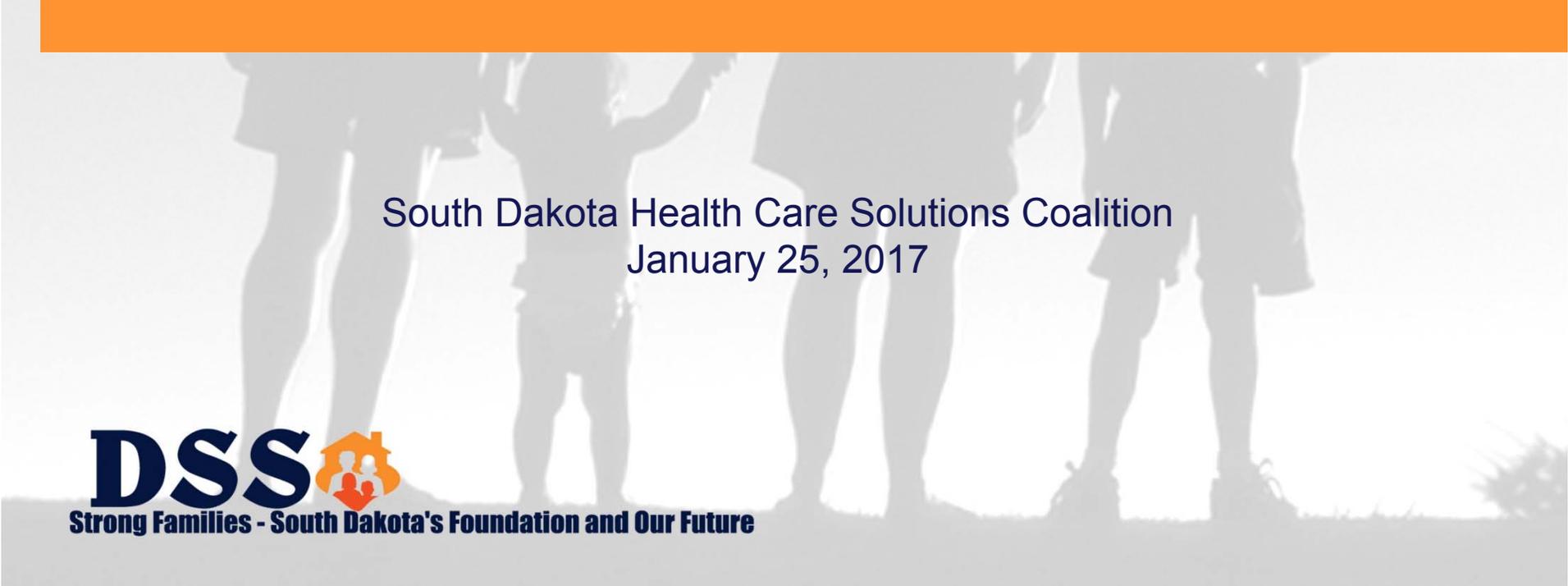# Block Grants and Per Capita Cap Funding for Medicaid

South Dakota Health Care Solutions Coalition
January 25, 2017

DSS
Strong Families - South Dakota's Foundation and Our Future

Medicaid - Current Financing Structure

- Medicaid is the largest source of federal revenue to states
  - $346 billion (federal funds) in 2015
- Medicaid is an entitlement program – all eligible individuals must be served.
- Federal requirements establish minimum income guidelines, coverage groups, and services.
- States have flexibility to provide coverage or set income guidelines resulting in wide variability in coverage and costs.
- States must follow federal rules – obtain approval through Medicaid state plan

DSS
Strong Families - South Dakota's Foundation and Our Future

Current Financing Structure

- Matching federal payments to states with no current cap.

- Federal Medical Assistance Percentage (FMAP) determines how much the state and federal government pay for their share of Medicaid expenditures.

  - Determined annually for the federal fiscal year (10/1 – 9/30) using previous 3 year's personal income data from each state.
  - Formula compares each state's average per capita income change in relation to each other.

- South Dakota SFY17 FMAP
  - Medicaid (Title XIX) 45.89% general – 54.11% federal
  - CHIP (Title XXI): 9.12% general – 90.88% federal

- Nationally FMAP rates range from 50 – 74% for services

- Administrative costs 50/50

DSS
Strong Families - South Dakota's Foundation and Our Future

Block Grants

- Federal block grant refers to a grant program that provides federal assistance for a broadly defined function to meet a program goal.

- Includes requirements regarding target populations, allowable expenditures.

- Provides funding certainty to federal government; shifts risk for enrollment increases and health care costs to states.

DSS
**Strong Families - South Dakota's Foundation and Our Future**

Block Grants

- Amounts allocated among states typically established on historical expenditures in a base year.

- May remain flat or level funded – or have some inflationary factor applied each year.

- Some block grants provide a fixed amount of federal funding not conditioned on state spending or match.

- Some block grants require a maintenance of effort or match of state funds.

