State Health Reform Assistance Network
Charting the Road to Coverage

A Robert Wood Johnson Foundation program

Medicaid Capped Funding: Findings and Implications for California

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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 California-specific data provided here offers insight into how base payment calculations and trend rates, as well as state policies and demographics, could impact California 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 more than $20 billion in federal funding to California 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 California and to the State's budget.
    - More than 3.5 million individuals are covered through the Medicaid expansion adult group in California, 28% of the State's Medicaid population as of March 2016.
    - California's uninsured rate dropped by 50% from 2013 to 2015 (from 17% to 8.5%), an uninsured rate that ranks 27th among states, due in large part to the Medicaid expansion.
    - Beyond coverage, reducing or repealing federal support for expansion would have a outsized impact on California's budget. Federal funding for new adults accounts for 40% of all federal Medicaid funding for California.
- **California'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 California budget and other State priorities.
    - Federal Medicaid funding (nearly $52.5 billion in 2015) makes up approximately 59% of all federal funding in California's budget – on par with the average share among expansion states. By comparison, the next largest source of federal funds—for primary and secondary education—is 7.2% of the federal funds received by the State.
- **California 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, California may be locked into low capped federal payments.
    - California spent an average of $6,108 per enrollee in federal fiscal year 2011 (28th among states), below the national average of $6,502.
    - California has relatively low spending for the aged and adults more generally – $12,019 per aged enrollee compared to $17,522 nationally (47th in nation) and $2,855 per adult enrollee compared to $4,141 nationally (48th in nation). California spends about the national average for children (25th in nation) and above the national average for the disabled (16th in nation).
- **Between 2000-2011, California'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 most other states.** If California'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 California's needs.
    - California's average annual per enrollee spending growth was above average in all eligibility groups from 2000 - 2011: 6.6% for the disabled (5th in nation), 6.3% for the aged (12th in nation), 7.2% for children (9th in nation), and 6.9% for adults (28th in nation).
    - California's Medicaid spending growth on these groups significantly outstripped per capita GDP (2.9%), CPI (2.5%), and medical CPI (4%) during that period.

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- **California relies 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 California to monitor.
    - DSH, UPL and waiver payments made up 15% of all California's Medicaid benefit spending in 2015—well above the national average (10.4%).
- **California 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, 64% of California's Medicaid spending was for elderly and disabled enrollees even though they accounted for 18% of the State's Medicaid enrollment.
    - The expansion of Medicaid to low-income adults in California 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.
- **California 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.
    - California is the 13th fastest growing state in the country. While the country is expected to see its population grow by 8.4% by 2025, California is looking at a 10.4% growth rate, or an additional 4.2 million people.
    - By 2025, California is expected to see its senior (age 65+) population – a group with high Medicaid costs – grow by 39%, among the fastest growth rates in the country (ranking 16th). California's Medicaid enrollment of aged individuals from 2000 - 2011 likewise grew quickly – at an average annual rate of 3%, compared to the national average of 2.3%, the 16th fastest growth rate for this Medicaid population in the nation.
    - Projected growth in the elderly population will be a particular challenge in California in light of its relative low spending base for the elderly (4th lowest in the nation).

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