Medicaid Block Grants, Per Capita Caps, and Missouri: Early Observations (Summary)

- Several recent proposals would restructure Medicaid by replacing the current program with a Medicaid "block grant" or "per capita caps."
- Block grants and per capita caps have historically been designed to make significant reductions in federal Medicaid funding, cuts that increase over time.
- Under block grant programs, states typically receive a *capped* amount of federal money each year.
- Under per capita caps, states receive a per enrollee cap, rather than a global cap, on federal Medicaid spending.
- States bear all the financial risk if actual costs exceed what is allowed under the cap.

What is the impact of block grants or per capita caps?

- Under the current Medicaid program, the federal government pays 63% of Missouri's cost regardless of the cost of care.
- Under a block grant, the federal contribution cannot exceed the cap regardless of any increased need or unanticipated costs (such as increased enrollment or health care inflation).
- A block grant would eliminate the federal guarantee of coverage (for individuals who meet program requirements) and would likely eliminate federal requirements governing services and provider payments.
- Under a per capita cap, the federal contribution would grow for increases in enrollment but would not for other unanticipated cost increases such as new medical treatments.
- A per capita cap could preserve the coverage guarantee but would likely eliminate most protections regarding Medicaid services and provider payments.

Would there be a cut in federal funding with a block grant or per capita cap?

- Medicaid block grants and per capita caps are designed to *reduce* federal funding for states, as compared with current Medicaid law.
- Any inflationary adjustment is unlikely to address unanticipated health care costs from epidemics, new treatments or other advances in medical care.
- States are likely to face continued and increasing budget shortfalls if a block grant or per capita cap fails to keep pace with the current level of federal funding.
- Under Speaker Ryan's prior block grant proposal, it is estimated that **Missouri would have experienced a nearly $15.8 billion (39%) cut in federal spending over ten years,** with a $2.3 billion (45%) cut in the tenth year.

Are there Missouri-specific issues regarding how the formula is calculated?

- The initial funding level for a block grant or per capita cap would likely lock in place states' *current* spending levels as its basis for the formula.
- A formula pegged to states' current spending levels would disadvantage Missouri because: (1) Missouri did not expand Medicaid, which means that it would receive proportionately less federal funding than states that did; (2) Missouri's spending per low-income person ($2,606) is less than other states; Missouri receives less than half as much as New York ($6,646).
- Missouri's relatively low spending in Medicaid would result in lower funding levels under a capped financing structure as compared with other states, creating additional financial burdens.

Are there Missouri-specific concerns regarding the elimination of the current Medicaid financing system?

- Medicaid block grant or per capita caps would almost certainly require some amount of "state spending," but **it is not clear that the same state spending that counts today would count in determining the formula going forward.**
- Missouri is especially vulnerable to changes in state spending requirements because it relies heavily on the federal reimbursement allowance and other provider taxes to meet its "state match" obligation.
- Block grants and per capita caps could effectively eliminate the connection between some of Missouri's state funding and federal matching funds that come into the state.
- This change could cause an additional shortfall of state funding on top of the reduction in federal funding under a block grant or per capita cap.

What is the impact of a block grant or per capita cap on Missouri's Medicaid program?

- A block grant or per capita cap would **create significant pressure to reduce coverage and services** for all populations and to reduce payments to providers.
- Seniors and people with disabilities constitute under 27 percent of the program enrollees but account for 66 percent of Medicaid spending. Medicaid pays for 63 percent of all nursing home care in the state.
- Capped federal Medicaid funding would require significant cuts among the elderly and disabled or, alternatively, even more significant cuts among children and non-elderly adults (such as pregnant women) without disabilities.
- An analysis of the 2012 House Medicaid block grant proposal **estimated that 243,000-357,000 Missourians** would lose coverage under a Medicaid block grant.
- Medicaid payments to Missouri hospitals would be reduced by $7 billion over ten years, and nursing home payments would be reduced by $3.4 billion.

What about state flexibility?

- The current Medicaid program and its federal-state matching structure provide significant flexibility for states to design their own Medicaid programs, including flexibility to: (1) limit or expand coverage and services as Missouri has done; (2) respond to increased need caused by economic downturns, natural disasters, or new advances in health care; (3) use provider taxes and other sources besides general revenue to fund their programs; (4) implement managed care, medical homes, and home care community based services (in lieu of nursing home care); (5) use Section 1115 waivers to obtain even greater flexibility over coverage and services.
- The block grant or per capita cap approach **would essentially give Missouri only one kind of flexibility – to reduce coverage and services as a result of substantially less federal funding.** These cuts likely would be far more substantial than any previous State reductions in coverage and services.

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