kaiser commission on medicaid and the uninsured

THE HENRY J. KAISER FAMILY FOUNDATION

May 2011

House Republican Budget Plan: State-by-State Impact of Changes in Medicaid Financing

Focus on the federal deficit has intensified calls for entitlement reform, which would include changes to Medicaid, the nation's primary health care coverage and long-term care program for low-income Americans. Policy leaders and fiscal commissions have put forth broad based deficit reduction plans, but the changes to Medicaid vary in scope and depth. The most far-reaching changes to Medicaid are in the proposal introduced by Representative Paul Ryan and passed by the House along a party-line vote in April 2011. This proposal would significantly reduce federal Medicaid spending and fundamentally alter the current entitlement structure and financing of the Medicaid program.

The House Budget plan includes two major provisions relevant to Medicaid. First, it would repeal the Affordable Care Act (ACA), which includes a major expansion of Medicaid with mostly federal funding to nearly all non-elderly individuals up to 138% of poverty. Second, the House Budget plan would convert existing Medicaid financing from open-ended, matched federal spending on behalf of eligible individuals to a block grant. Under the block grant, federal spending would be capped annually and distributed to states each year based on a formula rather than actual costs. The block grant would start in 2013 and grow annually with population growth and inflation.

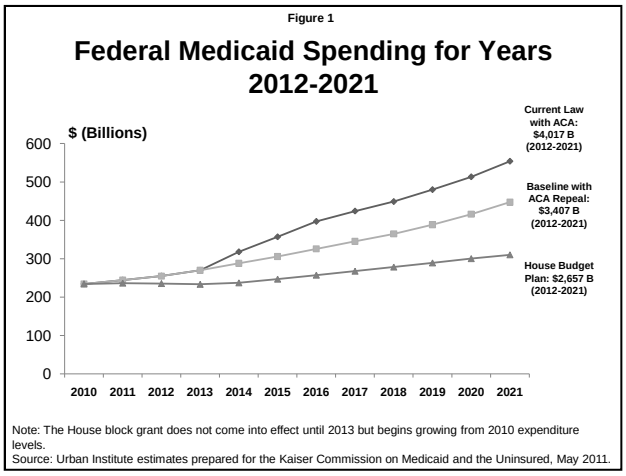
An analysis conducted by the Urban Institute for the Kaiser Commission on Medicaid and the Uninsured provides national and state-by-state estimates of the impact of the House Budget plan on Medicaid spending and enrollment. The analysis examines the impact of changes due to both the elimination of the ACA and the conversion to a block grant. These estimates draw from a model that projects spending under current law, using state-level administrative Medicaid spending data by eligibility group, inflated and adjusted to agree with Congressional Budget Office (CBO) estimates at the national level between 2012 and 2021. The model also incorporates state-specific estimates of the impact of the ACA from the Urban Institute's Health Insurance Policy Simulation Model (HIPSM). A complete description of the methods underlying the analysis is available in the full report.

The full report provides state-by-state estimates of federal Medicaid spending under the House Budget plan. It also assesses implications of the plan for Medicaid payments to hospitals. Based on the estimates of Medicaid spending under the House Budget plan, the analysis examines potential impact on enrollment under different potential scenarios of state policy response. Last, it examines how much state spending would have to increase in order to maintain program enrollment in the face of cuts to federal Medicaid spending in the House Budget plan.

Changes in Medicaid Spending Under the House Budget Plan

The House Budget plan would result in federal savings of $1.4 trillion over the 2012 to 2021 period, with $610 billion in savings resulting from the repeal of the ACA and $750 billion in savings from converting Medicaid to a block grant and limiting federal spending growth rates (Figure 1). These cuts represent a 34% reduction from current law including the ACA or a 22% reduction to the existing Medicaid program without accounting for the ACA over the next ten years.

Figure 1



Note: The House block grant does not come into effect until 2013 but begins growing from 2010 expenditure levels.
Source: Urban Institute estimates prepared for the Kaiser Commission on Medicaid and the Uninsured, May 2011.

Under this analysis, states will experience differential reductions in federal spending largely due to the repeal of the ACA, with larger reductions in states where the ACA would have the largest impact and smaller reductions in states with greater coverage in the baseline. Total cuts over the 2012 to 2021 period range from 26% in Washington, Vermont and Minnesota to 41% in Oregon, Georgia, Colorado and 44% in Florida.

In 2021, federal Medicaid spending would be $243.5 billion lower than projected under current law including the ACA, with $106 billion in savings from the repeal of the ACA and $137 billion from the conversion to a block grant. These cuts mean federal Medicaid spending in 2021 would be 44% lower than it would be under current law.

Potential Impact on Providers. Decreases in Medicaid spending will translate to decreased revenue sources for providers. Assuming states make equal reductions across all providers, federal and state Medicaid payments to hospitals in 2021 could fall by $84.3 billion relative to current law including the ACA, or 38%. Other providers such as nursing homes would undoubtedly also lose Medicaid revenue.

