# Assessing The New Federal Medicaid Block Grant Proposal

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# Key Features of the President's Proposal

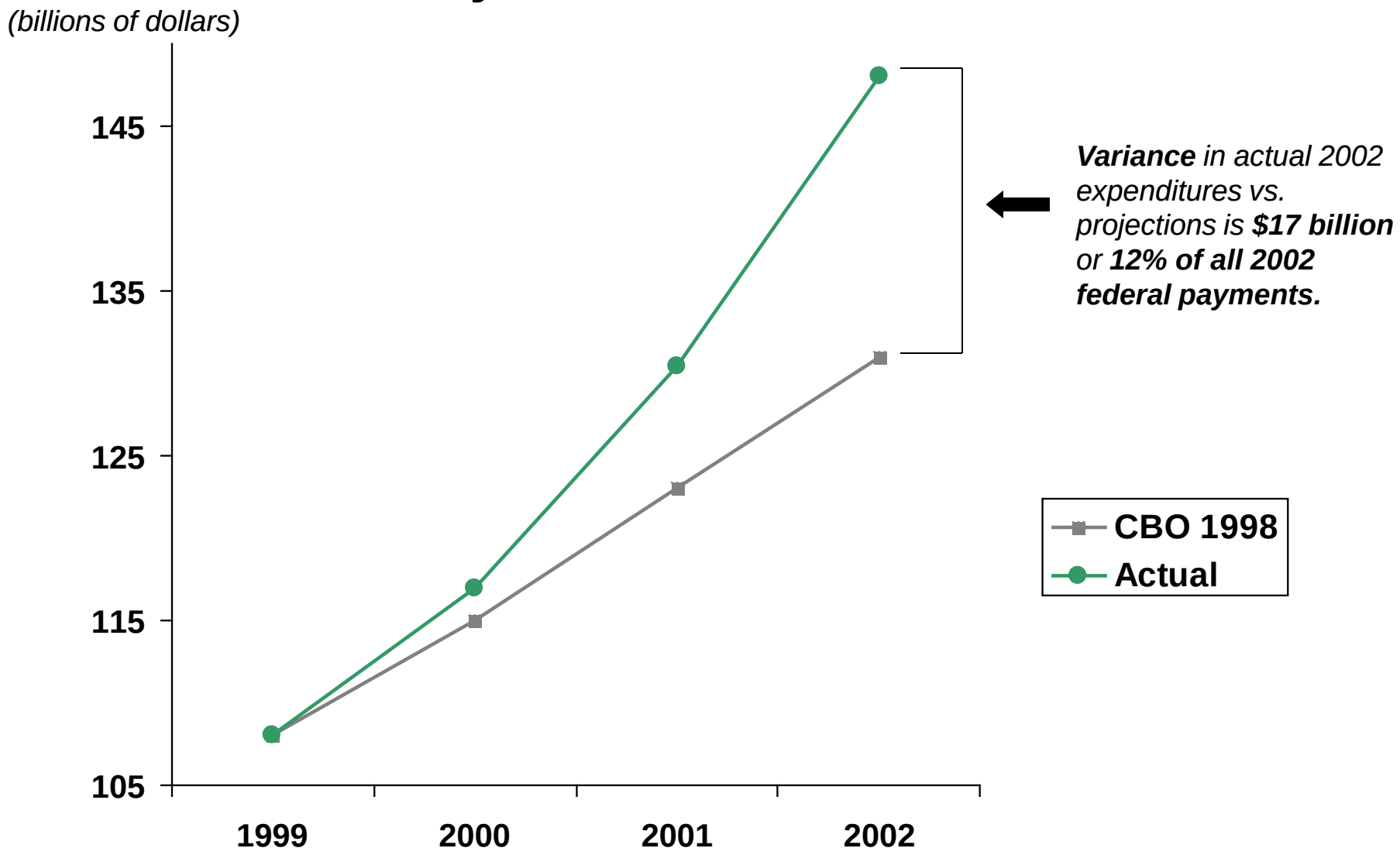
- ✓ Capped federal payments to states based on a pre-set formula
  - State payments based on Medicaid (including DSH) and SCHIP payments in 2002

- ✓ No required state matching payments/ "maintenance of effort" system instead

- ✓ Much greater flexibility re: how money is spent

# Risk #1: Costs above capped payments no longer shared between states and federal government

# CBO Federal Medicaid Spending Projections, 1999-2002




Source: Congressional Budget Office historical budget tables, previous editions of its Economic and Budget Outlook.

