Design Issues in Medicaid Financing Reform

Medicaid and CHIP Payment and Access Commission

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Overview

- Disclaimer
- Themes motivating congressional action
- Medicaid spending trends
- Design decisions related to per capita caps and how addressed in AHCA

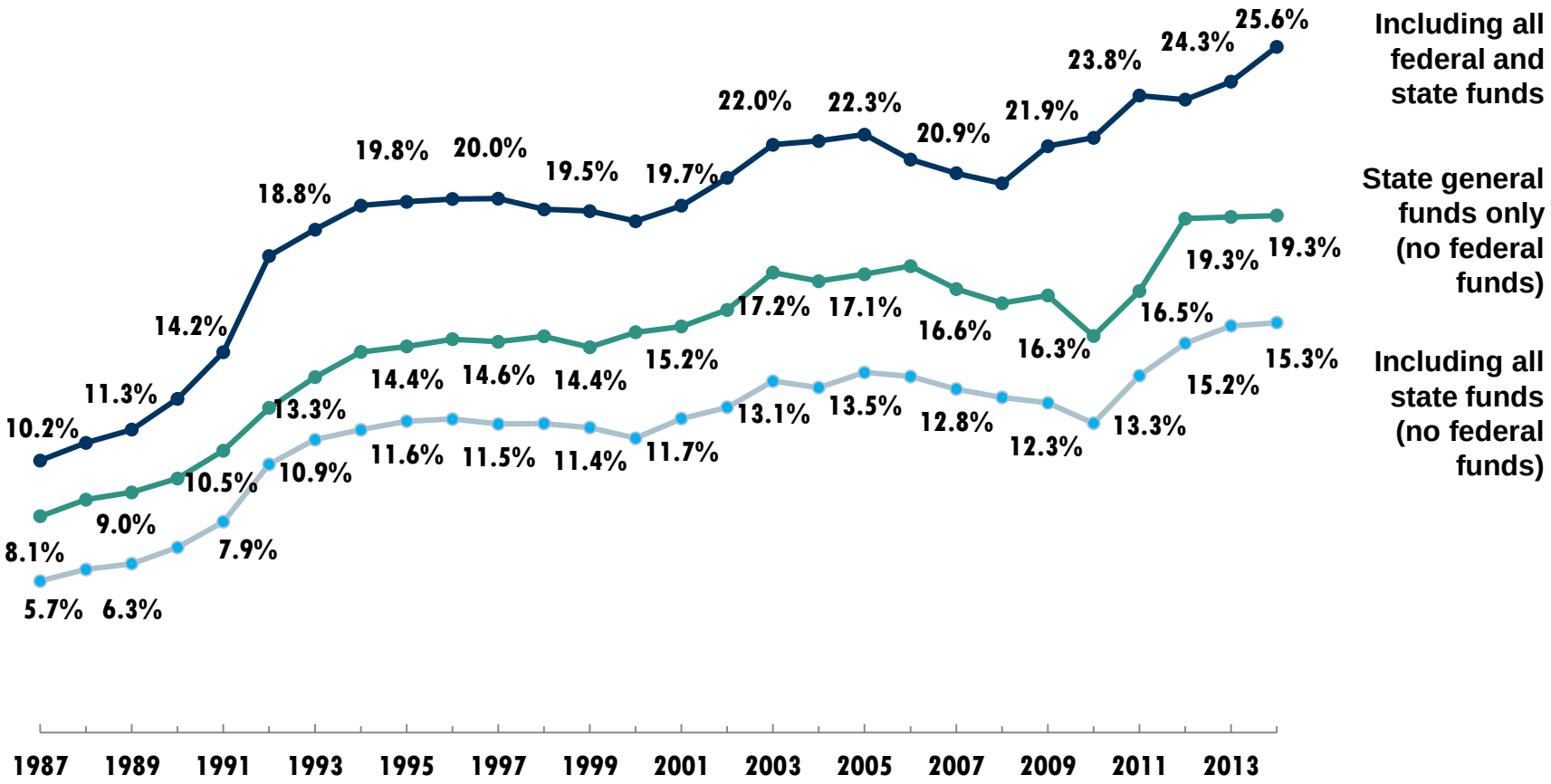
Perennial Themes

- Size of program
- Rate of growth in spending
- Balance between states and federal government
- Personal responsibility

