AHCA's Changes to Medicaid Funding Put Access to Health Care, State Budget at Risk

The American Health Care Act would dramatically change the financing of Medicaid health services from a shared federal/state responsibility to a capped federal allotment that would shift costs to the states. As a result, Missouri would eventually increase state taxes, cut other areas of the budget such as public education, or make significant cuts to Medicaid eligibility and services.

Medicaid's Current Financing Protects Misouri

Medicaid is currently structured as a federal and state partnership, where both the state and federal government contribute to funding health care services. Under this partnership, the federal government provides a match for every dollar Missouri spends on Medicaid services. Missouri's matching rate is 63.21 percent, meaning that for every $1 the state spends on services, the federal government contributes $1.72.

What's more, Missouri's health care providers generate much of the state's match, and state general revenue makes up just 17 percent of total Medicaid costs in Missouri.

This matched funding from the federal government provides security for Missouri. Under this structure, Missouri can be sure that the federal contribution will increase if Medicaid costs increase.

- During times of recession or with the aging of the population, when more people become eligible for Medicaid, the federal contribution automatically increases with the increased number of patients.
- When unforeseen costs emerge due to epidemics or innovations in health care, federal funding will increase to respond to those costs.

The AHCA would dramatically alter this structure by instituting a capped amount of funding per Medicaid patient, known as a "per capita cap." Over time, the per capita cap structure would significantly reduce the federal share of funding for Medicaid and shift the responsibility of financing Medicaid to Missouri.

> A recent analysis by the Urban Institute found that within the first 10 years of implementation, **Missouri would face increased costs totaling $3 billion** – an amount that is more than double the amount of state general revenue used to fund Medicaid in the current year.

Missouri would have few options to respond to this sizeable state cost increase. Lawmakers would have to choose between increasing state taxes, cutting other areas of the budget such as public education, or making significant cuts to Medicaid eligibility and services.

AHCA's Use of Flawed Formulas Would Increase Missouri's Costs

At their core, per capita caps are designed to reduce federal costs, not state costs. Any cap would fundamentally alter the structure of Medicaid and would increase the financing burden for the state. But the dramatic cost increase for Missouri results from the formula used in the AHCA, which is based on two problematic measures.

Formula's Base Year Would Underestimate Medicaid Costs

The formula uses 2016 as a base year, even though the cap would not be implemented until 2020. In other words, the base year for the cap would be tied to costs that occurred four years earlier, not for the actual cost of care in 2020.

Formula Does Not Account for Costs Related to the Patient Population

Annual increases in the cap would be tied to the Medical Consumer Price Index. This index measures all health care spending in the nation, but is not specific to Medicaid. Medicaid costs increase at higher rates than the general medical inflation, because Medicaid cares for patients who are sicker and have more catastrophic illness.

In Missouri, while seniors and Missourians living with disabilities make up just 24 percent of the total Medicaid patients, they account for 65 percent of the total cost of Medicaid.

Using the Medical Consumer Price Index as the formula for the cap doesn't account for the role Medicaid plays in taking care of these patients who have the greatest health care needs. According to the Congressional Budget Office, while Medicaid spending is projected to increase by 5.5 percent per year between 2019-2027, the Medical Consumer Price Index is projected to increase by just 3.7 percent per year.

This disparity between actual costs in Medicaid and the formula that the per capita cap would require will quickly increase the expense for Missouri just to maintain the state's existing Medicaid eligibility and services.

Formula Does Not Account for Aging Population

The per capita cap fails to account for increased costs in Medicaid that are tied to an aging population.

- Between 2015 and 2030 the number of Missourians who are 65 and older is expected to increase by 50 percent, from 933,000 to 1,412,000.
- Not only is the pace at which the population is aging multiplying, but as Missourians live longer, the portion of the population that is 85 and older is dramatically increasing.
- Between 2015 and 2030 the number of Missourians age 85 and older is expected to increase by 40 percent.

A significant portion of these folks will be eligible for Medicaid. People living into their 80s and 90s have much more serious and chronic health problems and are more likely to require nursing home care and other long-term supports compared to younger seniors, resulting in increased costs in Medicaid. **On average, seniors aged 85 and older cost 2.5 times as much as those aged 65 to 74.** The AHCA's per capita cap doesn't account for this dynamic. As a result, **<u>as the population ages, the federal per capita cap will result in even steeper cost increases for Missouri.</u>**

Number of Missourians 85+ Will Increase 40%

Older Seniors Require More Expensive Care