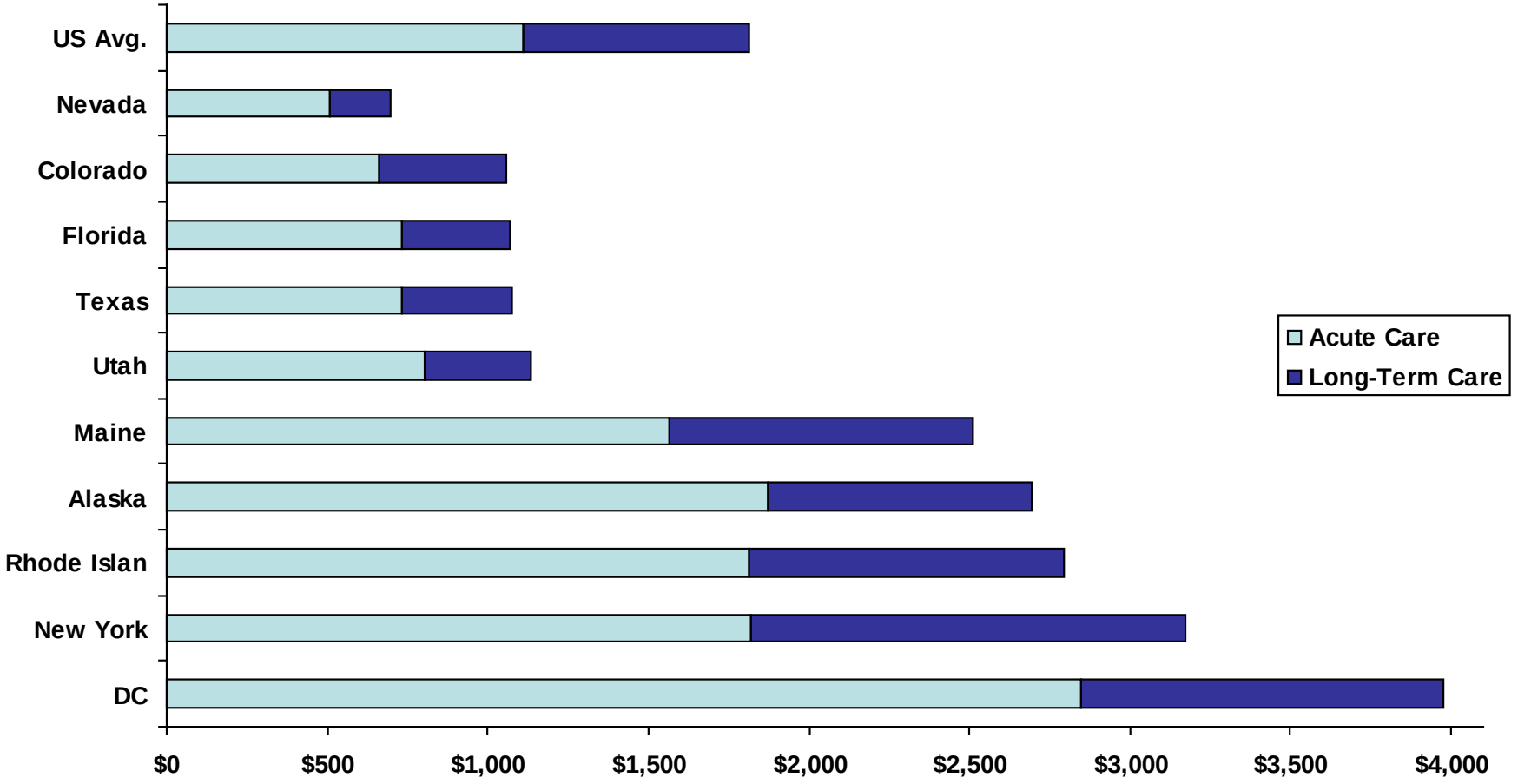
# Can “Adjusters” To a Cap Provide Protection?