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Potential Changes in Enrollment under Three Scenarios

States will make different policy choices in the face of reduced federal spending for Medicaid. We examined the potential impact on enrollment in 2021 due to the House Budget plan under three possible scenarios (Figure 2). All assume that state spending is reduced by the same percentage as federal spending. As with spending, states with the largest changes from the ACA will see the greatest reductions in enrollment.

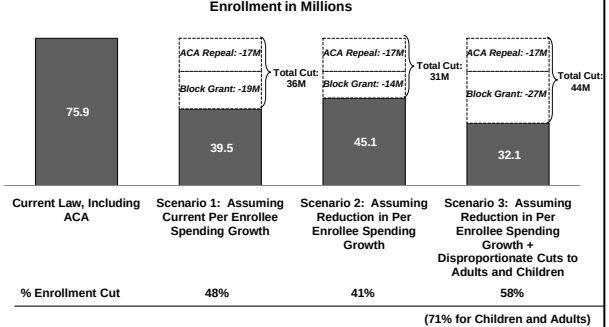
Scenario 1. In the first scenario, Medicaid per person spending would grow at rates equal to those projected under current law, and states make proportional reductions across all eligibility groups (children, adults, elderly and individuals with disabilities). With these assumptions, there would be 36.4 million fewer people in Medicaid in 2021 than would be expected under current law, a reduction of 48% (17 million from the repeal of the ACA and 19.4 million from the block grant).

Scenario 2. In the second scenario, states are able to slow annual increases in Medicaid spending per person to match growth in the economy as a whole. This would mitigate the size of the enrollment cuts. As with scenario 1, reductions would be proportional across eligibility groups. Under these assumptions, Medicaid enrollment in 2021 would fall by 30.8 million compared to what would be expected under current law, a reduction of 41% (17 million from the repeal of the ACA and 13.8 million from the block grant).

Scenario 3. In the third scenario, states protect eligibility for the elderly and disabled (thus disproportionately making enrollment cuts among adults and children). This scenario also assumes states reduce Medicaid per enrollee spending growth and cut spending for the elderly and disabled by 10%. Under these assumptions, Medicaid would cover 43.8 million fewer people in 2021 than under current projections (17 million from the repeal of the ACA and 26.8 million from the block grant). This cut is a 58% reduction in overall enrollment, or a 71% reduction in enrollment of adults and children.

Figure 2

Medicaid Enrollment in 2021 Under 3 Scenarios Based on the House Budget Plan



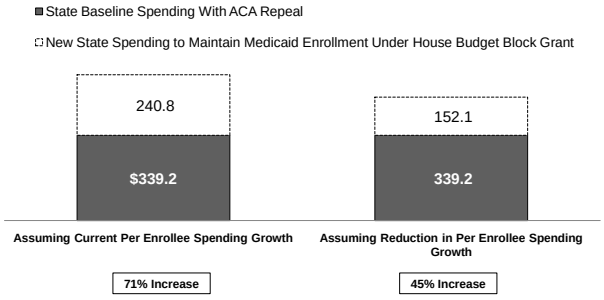
Source: Urban Institute estimates prepared for the Kaiser Commission on Medicaid and the Uninsured, May 2011.

Potential Increase in State Spending to Maintain Eligibility under the House Budget Plan Block Grant

States would need to increase state funds significantly to maintain eligibility and compensate for the loss of federal funding, without accounting for future coverage gains from the ACA. The analysis shows that states would have to increase their own spending by about $241 billion, or 71%, over the 10 year period if they were unable to reduce per enrollee spending beyond current rates. If states can reduce per enrollee spending growth, they would still need to increase their spending by $152 billion, or 45%, (Figure 3). The spending increases would vary by state, with poorer states that receive more federal matching funds facing steeper percentage increases in state spending.

Figure 3

Estimated Increase in State Spending in 2021 to Offset Medicaid Enrollment Reductions Under the House Budget Plan



Source: Urban Institute estimates prepared for the Kaiser Commission on Medicaid and the Uninsured, May 2011.

Conclusion

The House Budget plan would result in federal budget savings and more predictable federal financing for Medicaid in the future. In exchange, the plan would make fundamental changes to the financing structure of Medicaid that would substantially reduce federal payments to states, challenging states' ability to finance coverage for their low-income residents. This reduction could result in large reductions in payments to providers and enrollment. In turn, these reductions would likely worsen the problem of the uninsured and strain the nation's safety net. To avoid such cuts, states would need to increase their own spending. Medicaid currently plays a significant role in providing care to many low-income individuals including children, the elderly and individuals with disabilities, financing long-term care services and supporting safety net providers. Medicaid's ability to continue these many roles in the health care system would be significantly compromised under this proposal, with no obvious alternative to take its place.

For more detail on methods, assumptions and state-by-state results, please refer to the full report: *House Republican Budget Plan: State-by-State Impact of Changes in Medicaid Financing* by John Holahan, Matthew Buettgens, Vicki Chen, Caitlin Carroll, and Emily Lawton from the Urban Institute at http://www.kff.org/medicaid/8185.cfm.