Medicaid Spending Trends

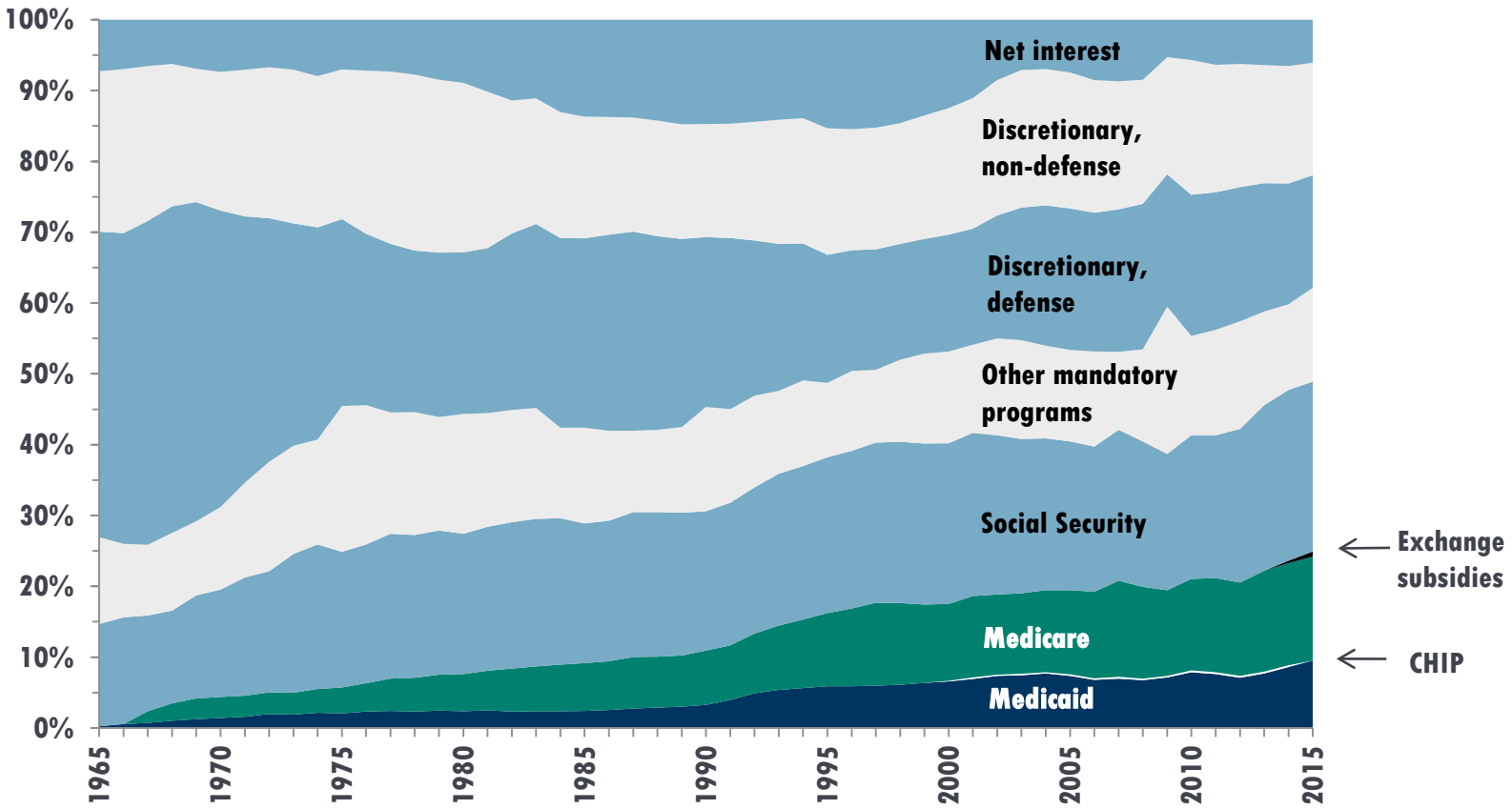
- Growing share of national health care spending and federal and state budgets
- Spending is projected to grow about 6 percent annually over the next decade
- Rates of growth lower than Medicare and private insurance
- Per person spending lower than or comparable to private insurance
- Growth in spending tracks growth in enrollment

Medicaid's Share of State Budgets Including and Excluding Federal Funds, SFYs 1987–2014