- What factors would be considered?  What factors would *not* be considered?
- Are there data?
- Would /could adjustments be timely?
- Adjusters themselves would be capped

# Risk #2: Capped Funding Inevitably Results In Relative “Winners and Losers” Among States

# Variations in Base Payments

( Medicaid Expenditures Per Low-income Individual FY 2002)




Sources: Urban Institute estimates based on data from CMS (Form 64). Population counts from the March Current Population Surveys, 2001, 2002; Holahan J, Weil A. "Block Grants Are the Wrong Prescription for Medicaid." Urban Institute, May 2003. "Low-income" includes all persons with incomes below 200% of the federal poverty line.

# Variations in Historical Growth Rate

- Capped payments to states apparently would grow based on state historical growth rates (negotiated within capped federal funding)

- NY has had relatively *low* expenditure growth rates
  - 40 out of 51 states in Medicaid expenditure growth between 1991 – 2001
  - 48 out of 51 between 1998-2001

- But historical growth is not always a good indicator of future needs

# (Some) Other Risk Factors for NY

- Number of elderly projected to grow in NY, although at slower pace than nation as a whole
- NY has had higher-than-average growth in number of people with disabilities qualifying for SSI (1996 – 2001)
- NY ranked 3rd in incidence of AIDS patients and 2nd in number of new AIDS cases relative to population (2001)

# Risk #3: States could withdraw a significant portion of their funding

# Matching System Creates Incentives to Maintain Investment in Optional Coverage

**Current Law**

**Federal dollars lost if NY reduces Medicaid spending by $125 million**

| Match Rate | State Funds Saved (millions) | Federal Dollars Lost (millions) |
|---|---|---|
| 50% | $125 | $125 |

**Proposal**

**Federal dollars lost if NY reduces Medicaid spending by $125 million (assuming state meets "MOE")**

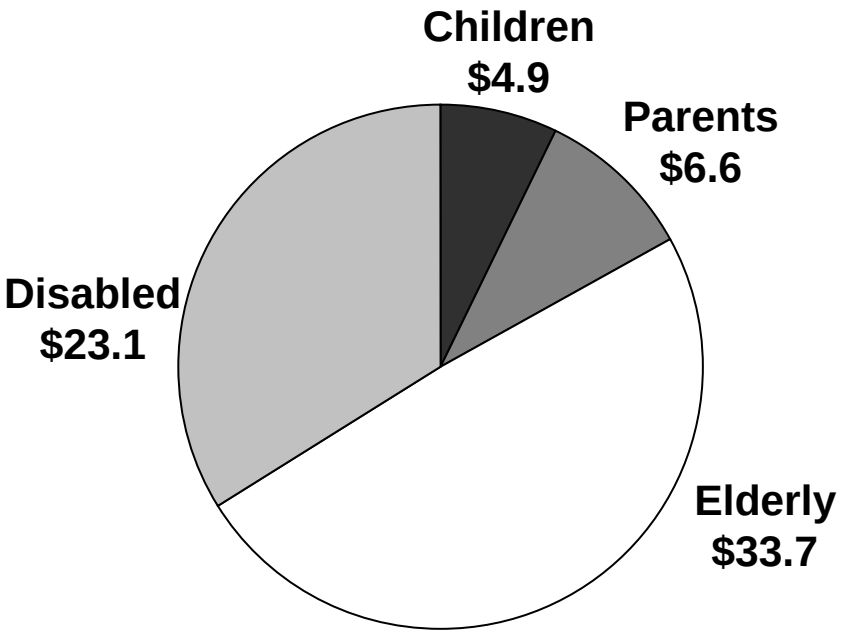
| State Funds Saved (millions) | Federal Dollars Lost (millions) |
|---|---|
| $125 | $0 |

# Risk #4: With less funding, what will be the impact of new flexibility?

# Flexibility to Save $$?
# Block Grants Are a "Zero Sum" Game

**If savings are to be achieved from spending on "optional" populations, disabled or elderly coverage will need to be cut or parents or children coverage will need to be cut deeply**

