State Health Reform Assistance Network
Charting the Road to Coverage

A Robert Wood Johnson Foundation program

Medicaid Capped Funding: Findings and Implications for North Carolina

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

- **North Carolina 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, North Carolina may be locked into low capped federal payments.
    - North Carolina spent an average of $5,450 per enrollee in federal fiscal year 2011 (10th lowest among states), well below the average of $6,502.
    - North Carolina ranks last nationally on per capita spending for aged enrollees ($10,518 compared to national average of $17,522, and the highest spending state at $32,199).
    - North Carolina also has relatively low spending for the disabled – ranking 11th lowest on per capita spending per disabled enrollee ($15,060 compared to national average of $18,518, and the highest spending state at $33,808).
- **Under a capped funding model, North Carolina 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.
    - North Carolina's eligibility level for adults is relatively low compared to other states (44% FPL for parents, 0% FPL for childless adults), which contributes to the risk of a relatively smaller allotment under any model using a block grant.
- **Between 2000-2011, North Carolina's Medicaid spending on a per capita basis for some eligibility groups grew more rapidly than the national trend rates typically advanced in capped funding proposals.** If North Carolina's historical spending rates are indicative of its future spending rates, over time, federal Medicaid funding under a capped funding proposal would fall short of North Carolina's needs.
    - From 2000 – 2011, North Carolina's average annual per enrollee spending growth was above average for children (6% in North Carolina vs. 5.3% nationwide) and adults (6.5% in North Carolina vs. 5.6% nationwide).
    - North Carolina's Medicaid spending growth for these groups outstripped per capita GDP (2.9%), CPI (2.5%), and medical CPI (4%) during that period.
- **North Carolina 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 a critical issue for North Carolina to monitor.
    - DSH and UPL payments made up nearly one quarter (22.3%) of all North Carolina Medicaid benefit spending in 2015 – the 2nd highest percentage in the nation.
- **North Carolina is among the fastest growing states in the country, which puts it at particularly high risk under capped funding.** A capped funding formula that does not enrollment into account would leave the state at higher risk than other states. Even if enrollment growth is accommodated, it would be at risk for the higher costs attributable to an aging population.

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- North Carolina is the 7th fastest growing state in the country. While the country is expected to see its population grow by 8.4% by 2025, North Carolina is looking at a 14.4% growth rate, or an additional 1.4 million people.
- By 2025, North Carolina is expected to see its senior population – a group with high Medicaid costs – grow by 38%.
- Projected growth in the elderly population will be a particular challenge in North Carolina in light of it having the lowest spending base for the elderly relative to all other states.

- **North Carolina 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 (62%) of North Carolina's Medicaid spending was for elderly and disabled enrollees even though they accounted for only 27% of the State's Medicaid enrollment.
- **North Carolina has a higher uninsured rate compared to the nation's average – leaving North Carolina 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 North Carolina was 11.1% – the 11th highest in the nation.
  - While the current Medicaid structure preserves North Carolina's option to expand its Medicaid coverage, a capped model may eliminate or reduce federal financial support for any such expansion.
- **North Carolina'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 North Carolina budget and other State priorities, such as education.
  - Federal Medicaid funding ($9 billion in 2015) makes up approximately two-thirds (66.5%) of all federal funding in North Carolina's budget – the highest share among non-expansion states. By comparison, the next largest source of federal funds—for primary and secondary education—is just under 12% of the federal funds received by the State.

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