above average in all eligibility groups from 2000 – 2011: 5.1% for disabled (16th in nation), 4.8% for the aged (20th in nation), 5.5% for children (24th in nation), and 6.6% for adults (30th in nation).
    - Alabama's Medicaid spending growth on these groups outstripped per capita GDP (2.9%), CPI (2.5%), and medical CPI (4%) during that period.
- **Alabama relies heavily 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 Alabama to monitor.
    - DSH and UPL payments made up over 20% of all Alabama Medicaid benefit spending in 2015 – the 3rd highest percentage in the nation.
- **Alabama 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, close to two-thirds (63%) of Alabama's Medicaid spending was for elderly and disabled enrollees though they accounted for about one-third (32%) of the State's Medicaid enrollment.

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- **Alabama has an above average uninsured rate – leaving Alabama with a bigger "hole" to address if and when 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 uninsured rate in Alabama was 10.1% - the 19th highest in the nation.
    - While the current Medicaid structure preserves Alabama's option to expand its Medicaid coverage, a capped model may eliminate or reduce federal financial support for any such expansion.
- **Alabama'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 Alabama budget and other State priorities, such as education.
    - Federal Medicaid funding ($3.4 billion in 2015) makes up 44% of all federal funding in Alabama's budget – slightly below the average share among non-expansion states but still the single largest source of federal funding for the State. By comparison, the next largest source of federal funds—for higher education—is just over 13% of the federal funds received by the State.

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