***Medicaid Spending for Optional Groups, US 1998***

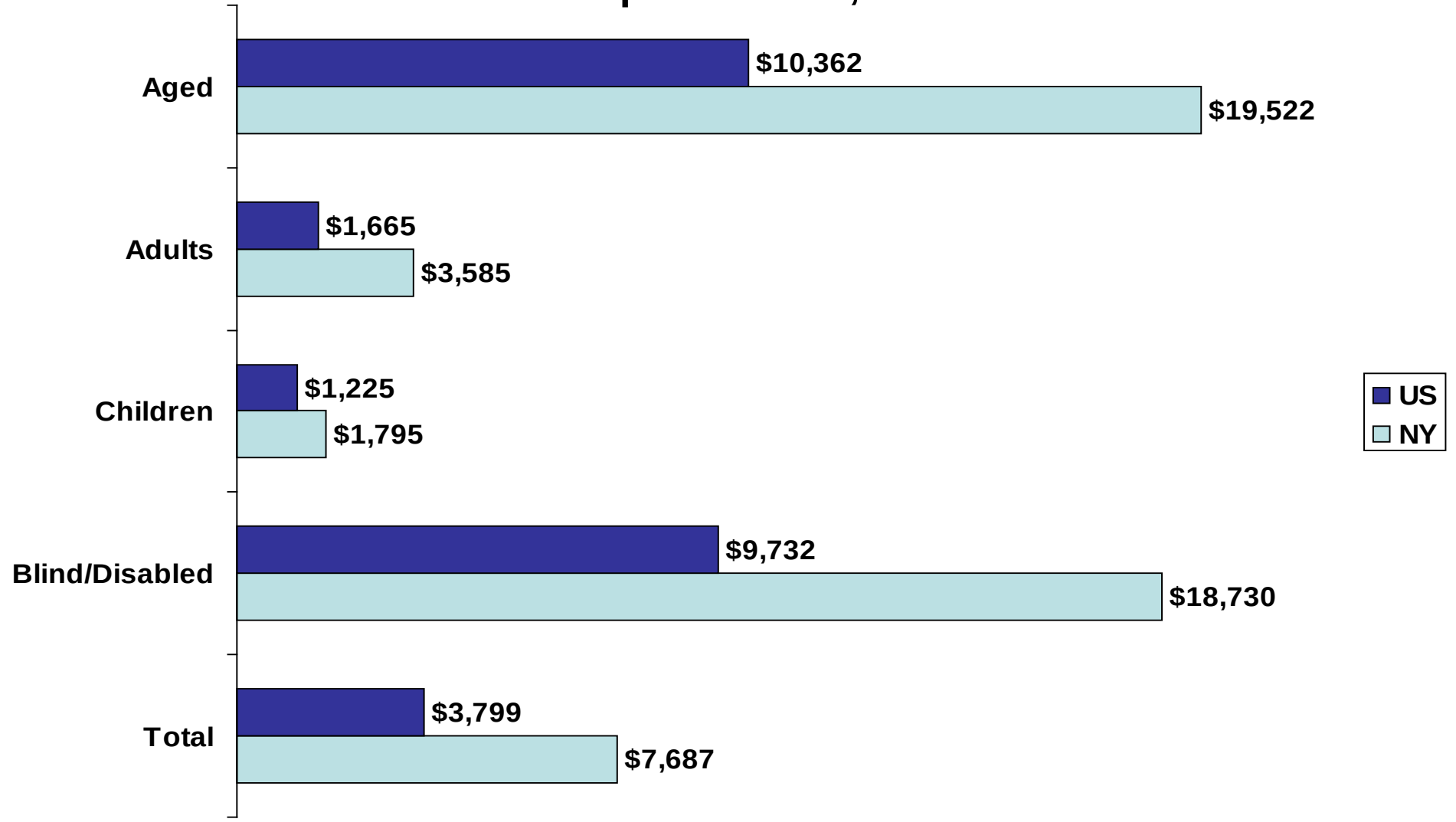



**Total = $68.3 billion**

Source: Urban Institute estimates, based on data from federal fiscal year 1998 HCFA 2082 and HCFA-64 reports, 2001.

