MEDICARE RIGHTS CENTER
Getting Medicare right

Protect and Strengthen:
Medicaid Financing

Medicaid is financed and administered through a federal-state partnership. Under current law, the federal government matches state Medicaid spending based on a statutory formula, without a pre-set limit. If state spending increases, for example due to increased enrollment or unexpectedly high program costs, then federal spending increases as well. This open-ended financing structure allows federal funds to flow to states based on actual costs and needs as economic and other circumstances change.

Efforts to Cut Medicaid through Restructuring.

Some policymakers support efforts to fundamentally restructure and severely cut Medicaid, including by transforming the program from a guaranteed benefit to a per-capita cap or block grant system. Block grants and per capita caps are both designed to produce large federal savings over time by shrinking federal funding for state Medicaid programs. This would shift significant costs to states and almost certainly lead to reduced services and eligibility, placing millions of low-income people at risk of becoming un- or underinsured.

- **Block Grants:** Under a block grant, states would receive a fixed amount of federal funding each year to operate their Medicaid programs. To achieve federal savings, the amount provided to states would be less than what is expected under current law. Further, the federal share would not automatically adjust in times of need or keep pace with inflation, as do today's Medicaid rates. For example, during economic downturns like the Great Recession, enrollment in Medicaid grows, increasing state Medicaid costs at the same time that state tax revenues are declining.[i] States would be responsible for all costs that exceed the federal amount.

- **Per-Capita Caps:** A per-capita cap sets a limit on the amount the state has to spend on its Medicaid enrollees. These caps could be determined for all enrollees or separate caps could be calculated based on broad Medicaid coverage groups. In either case, to generate federal savings, per-enrollee spending would be indexed to grow more slowly than is expected under current law. While under this approach federal funding would respond to population changes, it would still not address changes in health costs, like those associated with a natural disaster like a hurricane, epidemic like Zika, or expensive new therapy like those for hepatitis C.

- **Puerto Rico:** The dangers of block grants are not theoretical. Puerto Rico receives its Medicaid funding as a block grant, so once the funds are exhausted, the territory must cover remaining costs itself.[ii] Before Hurricane Maria, the territory's funding limitations were not keeping pace with need. Maria spiked costs, plunging the territory into escalating debt, inability to cover health needs, and devastation for families.

> ### Medicaid Financing: Just the Facts
>
> **Currently, poorer states pay less for their Medicaid coverage than wealthier states.** States share the cost of Medicaid with the federal government, but there is variation of how much of the tab the federal government picks up. For example, Mississippi pays only about ¼ of the cost of its Medicaid program while Massachusetts pays about ½.
>
> **Overall, the federal government paid more for Medicaid coverage than states paid.** In 2017, the federal government paid more than 60% of total Medicaid costs. The states paid about 40%.

Efforts to Increase State Flexibility.

The Medicaid program as currently financed allows states remarkable flexibility in how its coverage is designed, but the program does require the states to cover certain populations and to provide certain benefits. Though structurally different, block grants and per-capita caps are both premised on the idea that the federal government should be able to spend less and states should be able to choose who receives Medicaid coverage. This means the flexibility to choose to cover fewer (or different) residents, provide less coverage, or both.

Accordingly, most proposals to institute these financing changes would also remove or loosen federal requirements on what benefits and eligibility categories states must maintain. As a result, states could be free to cut services, impose cost-sharing, roll back eligibility categories, or restrict enrollment through waiting lists. This would create significant risks for older adults and people with disabilities, especially those who need long-term services and supports in order to live safely in the community.

- **Reduced Services:** Medicaid includes both mandatory services and optional benefits. States can more easily roll back optional benefits, but these benefits can be among the most valuable for enrollees. For example, prescription drug coverage, home- and community-based services, and dental services are all optional benefits.[iii]
- **Home- and Community-Based Services:** HCBS services are generally for Medicaid beneficiaries who would otherwise be institutionalized in a nursing facility.[iv] HCBS is usually less expensive than nursing facility care but is still costly. In 2014, over half of Medicaid's long-term care spending was spent on HCBS.[v] More importantly, HCBS is optional for states. This means that states would likely find it politically easier to cut HCBS or institute draconian waiting lists or caps if they began to experience massive shortfalls in funding. This in turn would lead to more beneficiaries forced to leave their homes and communities and more drain on state budgets.
- **Reduced Eligibility:** As capped Medicaid funding shortfalls grow larger over time, states would likely have no choice but to cut the most expensive parts of the program in order to curtail costs. Some of those most vulnerable Americans—older adults and people with disabilities—would likely bear the brunt of these cuts. Almost two-thirds of all Medicaid spending for services is attributable to the elderly and persons with disabilities, who make up less than one-quarter of all Medicaid enrollees. These costs are more than four times the spending for an adult and more than seven times spending for an average child covered by the program.[vi]
- **Nursing Facility Residents:** Medicaid was the primary payer for 62% of the nation's nursing facility residents in 2015.[vii] In 2018, nursing facility care averaged nearly $90,000 per year.[viii] Covering nursing facility care is required by the Medicaid statute, but this requirement could potentially be eliminated or waived by a new financing statute. States could also gain the ability to put waiting lists or caps into place, which could leave millions of residents at risk for losing their care and housing. Or states could contemplate allowing staff reductions to reduce nursing facility costs. This could put all facility residents at greater risk.[ix]

---

[i] Robin Rudowitz, Kendal Orgera, and Elizabeth Hinton, "Medicaid Financing: The Basics," Kaiser Family Foundation (March 21, 2019), https://www.kff.org/report-section/medicaid-financing-the-basics-issue-brief/.

[ii] Robin Rudowitz, Kendal Orgera, and Elizabeth Hinton, "Medicaid Financing: The Basics," Kaiser Family Foundation (March 21, 2019), https://www.kff.org/report-section/medicaid-financing-the-basics-issue-brief/.

[iii] Centers for Medicare & Medicaid Services, "Mandatory & Optional Medicaid Benefits" (last access May 6, 2019), https://www.medicaid.gov/medicaid/benefits/list-of-benefits/index.html.

[iv] Centers for Medicare & Medicaid Services, "Home & Community Based Services" (last access May 6, 2019), https://www.medicaid.gov/medicaid/hcbs/index.html.

[v] Centers for Medicare & Medicaid Services, "Home & Community Based Services" (last access May 6, 2019), https://www.medicaid.gov/medicaid/hcbs/index.html.

[vi] Robin Rudowitz, Kendal Orgera, and Elizabeth Hinton, "Medicaid Financing: The Basics," Kaiser Family Foundation (March 21, 2019), https://www.kff.org/report-section/medicaid-financing-the-basics-issue-brief/.

[vii] Kaiser Family Foundation, "Medicaid's Role in Nursing Home Care" (June 20, 2017), https://www.kff.org/infographic/medicaids-role-in-nursing-home-care/.

[viii] Genworth, "Cost of Care Survey 2018" (June 2018), https://www.genworth.com/aging-and-you/finances/cost-of-care.html.

[ix] Kaiser Family Foundation, "Medicaid's Role in Nursing Home Care" (June 20, 2017), https://www.kff.org/infographic/medicaids-role-in-nursing-home-care/.