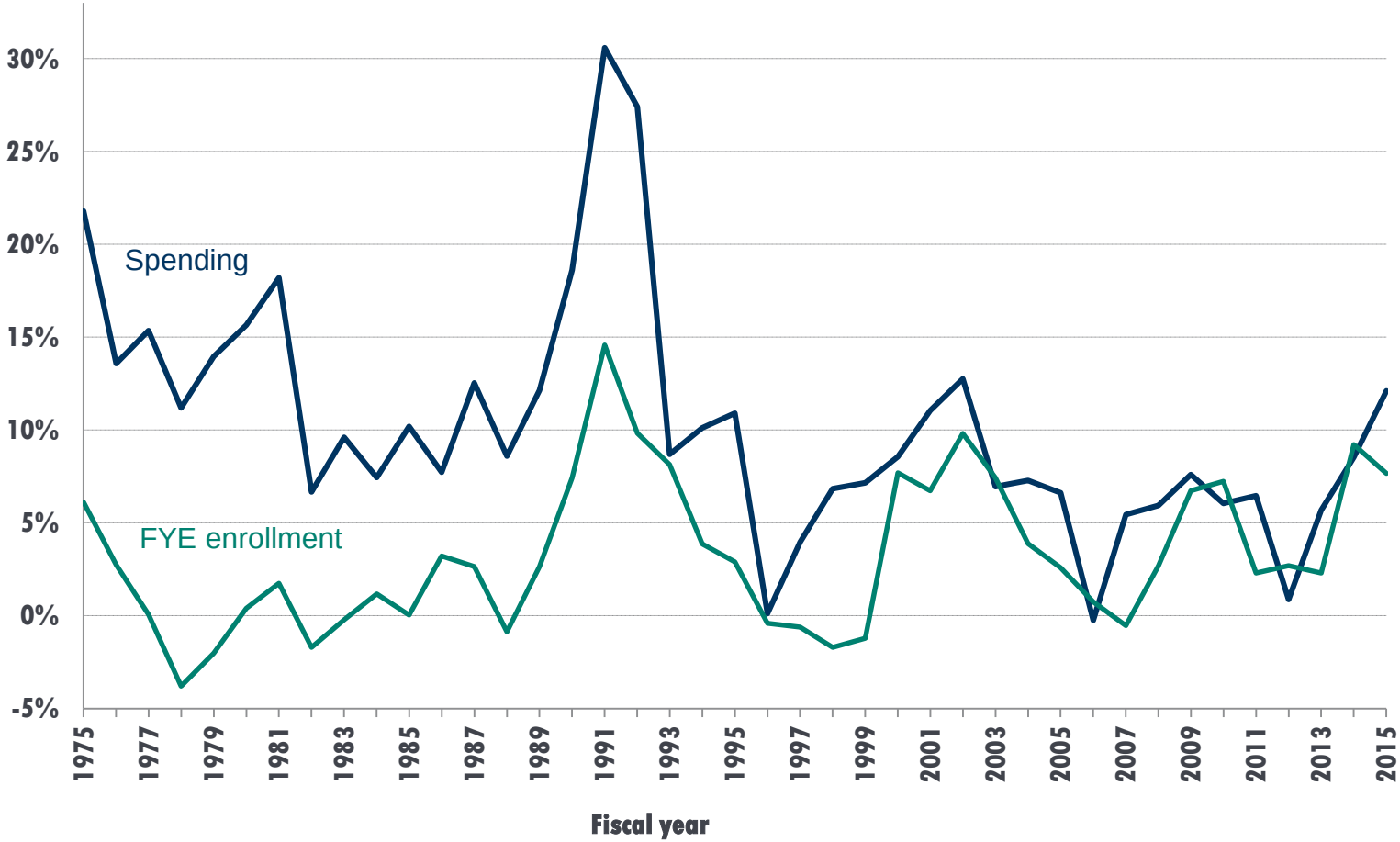
Note: Total state budgets include all state and federal funds; state-funded state budgets include all nonfederal funds.
Source: MACPAC analysis of information from National Association of State Budget Officers.

Major Components of Federal Budget as a Share of Total Federal Outlays, FY 1965–2015



Note: FY is fiscal year.
Source: MACPAC, 2016, *MACStats*, Exhibit 4, December 2016.

