

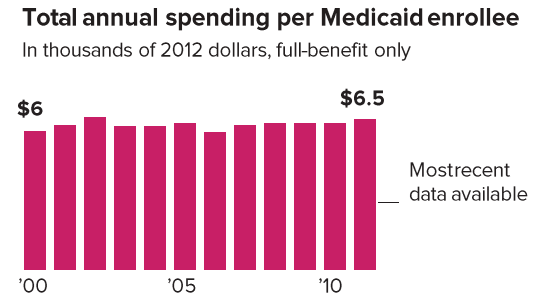
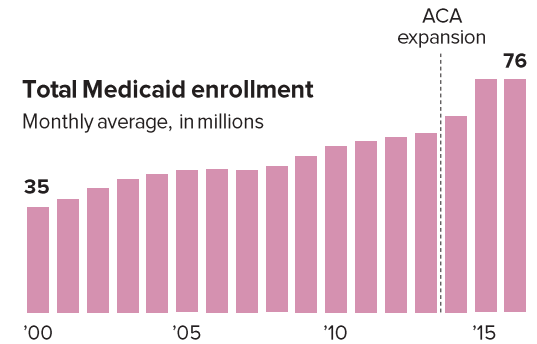
February 23, 2017

## GOP Considers Major Medicaid Changes

Republican leadership in both chambers of Congress have vowed to move forward with legislation repealing major provisions of the Affordable Care Act, but the caucus as a whole has struggled to unify around a replacement plan. In mid-February, House Speaker Paul Ryan released an outline of Republican ideas for health care reform, including proposals that would radically restructure how the federal government funds Medicaid.

While the GOP blueprint lacks many key details, such as how the legislation will be paid for, it does specifically call for the elimination of the recent Medicaid expansion and would allow states to pick between two new methods of federal funding. One method, a per capita allotment, would place a limit on matching federal funds and otherwise keep the program largely as is. A second option, a block grant, would instead pay states a lump sum and let them administer their Medicaid program largely as they see fit.

Both potential reforms would be made with the aim of reducing federal payments — over the long run, states would receive less federal money than the status quo regardless of their choice. Ryan’s blueprint calls the existing program “unsustainable,” citing enrollment and cost growth since the Clinton era. Analysis of federal and state data by the Kaiser Family Foundation found that while enrollment has expanded rapidly, Medicaid costs per enrollee have been relatively flat and have grown at a slower rate than health care spending in the economy as a whole.