  - TANF block grant provides federal funding at the capped level so long as the state spends minimum amount of its own state dollars on TANF-related initiatives

  - Child Care block grant – match rate set annually based on FMAP

DSS
**Strong Families - South Dakota's Foundation and Our Future**

Block Grants

Total dollars of federal funding for TANF and Social Services block grants have declined in value due to inflation

Reductions in Inflation-Adjusted Funding for the Social Services Block Grant
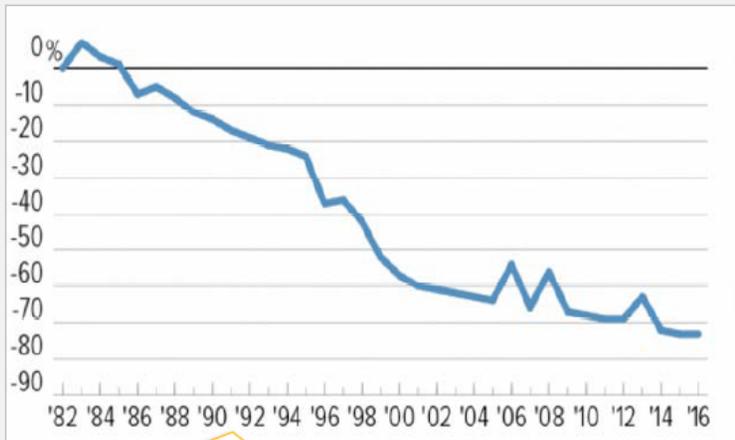
73% reduction in block grant value between 1982 and 2016 due to inflation, funding freezes, budget cuts and sequestration

Total Spending on TANF and Programs That Preceded It
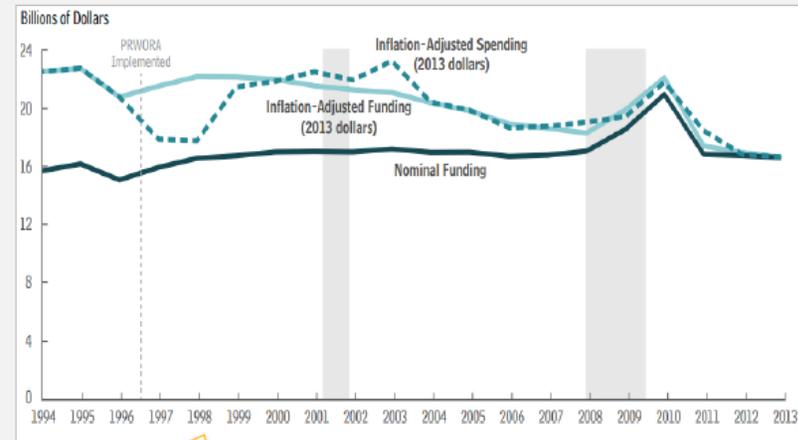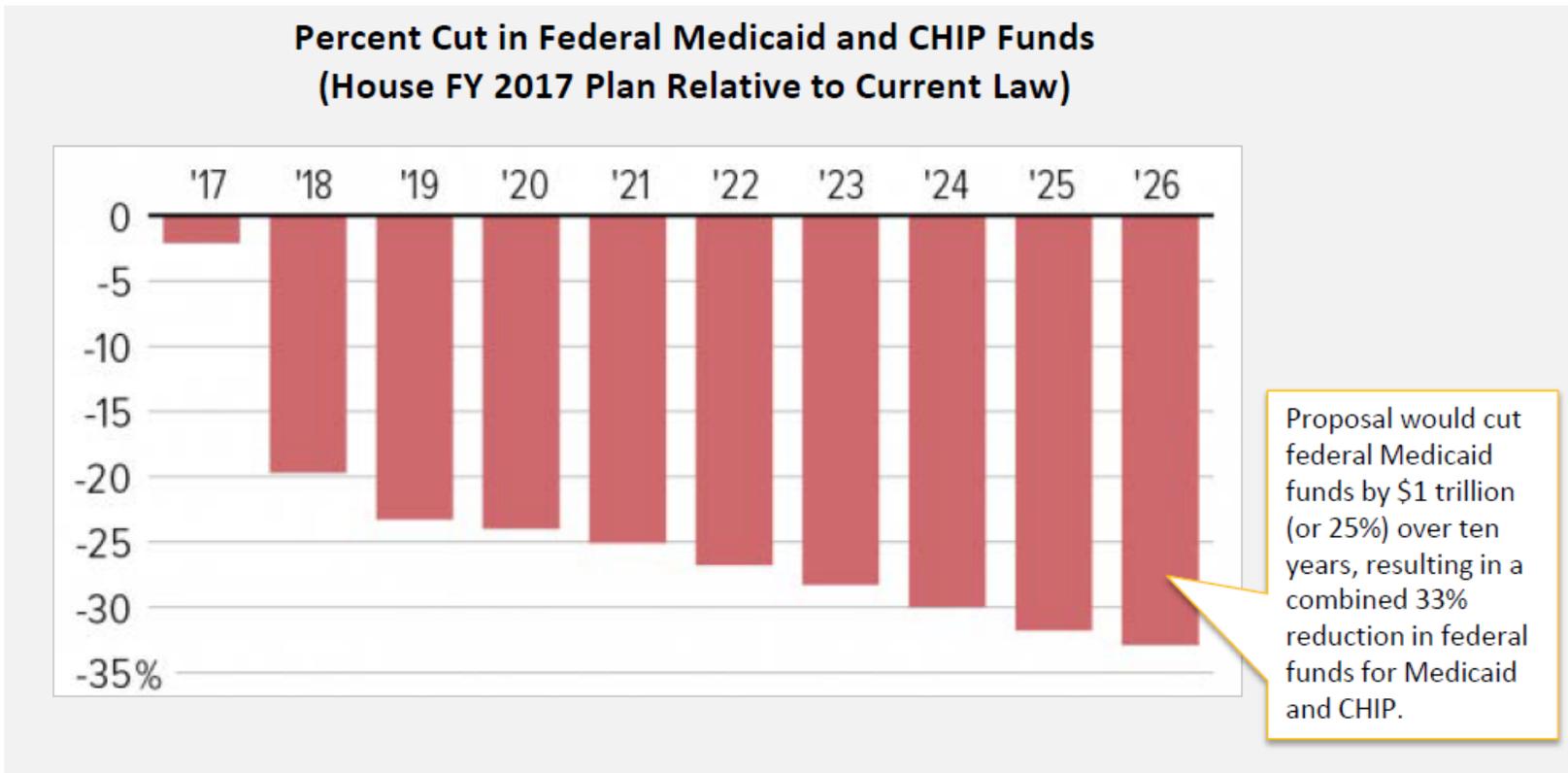
TANF's purchasing power has declined 25% since 1998