# Per-Person Medicaid Expenditures by Eligibility Categories

## NY Compared to US, FY 2000




Source: Georgetown Health Policy Institute analysis based on CMS MSIS 2000 data.

# Flexibility to Improve?

## Matching System Creates Incentives to Invest in Optional Coverage

**Current Law**

**Federal dollars gained if NY invests new state dollars**

| Match Rate | New State Investment (millions) | Additional Federal Funds (millions) |
|---|---|---|
| 50% | $125 | $125 |

**Proposal**

**Federal dollars gained if NY invests new state dollars (assuming NY is spending its full federal allotment)**

| New State Investment (millions) | Additional Federal Funds (millions) |
|---|---|
| $125 | $0 |

# Risk #5:  Long term implications?

# Block Grant Funding Has Not Fared Well at the Federal Level

- SCHIP funding comes up for reauthorization in 2007; will funds be maintained or increased if the program has been collapsed?

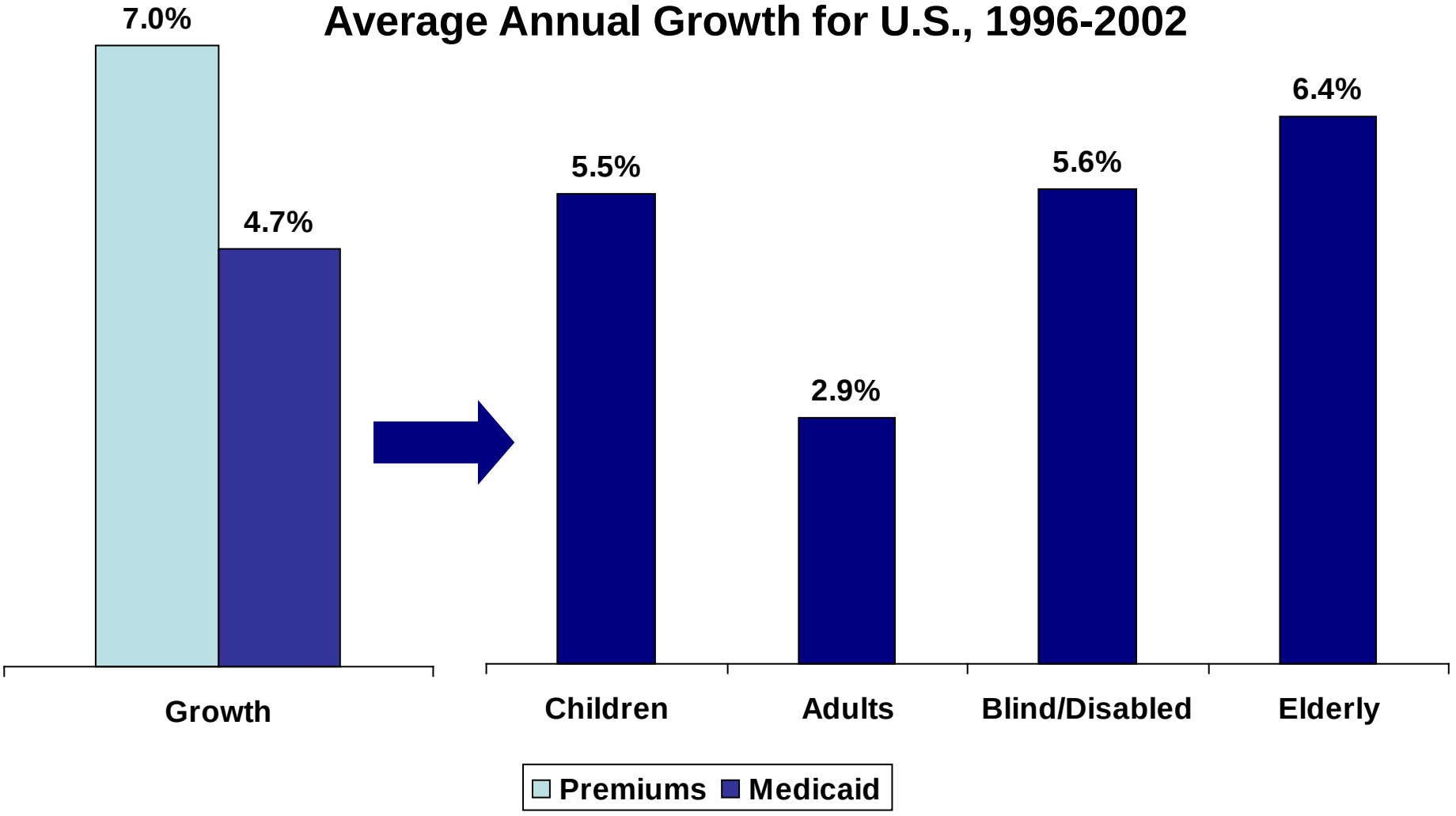
- How will Medicaid block grant reauthorization fare in 2013 with expected deepening federal deficits?

