State Health Reform Assistance Network
Charting the Road to Coverage

A Robert Wood Johnson Foundation program

Medicaid Capped Funding: Findings and Implications for Kentucky

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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 Kentucky-specific data provided here offers insight into how base payment calculations and trend rates, as well as state policies and demographics, could impact Kentucky 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 $3 billion in federal funding to Kentucky in 2015, and significantly 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 Kentucky and to the State's budget.
    - Some 443,200 individuals are covered through the Medicaid expansion adult group in Kentucky, 35% of the State's Medicaid population as of March 2016.
    - Kentucky's uninsured rate dropped by nearly 58% from 2013 to 2015 (from 14.4% to 6.1%), due in large part to the Medicaid expansion.
    - Beyond coverage, reducing or repealing federal support for expansion would have an outsized impact on Kentucky's budget. Federal funding for new adults (an estimated $3 billion in 2015) accounts for 41% of all federal Medicaid funding for Kentucky.
- **Kentucky'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 Kentucky budget and other State priorities, such as education.
    - Federal Medicaid funding ($7.4 billion in 2015) makes up 64% of all federal funding in Kentucky's budget – the 7th highest share among expansion states. By comparison, the next largest source of federal funds—for transportation—is just over 7% of the federal funds received by the State.
- **Kentucky has among the lowest per capita Medicaid spending levels in the U.S. for its disabled and elderly populations, putting it at risk of being "locked in" to relatively low capped payments.** Since nearly all capped funding proposals start with a state's historic spending, Kentucky may be locked into low capped federal payments for these costly groups.
    - In federal fiscal year 2011, Kentucky spent an average of $12,856 per disabled enrollee compared to a national average of $18,518 (4th lowest) and $15,757 per aged enrollee compared to a national average of $17,522(16th lowest).
    - While Kentucky spent below average on the disabled and elderly, it spent above average on children and adults: $2,911 per child compared to a national average of $2,492 (15th highest) and $5,055 per adult compared to a national average of $4,141 (11th highest).
    - Overall, Kentucky ranked 23rd among states in total per capita Medicaid spending per enrollee. In fiscal year 2011, average spending was $6,435 per enrollee, below the national average of $6,502.
- **Between 2000-2011, Kentucky'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 Kentucky'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 Kentucky's needs.
    - Kentucky's average annual per enrollee spending growth was above average in all eligibility groups from 2000 - 2011: 4.2% for the aged (25th in nation), 4.8% for disabled (20th in nation), 5.4% for children (26th in nation), and 7.6% for adults (20th in nation).
    - Kentucky'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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- Kentucky already has relatively high use of managed care. In contrast to other states, it is not clear how much further Kentucky could reduce per capita spending without reducing benefits or provider payment rates.

- **Kentucky 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, 63% of Kentucky's Medicaid spending was for elderly and disabled enrollees even though they accounted for only 36% of the State's Medicaid enrollment.
  - The expansion of Medicaid to low-income adults in Kentucky 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.

- **Kentucky 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 Kentucky to monitor.
  - DSH and UPL payments made up nearly 3% of all Kentucky Medicaid benefit spending in 2015.

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