State Health Reform Assistance Network
Charting the Road to Coverage

A Robert Wood Johnson Foundation program

Medicaid Capped Funding: Findings and Implications for Oregon

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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 Oregon-specific data provided here offers insight into how base payment calculations and trend rates, as well as state policies and demographics, could impact Oregon 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 $2.7 billion in federal funding to Oregon 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 Oregon and to the State's budget.
    - Nearly 551,000 individuals are covered through the Medicaid expansion adult group in Oregon, 50% of the State's Medicaid population as of March 2016.
    - Oregon's uninsured rate dropped by nearly 53% from 2013 to 2015 (from 14.8% to 7.0%), an uninsured rate that ranks 33rd among states, due in large part to the Medicaid expansion.
    - Beyond coverage, reducing or repealing federal support for expansion would have a negative impact on Oregon's budget. Federal funding for new adults accounts for 42% of all federal Medicaid funding for Oregon.
- **Oregon'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 Oregon budget and other State priorities.
    - Federal Medicaid funding (nearly $6.5 billion in 2015) makes up approximately 67% of all federal funding in Oregon's budget – the 4th highest share among expansion states. By comparison, the next largest source of federal funds—for primary and secondary education—is just nearly 7% of the federal funds received by the State.
- **Oregon has a total per capita Medicaid spending level close to the national average.** Although nearly all capped funding proposals start with a state's historic spending, under some proposals, Oregon may be expected to move the state's per capita expenditures toward the median over time.
    - Oregon ranked 21st among states in total per capita Medicaid spending per enrollee. In fiscal year 2011, average spending was $6,625 per enrollee, slightly above the national average of $6,502.
    - Oregon has relatively high spending for the aged and adults: $24,253 per elderly enrollee compared to $17,522 nationally (13th highest) and $5,631 per adult enrollee compared to $4,141 nationally (7th highest).
    - Oregon already has relatively high use of managed care. In contrast to other states, it is not clear how much further Oregon could reduce per capita spending without reducing benefits or provider payment rates.
- **Between 2000-2011, Oregon's Medicaid spending on a per capita basis grew more rapidly than the national trend rates typically advanced in capped funding proposals for three of four eligibility groups**. If Oregon'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 Oregon's needs.
    - Oregon's average annual per enrollee spending growth from 2000-2011: 4.6% for the aged (23rd in nation), 4.5% for the disabled (25th in nation), and 8.5% for adults (14th in nation).
    - Oregon's spending growth for these groups outstripped per capita GDP (2.9%), CPI (2.5%), and medical CPI (4%) during that period.

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- **Oregon 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, 59% of Oregon's Medicaid spending was for elderly and disabled enrollees even though they accounted for 23% of the State's Medicaid enrollment.
    - The expansion of Medicaid to low-income adults in Oregon 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.
- **Oregon relies on DSH and other supplemental 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 Oregon to monitor.
    - These payments made up 2.7% of all Oregon's Medicaid benefit spending in 2015.
- **Oregon 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.
    - Oregon is the 9th fastest growing state in the country. While the country is expected to see its population grow by 8.4% by 2025, Oregon is looking at a 13% growth rate, or an additional 523,000 people.
    - By 2025, Oregon is expected to see its senior (age 65+) population – a group with high Medicaid costs – grow by 36% (ranking 22nd). Oregon's Medicaid enrollment of aged individuals from 2000 - 2011 likewise grew quickly – at an average annual rate of 3.5%, compared to the national average of 2.3%, the 11th fastest growth rate for this Medicaid population in the nation.

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