# Is This Reform?

What Are the Problems that Need to Be Solved and What are the Sources of those Problems?

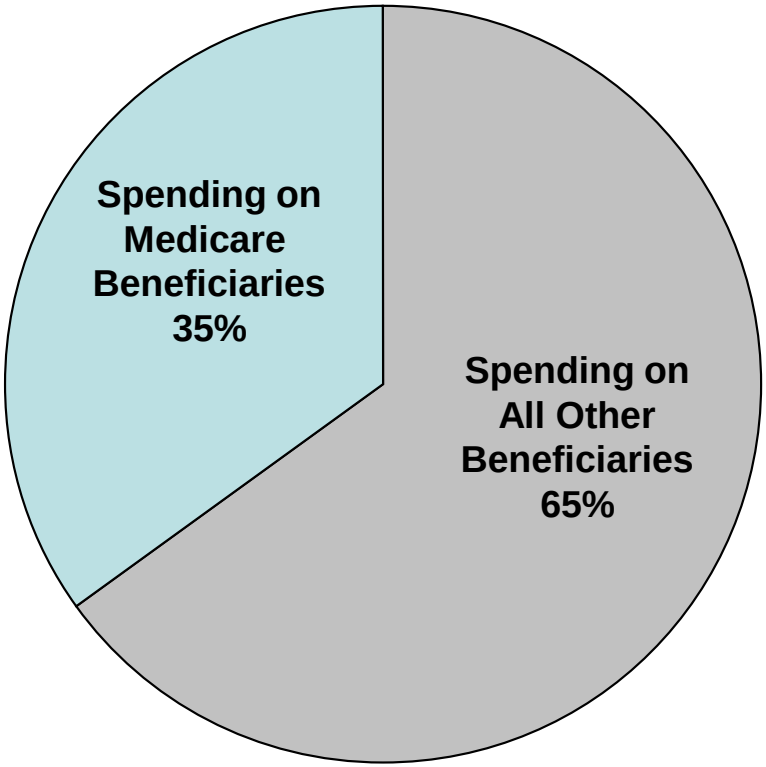
# Medicaid Costs Per Beneficiary Have Grown More Slowly than Private Sector

## Medicaid Per-Person Costs vs. Private Healthcare Premium Costs, Average Annual Growth for U.S., 1996-2002




Source: Georgetown Health Policy Institute's Analysis based on KPMG, 1996; Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, CBO Medicaid Baselines 1997-2003.