Annual Growth in Medicaid Enrollment and Spending, FY 1975-FY 2015



Components of Medicaid Spending Growth: 1975-2012

- Number of enrollees (70.7% of real growth)
  - Eligibility expansion
  - Economic downturns
  - Population aging
- Spending per enrollee (29.3% of real growth)
  - Enrollment mix
  - Volume and mix of services used
  - Prices paid for items and services

Proposed Changes to Financing under the American Health Care Act

AHCA Provisions

- Changes affecting Medicaid expansion
- Creates optional block grants to cover children and adults
- Creates per capita caps
- Multiple other smaller provisions

AHCA: Medicaid Expansion

- Codifies the expansion to the new adult group as optional and eliminates state option to expand above 133 percent federal poverty level (FPL)
- Reduces enhanced matching rates:
  - Eliminates enhanced matching rate for new adult group and for pre-ACA expansion states as of January 1, 2020
  - Enhanced match continues for existing enrollees who do not have more than a 30-day break in eligibility

AHCA: Block Grant

- Option for 10 year block grant starting FY 2020
- Provide health care assistance to those covered under block grant: either non-elderly, non-disabled, non-expansion adults only OR children and non-elderly, non-disabled, non-expansion adults
- States responsible for any additional spending above grant
- Still requires state matching funds
- Trades $ for greater state flexibility

AHCA: Per Capita Caps

- Per enrollee limits on federal payments to states; caps for each of 5 eligibility groups
- Federal spending increases based on the number on enrollees and prescribed growth factors
- States responsible for any spending above the fixed per capita payment
- Allows for changes in enrollment

Design Considerations for Financing Alternatives

Major Design Elements

- State or enrollee specific caps
- Base year
- Growth factors
- Level of state contribution
- What's covered under the cap or block grant
- Level of state flexibility and accountability

AHCA Caps: Enrollee Groups

- Covered eligibility groups
  - aged
  - disabled
  - children
  - non-expansion adults
  - new adult group