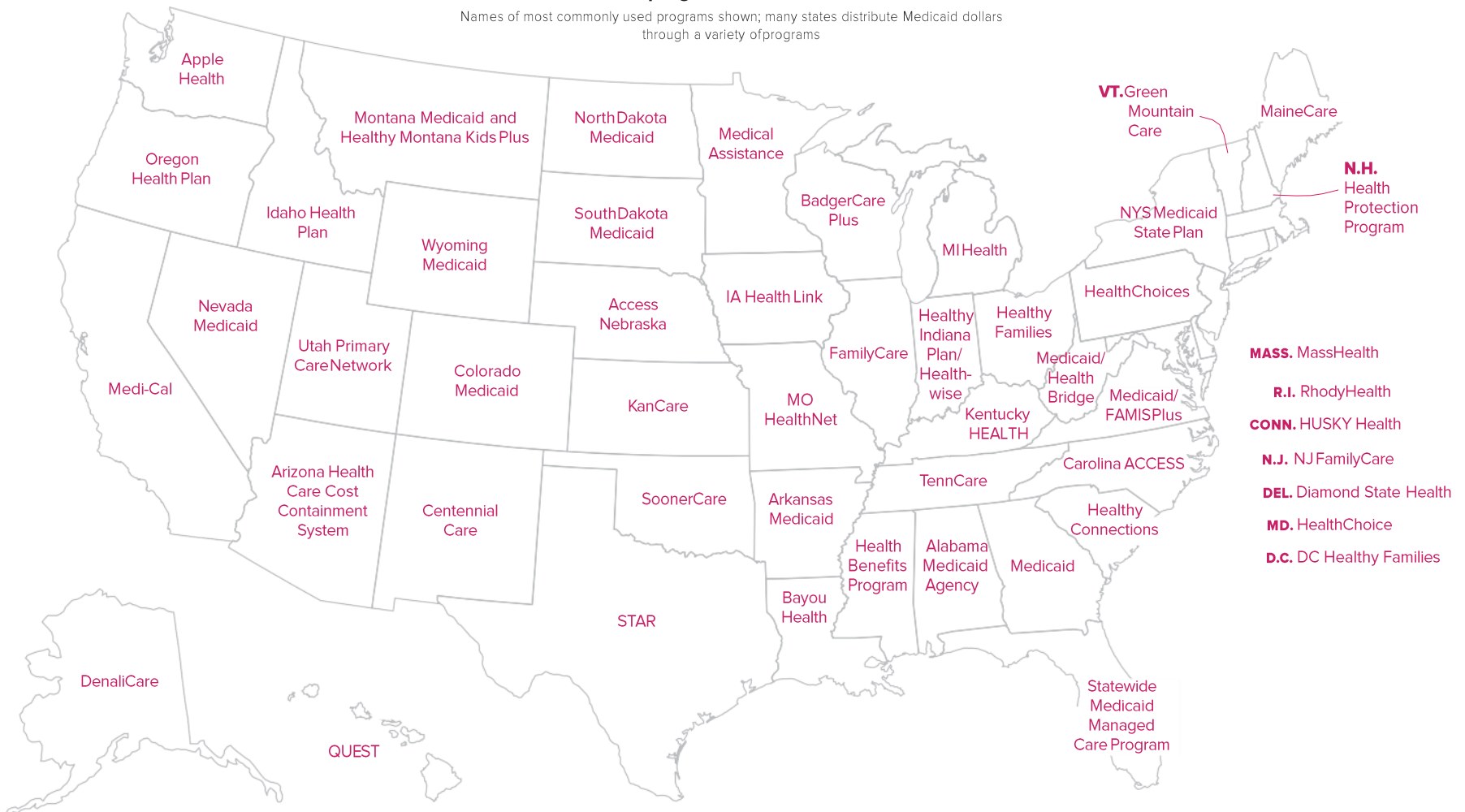


## Medicaid Goes by a Different Name in Each State

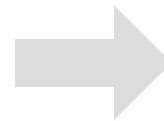
Because the program is individually administered by each state as a state-federal partnership, many states have their own name for the program. Some states distribute Medicaid through a variety of named programs, depending on the relevant eligible population. Individuals enrolled in their state's Medicaid program may even be unaware that their coverage is partially funded by the federal government.

### Select names of state programs to distribute Medicaid benefits

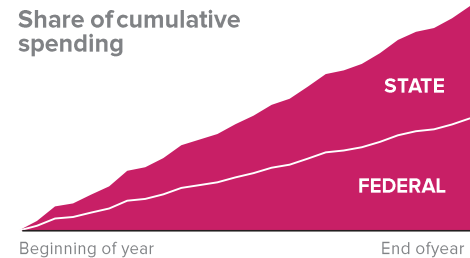
Names of most commonly used programs shown; many states distribute Medicaid dollars through a variety of programs



## How Medicaid Currently Works



Share of cumulative spending



### ELIGIBILITY

Each state sets its own standards to determine who is eligible for Medicaid. Standards vary from state to state, but federal law requires participating states to cover certain groups such as low income families, blind and disabled individuals, pregnant women and children.

### SERVICES COVERED

Federal law requires state Medicaid programs to cover basic services such as inpatient hospital services, x-rays, family planning and pediatrics. States can also choose to cover optional services including prescription drugs, dental and vision, physical therapy and hospice care.

### COSTSPLIT

As enrollees spend money on covered services, costs are split between the federal and state government. The federal government's share, called the **Federal Medical Assistance Percentage (FMAP)**, is calculated by comparing a state's per capita income with the national average. Based on this formula, the federal government pays between 50 and 85 percent without any upper limit.

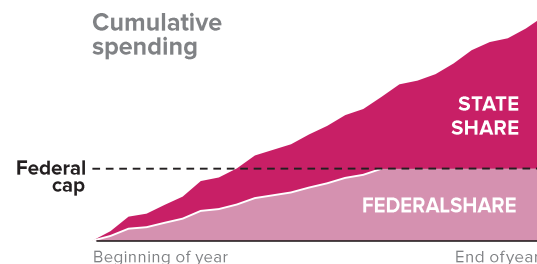
## How a Per Capita Allotment Would Work



### ENROLLED POPULATION DETERMINES CAP

States would set their own eligibility and coverage standards within a set of federal guidelines, much like the current system. Overall spending would continue to be open-ended: eligible individuals would access covered services based on need and send the bill to the government.

The federal government would then calculate a spending cap based on the number of individuals enrolled in each state's Medicaid program. The formula would provide different amounts depending on the number of enrollees in each major eligibility category: aged, blind and disabled, adults and children. The formula would also take into account each state's average Medicaid spending in a base year and then adjust for inflation in future years.



### FEDERAL SHARE IS CAPPED

As enrollees use services, the federal and state government would split costs based on the state's Federal Medical Assistance Percentage. However, once the federal government reaches the predefined cap, the state will be required to pay 100 percent of costs for the remainder of the fiscal year.

## How a Block Grant Would Work



### LUMP SUM GRANT WOULD BE BASED ON BASE YEAR AMOUNT

States that opt into a block grant system would be given a fixed amount of federal funds based on the amount the state received in a base year.

In future years, the size of the grant would adjust based on inflation but would otherwise remain constant regardless of the number of enrollees or overall spending. Instead of sharing costs with the federal government based on FMAP, the states would simply be given the full amount immediately.

### STATES GIVEN FLEXIBILITY

States would still be required to provide certain services to vulnerable elderly and disabled individuals. Beyond that, states would be given maximum flexibility to design and implement their Medicaid programs as they see fit. Eligibility, coverage standards and even the basic structure of the program could be radically altered.

## States Could Respond to Changes in Several Ways

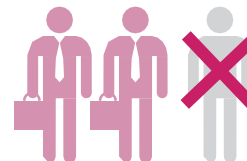
Unlike the federal government, state governments are required to maintain a balanced budget. Since either option would reduce federal funds, states would need to make changes to their Medicaid programs or state budgets to cut costs or raise revenue from other sources.

Some of these options would require changes to federal law proposed in previous versions of Paul Ryan's health reform proposals.

### Six possible options for states:



Charge some enrollees premiums



Reduce enrollment by establishing a work requirement



Cap enrollment and create waiting lists



Increase taxes or cut other budget items



Eliminate or restrict some covered medical services



Use Medicaid funds to purchase private plans for enrollees