# Medicaid Is Doing Double Duty Filling in Gaps for Low-Income Medicare Beneficiaries



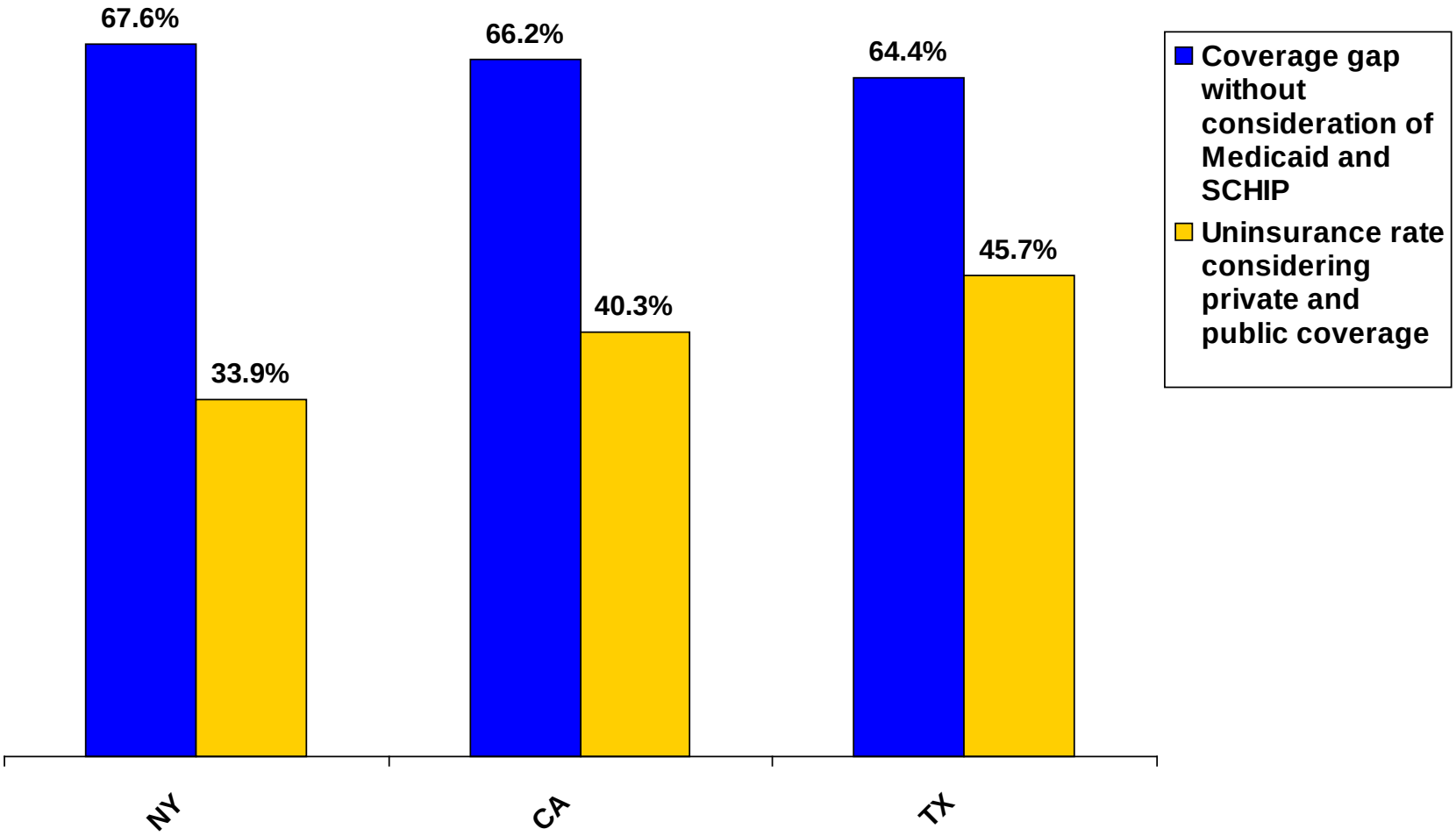

Source: Secretary's Advisory Committee on Regulatory Reforms, June 2002. Data for 1999.

# What Problems Are We Trying To Solve?

- Should flexibility be expanded in some areas?
  - Must consideration of flexibility be linked with a cap on federal funding?
- What is the value of federal standards?
- What problems need to be addressed outside of Medicaid?
- Are new resources needed so that Medicaid can do its job? State? Federal?
- What about covering the uninsured?

# Medicaid and SCHIP Have Made A Big Difference for New Yorkers

Private Insurance Gap and Uninsurance Rates for Low-Income Non-Elderly, March 1998-2000 CPS




Source: Holahan J. "Variations among States in Health Insurance Coverage and Medical Expenditures," The Urban Institute, June 2002.