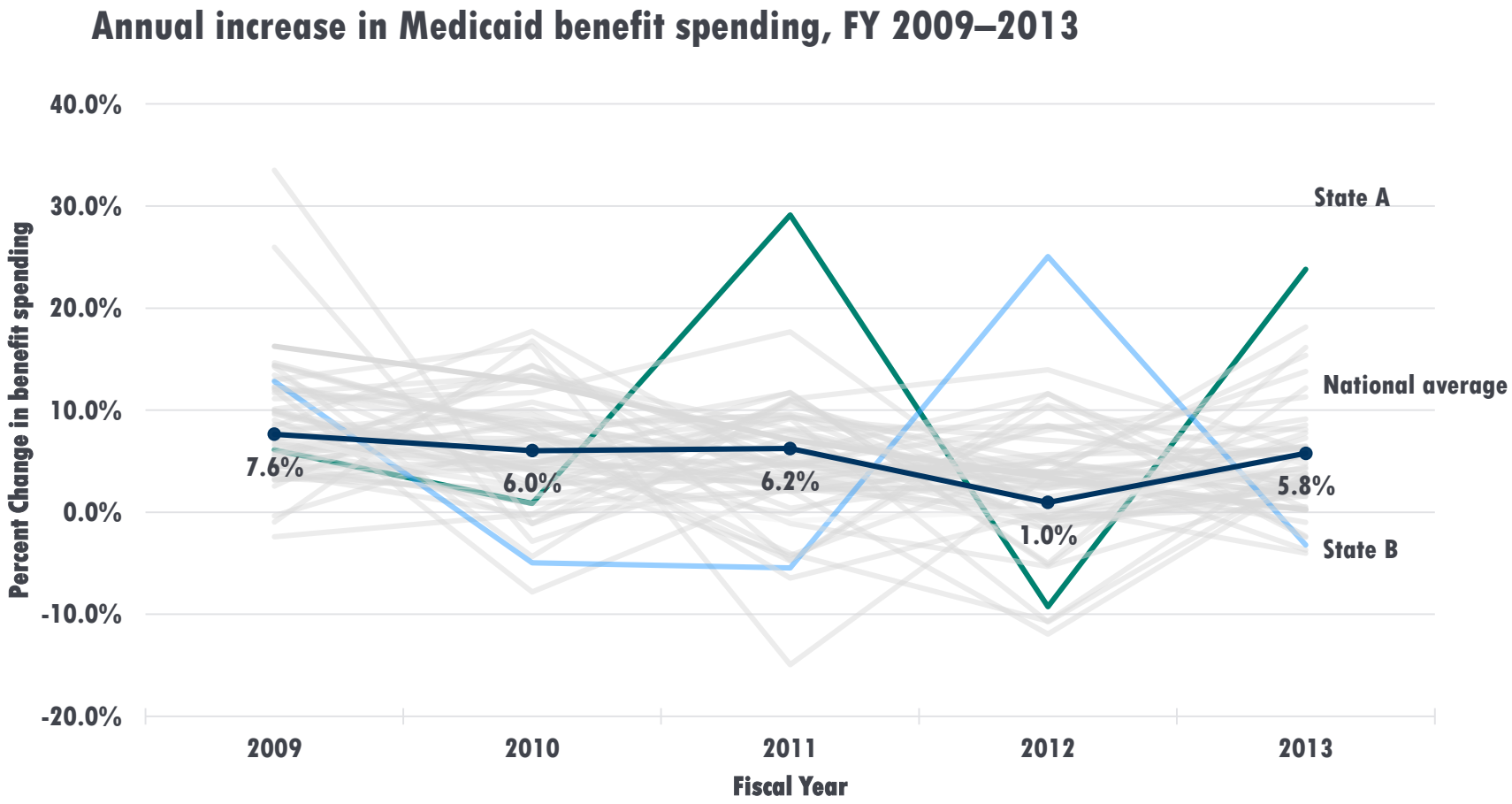
Base Year: AHCA Approach

- FY 2016 and FY 2019
- FY 2019 expenditures are constrained by FY 2016 experience
- amount of FY 2019 non-DSH supplemental payments included in per capita cap based on proportion of non-DSH supplemental payments to total spending in FY 2016
- FY 2019 actual spending compared to FY 2016 spending trended to FY 2019 using the medical care component of consumer price index-all urban consumers (CPI-M)

Base Year

- Basing future spending on current spending locks in existing state variation and how states have responded to current program rules
- States with either more efficient or less generous programs that spend less per person under current law would have lower future caps
- Some variation in spending could be smoothed out using multi-year averages or periodic rebasing

Analysis: State spending can fluctuate substantially from year to year



Source: MACPAC analysis of FY 2008–2013 CMS-64 net financial management report.

Growth Factors

- Defines by how much spending can grow in future years
- Possible benchmarks include:
  - Experience of other payers (Medicare, private insurance)
  - Price inflation (CPI-U))
  - Medical price inflation (CPI-M)
  - Economic output (GDP)

Average annual growth in Medicaid spending per enrollee compared to various benchmarks, by calendar year

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Average annual percent growth in spending per enrollee by source of coverage																
Medicaid[1]	-1.0	3.0	-3.6	4.1	-0.3	3.8	1.1	1.6	4.5	4.5	4.6	4.6	4.7	4.8	5.1	5.2
Medicare	1.7	2.6	0.3	0.0	1.9	2.2	1.4	3.2	4.7	5.2	5.2	4.7	4.8	5.0	4.7	4.0
Private health insurance[2]	5.9	4.1	1.8	2.3	3.3	4.5	5.0	5.9	5.2	5.1	4.2	4.6	4.7	4.7	4.7	4.6
Average annual percent growth in prices and economic output																
CPI-U	1.6	3.2	2.1	1.5	1.6	0.1	1.2	2.4	2.3	2.3	2.4	2.4	2.4	2.4	2.4	2.4
CPI-M[3]	3.4	3.0	3.7	2.5	2.4	2.6	3.8	3.8	4.3	4.2	4.2	4.2	4.2	4.2	4.2	4.2
GDP	3.8	3.7	4.1	3.3	4.2	3.7	2.9	4.2	3.9	3.6	3.5	3.8	3.9	4.0	4.0	4.0

Notes: CPI-U is consumer price index for all urban consumers. CPI-M is the medical care component of the CPI-U. GDP is gross domestic product.

[1]Medicaid per person spending growth includes federal and state spending on Medicaid benefits and administration.

[2]Private health insurance includes employer-sponsored coverage and direct purchase coverage and medical spending and corresponding net costs of property and casualty insurance. Direct purchase coverage includes Medicare supplemental and individually-purchased plans, including plans purchased on the exchanges.

[3] CPI-M from the Office of the Actuary of the Centers for Medicare & Medicaid Services (OACT). In their scoring of the American Health Care Act, the Congressional Budget Office (CBO) projected that CPI-U medical care would grow at an average annual rate of 3.7 percent from 2017–2026.

Sources: MACPAC compilation of CPI data from the Bureau of Labor Statistics; CBO, 2017, Budget and economic data, https://www.cbo.gov/about/products/budget-economic-data#3; and OACT, 2017, national health expenditure amounts by type of service and source of funds, CY 1960-2015 and national health expenditure amounts by type of expenditure and source of funds: CY 1960-2025 in projections format, https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/index.html.