Source: CBPP, "Eliminating Social Services Block Grant Would Weaken Services for Vulnerable Children, Adults, and Disabled," Available at: http://www.cbpp.org/research/eliminating-social-services-block-grant-would-weaken-services-for-vulnerable-children; and Congressional Budget Office, "Temporary Assistance for Needy Families Spending and Policy Options," Available at: https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/49887-TANF.pdf

DSS
Strong Families - South Dakota's Foundation and Our Future

Per Capita Caps

- Under a Medicaid per capita cap, the federal government would set a limit on how much to reimburse states per enrollee.

  - A per-beneficiary federal cap would be determined for a base year; adjustments made annually based on a federally-determined growth limit.

  - There could be one uniform cap for all enrollees or a separate cap for each eligibility group (aged, individuals with disabilities, adults, children)

- Still shifts risk of cost but does account for changes in enrollment- includes similar risks to block grants if per capita amounts aren't adequate to fund services.

DSS
Strong Families - South Dakota's Foundation and Our Future

State Considerations

- Either approach reduces federal payments to states

Percent Cut in Federal Medicaid and CHIP Funds
(House FY 2017 Plan Relative to Current Law)

Proposal would cut federal Medicaid funds by $1 trillion (or 25%) over ten years, resulting in a combined 33% reduction in federal funds for Medicaid and CHIP.

DSS
Strong Families - South Dakota's Foundation and Our Future

State Considerations

- How allotments are set
  - Historical spending per enrollee would generally favor states with more comprehensive coverage, higher income guidelines, more favorable reimbursement rates, etc.
  - State policy decisions drive a wide variability in per enrollee cost.
  - Include/exclude supplemental payments such as graduate medical education, disproportionate share payments, funding for American Indians served by IHS
- How allotments will be adjusted over time
- State spending requirements - i.e. Maintenance of effort or match
- Required services, populations, income guidelines

State Considerations

- Both approaches fail to address issues beyond state control

- Neither block grants nor per capita cap account for:
  - New drugs or other medical advances, public health crisis (flu outbreak), or sicker populations.

- If funding doesn't keep pace with enrollment or costs, result is states must choose between
  - Reducing eligibility
  - Reducing coverage or services
  - Reducing provider rates
  - Waiting lists

DSS
Strong Families - South Dakota's Foundation and Our Future

State Considerations

Most proposals are missing key details

Feature	A Better Way (Ryan)	Patient CARE Act (Hatch/Upton/Burr)	FY17 House Budget Comm. (Price)	HAEL Act of 2016 (Sessions/Cassidy)	Heritage Foundation
Type	Per capita cap, with option for block grant	Per capita cap	Block grant	Per capita cap	Per capita cap
State Match Required	✓ (per capita cap) ? (block grant)	?	?	✓	✓
National aggregate cap	✗	✗	✓	✗	✓
Different caps for populations	✓	✓	?	✓	✓
Populations covered	All	All, except acute care of elderly & disabled	All	All	All
Base amount	Average Medicaid spend in state during base year	Nat'l Medicaid spend allocated based on state population with income < 100% FPL	Unclear	Average Federal Medicaid spend during base year	Unclear
Trend rate	Unclear	CPI + 1	Unclear	GDP + 1	Unclear

State Health Reform Assistance Network

DSS
Strong Families - South Dakota's Foundation and Our Future