Medicaid Capped Funding: Findings and Implications for Michigan
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 Michigan-specific data provided here offers insight into how base payment calculations and trend rates, as well as state policies and demographics, could impact Michigan 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 Michigan and sharply increased coverage.** If Medicaid restructuring eliminates or reduces funding for the Medicaid expansion, it would pose a significant threat to coverage in Michigan and to the State's budget.
    - Some 633,000 individuals are covered through the Medicaid expansion adult group in Michigan, 27% of the State's Medicaid population as of March 2016.
    - Michigan's uninsured rate dropped by 45% from 2013 to 2015 (from 11% to 6%), an uninsured rate that ranks 40th 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 Michigan's budget. Federal funding for new adults (an estimated $3.4 billion in 2015) accounts for 29% of all federal Medicaid funding for Michigan.
    - Even if it could absorb the fiscal hit of a reduction in federal support for expansion, Michigan is one of at least nine states that is required by state law to reduce or eliminate Medicaid eligibility and/or benefits for the expansion population if the Medicaid matching rate is reduced.
- **Michigan'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 Michigan budget and other state priorities, such as education.
    - Federal Medicaid funding ($11.9 billion in 2015) makes up more than 56% of all federal funding in Michigan'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 received by the State—for primary and secondary education—is 8% of the federal funds received by the State.
- **Michigan has very 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, Michigan may be locked into low capped federal payments.
    - Michigan spent an average of $5,485 per enrollee in federal fiscal year 2011 (11th lowest among states), well below the national average of $6,502.
    - Michigan has relatively low spending for children and the disabled – $1,926 per child enrollee compared to $2,492 nationally (4th lowest) and $15,109 per disabled enrollee compared to $18,518 nationally (13th lowest).
    - These low 2011 spending levels reflect a decade of low spending growth. Michigan's per enrollee spending growth was among the lowest in the nation from 2000 - 2011: -0.2% for the aged (5th lowest), 2.5% for children (6th lowest), 3.1% for adults (6th lowest), and 4.3% for the disabled (23rd lowest). With the exception of the disabled, Michigan's Medicaid spending growth was below per capita GDP (2.9%), CPI (2.5%), and medical CPI (4%) during that period.
- **Michigan 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 Michigan to monitor.

This product was prepared with support from the Robert Wood Johnson Foundation through its State Health Reform Assistance Network program.

- DSH and UPL payments made up 10% of all Michigan Medicaid benefit spending in 2015.

- **Michigan 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 (65%) of Michigan's Medicaid spending was for elderly and disabled enrollees even though they accounted for only 22% of the State's Medicaid enrollment.
    - The expansion of Medicaid to low-income adults in Michigan 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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