

Block Grants and Per Capita Caps: The Impact on Washington State

Congress may take up Medicaid block grants or per capita caps this month. The Republican House replace plan includes these vehicles for cuts to Medicaid. It is vitally important to protect Medicaid, along with the ACA.

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

- Under the current Medicaid program, the federal government pays 50% of Washington's cost for "classic" Medicaid and 95% of the state's cost for Medicaid expansion (in 2017), 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, 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 make cuts to 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 **Washington would have experienced a \$7.9 billion (26%) cut in federal spending over ten years, with a \$918 million (26%) cut in the tenth year.**¹

Are there Washington-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 Washington because our spending per low-income person (\$2571) is less than other states; Washington receives less than 40% of what New York receives (\$6,646).² As a more cost-effective state, WA would have less "wiggle room" to absorb reductions in payment over time.

(over)

¹ <http://www.cbpp.org/research/what-if-chairman-ryans-medicaid-block-grant-had-taken-effect-in-2001>

² <http://www.urban.org/research/publication/block-grants-and-capita-caps>

Are there Washington-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.**
- Washington is especially vulnerable to changes in state spending requirements because it relies 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 Washington’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 Washington’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 make up only 13% of Medicaid enrollees but account for 38% of spending. Medicaid pays for 60% of all nursing home beds in the state.
- Children constitute 46% of Medicaid enrollees.
- Restructuring Medicaid with reduced federal 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 **301,000 to 593,000 Washington residents** would lose coverage under a Medicaid block grant.³
- Medicaid payments to Washington hospitals would be reduced by \$7.3 billion over ten years, and nursing home payments would be reduced by \$3.5 billion.⁴

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 Washington 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, health homes, and home and community based services (in lieu of nursing home care); (5) use Section 1115 waivers to obtain even greater flexibility over coverage and services, as Washington has just done.
- The block grant or per capita cap approach **would essentially give Washington 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.

³ <https://kaiserfamilyfoundation.files.wordpress.com/2013/01/8185-02.pdf>, p. 15. The estimates are based on a 2022 Medicaid enrollment of 1,324,000, but enrollment is currently substantially higher. The lower estimated eligibility decline assumes significant state efficiencies to lower Medicaid spending per-beneficiary. Id. at 14. The report found much greater enrollment declines if a block grant were implemented along with the repeal of the Affordable Care Act.

⁴ Id. p.19. These figures include both federal and state spending reductions (p. 18).