State Health Reform Assistance Network
Charting the Road to Coverage

A Robert Wood Johnson Foundation program

Medicaid Capped Funding: Findings and Implications for Maryland

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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 Maryland-specific data provided here offers insight into how base payment calculations and trend rates, as well as state policies and demographics, could impact Maryland 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 Maryland and sharply increased coverage.** If Medicaid restructuring eliminates or reduces funding for the Medicaid expansion, it would pose a significant threat to coverage in Maryland and to the State's budget.
    - Some 248,000 individuals are covered through the Medicaid expansion adult group in Maryland, 23% of the State's Medicaid population as of March 2016.
    - Maryland's uninsured rate dropped by more than one-third from 2013 to 2015 (from 10.1% to 6.7%), an uninsured rate that ranks 35th 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 Maryland's budget. Federal funding for new adults (an estimated $1.7 billion in 2015) accounts for 31% of all federal Medicaid funding for Maryland.
- **Maryland'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 Maryland budget and other state priorities, such as education.
    - Federal Medicaid funding ($5.7 billion in 2015) makes up 48% of all federal funding in Maryland's budget – below the average share (59.3%) among expansion states but still the largest source of federal funding for the State. By comparison, the next largest source of federal funds—for public assistance—is 11% of the federal funds received by the State.
- **Maryland has high per capita Medicaid spending levels relative to other states.** Although nearly all capped funding proposals start with a state's historic spending, under some proposals, Maryland may be expected to move the state's per capita expenditures toward the median over time.
    - Maryland ranked 11th among states in total per capita Medicaid spending per enrollee. In fiscal year 2011, average spending was $7,878 per enrollee, well above the national average of $6,502.
    - Maryland has relatively high spending for children, the disabled and the aged: $2,765 per child compared to a national average of $2,492 (17th highest); $23,798 per disabled individual compared to a national average of $18,518 (8th highest); and $23,491 for per elderly enrollee compared to $17,522 nationally (14th highest).
- **Between 2000-2011, Maryland'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 Maryland'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 Maryland's needs.
    - Maryland's average annual per enrollee spending growth was above average in all eligibility groups from 2000-2011: 5.5% for the aged (16th in nation), 6.2% for children (17th in nation), 6.3% for disabled (7th in nation), and 9.9% for adults (7th in nation).
    - Maryland'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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- **Maryland 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 Maryland to monitor.
    - DSH and UPL payments made up 1.6% of all Maryland Medicaid benefit spending in 2015.
- **Maryland 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, nearly two-thirds (63%) of Maryland's Medicaid spending was for elderly and disabled enrollees even though they accounted for only 23% of the State's Medicaid enrollment.
    - The expansion of Medicaid to low-income adults in Maryland 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.

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