

Repealing the ACA: Medicaid Financing Reform

Issue: Medicaid is a health care program that supports access to care for families and individuals with limited resources. Medicaid requires states to cover a set of mandatory services for qualified individuals. The federal government provides matching funds to complement state expenditures for these services. Along with repealing the Affordable Care Act (ACA), there are proposals to reform Medicaid financing, including block grants which provide a fixed amount of money to states, and use of per capita caps where the federal government sets a limit on how much it would provide states per Medicaid enrollee. Under both, states would be given flexibility in design and administration of the Medicaid program.

Background: Proposals to reform Medicaid financing have been made before, typically as a means of achieving federal Medicaid savings. Key challenges include:

- Establishing the base amount per enrollee
- Balancing state flexibility with core federal Medicaid requirements
- Adjusting for growth rates
- Assuring accountability for the provision of care to vulnerable populations

HAP Recommendations

- Any Medicaid financing reform proposal must provide adequate funding to ensure that all low-income children, pregnant women, seniors, individuals with disabilities, and working adults have access to health insurance coverage through the Medicaid and Children's Health Insurance Program (CHIP) programs
- To assure expanded coverage, cost control, and more state flexibility, consideration should be given to capitalizing the flexibility that currently exists within the Medicaid 1115 waiver structure as an alternative to financing Medicaid through block grants or per capita caps

Block Grant Approach

- State receives a fixed sum of federal dollars
- Future allocations tied to amount each state received as of a specific date, adjusted for inflation and population growth
- Federal contribution would remain the same, or grow only according to a preset formula, no matter how large the population in need becomes
- To provide states flexibility, entitlement to coverage would be eliminated and federal rules regarding eligibility, coverage, and payment would be revised

Per Capita Approach

- State receives fixed amount determined by multiplying a per capita allowance times the number of eligible program beneficiaries
- Amount determined on a state-specific basis, taking into account historical data on the states per beneficiary expenditures
- Separate caps set for defined groups of beneficiaries (e.g., children, seniors, adults with disabilities, and nondisabled adults)
- Caps adjusted annually for inflation using the same percentage for all states
- States would be given wider latitude in designing and operating programs



Repealing the ACA: Medicaid Reform Page 2

Ultimately, assuring that Medicaid enrollees have coverage for vitally needed health care services and that there is adequate financing to assure access to high-quality health care services is a challenge under either block grants or per capita costs. Other concerns include the potential for:

- Eliminating requirements for states to provide coverage for all who are eligible
- Payment methodologies that will not keep pace with program growth
- Unanticipated increases in program costs due to breakthrough advances in technology, the availability of new and costly medications, or unanticipated epidemics

Federal Medicaid requirements already allow states' flexibility through the use of waivers, such as 1115 or 1915(b) waivers, that have been used by states to expand coverage, control costs, and provide more flexibility in the management of the program.

Pennsylvania used a 1915(b) waiver to expand mandatory managed care (HealthChoices) statewide for both medical and behavioral health care services. Under HealthChoices, Pennsylvania contracts with managed care organizations—commercial insurance plans—to deliver health care services in a manner that reduces Medicaid program costs and manages the utilization of services. Pennsylvania also is pursuing waivers to offer Community HealthChoices—managed long-term services and supports for the delivery of long-term and community-based services as a means of improving efficiency and quality of life.

Other states (Indiana, Ohio, Michigan, and others) have used the 1115 waivers to redesign their state Medicaid program as they expanded Medicaid under the ACA.

Implications for Pennsylvania: In Pennsylvania, Medicaid serves approximately 2.8 million individuals, including children, pregnant women, seniors, individuals with disabilities, and low-income working adults.

- Pennsylvania has a slightly higher percentage of adults (ages 21 to 64) with disabilities at 11.7 percent than the national average of 10.8 percent. Given present demographic trends in Pennsylvania, the proportion of Medicaid recipients who have disabilities likely will increase over time.
- Pennsylvania has a higher percentage of elderly (16 percent) than most other states, ranking fourth. Medicaid is the dominant payer of long-term care (nursing home and home health) for elderly individuals. A per capita cap based on historical expenditure data will tend to understate the real costs of serving the growing number of aging baby boomers.

WITHOUT ACA REPLACEMENT

2.8 MILLION

PENNSYLVANIANS SECURE COVERAGE
THROUGH MEDICAID & CHIP,
INCLUDING CHILDREN, PREGNANT
WOMEN, AND ELDERS. REPEAL
JEOPARDIZES COVERAGE FOR
MORE THAN

700,000 PENNSYLVANIANS
THAT HAVE BENEFITED FROM MEDICAID
EXPANSION



Repealing the ACA: Medicaid Reform

Page 3

- Each year, more than 141,000 babies are born in Pennsylvania and Medicaid funds more than 45 percent of all births, which is slightly higher than the national average of 40 percent.
- Pennsylvania moved to mandatory managed care (HealthChoices) long before other states to achieve improved cost-effectiveness and access to high-quality care. A uniform methodology would disadvantage some states more than others. These proposals could lock in historic inefficient spending patterns and variation in Medicaid spending across states, while harming states, such as Pennsylvania, that already have sought greater efficiencies through managed care.
- Pennsylvania's Medicaid program has historically paid health care providers less than the cost of care. Any new limits imposed by the federal government on Medicaid funding will only exacerbate the chronic inadequate funding for care provided to Medicaid patients.

Sources:

U.S. Centers for Medicare & Medicaid Services
Kaiser Family Foundation
Pennsylvania Department of Human Services
U.S. Census

February 2017