Growth Factors: AHCA Approach

- FY 2016 to FY 2019: CPI-M
- FY 2019 to FY 2020 and subsequent years
  - aged and disabled per capita spending: CPI-M + 1 percentage point
  - children, non-expansion adults, new adults: CPI-M

Analysis: FY 2016 to 2019 trend for three groups is higher than CPI-M trend

Change in Spending Per Enrollee by Enrollee Group, FY 2016–2019

Fiscal Year	CPI-M	Change in spending per enrollee				
		Aged	Disabled	Child	Non-expansion adult	New adult
2017	3.8%	3.4%	4.2%	3.5%	5.0%	-6.3%
2018	4.3%	4.5%	4.5%	4.9%	5.3%	-3.3%
2019	4.2%	4.3%	4.7%	4.9%	5.3%	5.4%
FY 2016-2019 cumulative trend	12.8%	12.8%	14.0%	13.9%	16.3%	-4.5%

Notes: CPI-M is the medical care component of consumer price index-all urban consumers. CPI-M projections are from the Office of the Actuary of the Centers for Medicare & Medicaid Services (OACT). In their scoring of the American Health Care Act, the Congressional Budget Office (CBO) projected that CPI-U medical care would grow at an average annual rate of 3.7 percent from 2017–2026. Annual change in spending per enrollee calculated using CMS Office of the Actuary projections for spending per enrollee.
Source: MACPAC analysis of CMS Office of the Actuary (OACT), 2017, 2016 Actuarial report on the financial outlook for Medicaid.

Analysis: Aged and disabled trend is close to or below the AHCA trend in FY 2020 and beyond

Spending per enrollee trend by enrollment group, FY 2020-2025

Fiscal Year	AHCA trend (CPI-M + 1 percent)	Aged	Disabled
2020	5.2%	4.1%	4.8%
2021	5.2%	3.9%	5.0%
2022	5.2%	4.0%	5.1%
2023	5.2%	4.1%	5.2%
2024	5.2%	4.3%	5.3%
2025	5.2%	4.4%	5.3%

AHCA trend (CPI-M)	Child	Non-expansion adult	New adult
4.2%	4.8%	5.2%	5.6%
4.2%	4.8%	5.1%	5.5%
4.2%	4.9%	5.2%	5.5%
4.2%	4.9%	5.2%	5.5%
4.2%	5.0%	5.3%	5.6%
4.2%	5.0%	5.3%	5.6%

Notes: AHCA is American Health Care Act. CPI-M is the consumer price index – medical component. CPI-M projections are from the Office of the Actuary of the Centers for Medicare & Medicaid Services (OACT) and estimated to be 4.2 percent from FY 2020-2025. In their scoring of the American Health Care Act, the Congressional Budget Office (CBO) projected that CPI-U medical care would grow at an average annual rate of 3.7 percent from 2017–2026. Bold number indicate that enrollee group trend is greater than AHCA trend.
Source: MACPAC analysis of CMS Office of the Actuary (OACT), 2017, 2016 Actuarial report on the financial outlook for Medicaid.

Impact of Enrollment Mix

- Per capita amount fixed by group and trended forward
- Average spending within eligibility group could be affected by changes in:
  - Age mix
  - Use of long-term services and supports
  - Mix of dually eligible beneficiaries
  - Health status
- No mechanism in AHCA to adjust for risk profile related to new diseases, increased acuity, or increases in the cost of providing care (e.g., high-cost drugs)

Analysis: Spending for newborns is about four times that of other children

Average benefit spending per FYE for children by eligibility and age group, FY 2013

Age group	Eligible on basis other than disability	Eligible on basis of disability
Less than 1 year	$9,172	$95,428
1-5 years	$2,709	$24,622
6-14 years	$2,232	$15,223
15-20 years	$3,143	$17,307
Total	$2,863	$17,950

Note: FYE is full year equivalent. Includes federal and state funds. Excludes spending for administration. Benefit spending from Medicaid Statistical Information System (MSIS) data has been adjusted to reflect CMS-64 totals. Excludes Idaho, Louisiana, and Rhode Island due to data reliability concerns regarding the completeness of monthly claims and enrollment data.
Sources: MACPAC analysis of Medicaid Statistical Information System data as of December 2015 and analysis of CMS-64 financial management report net expenditure data from the Centers for Medicare & Medicaid Services as of June 2016.

AHCA: Level of State Contribution

- Per capita caps matched using current Federal Medical Assistance Percentage
- Block grant matched using current CHIP match (known as E-FMAP)
- No changes to states' ability to raise state share (with exception for provision specific to counties in New York)
- Ratio of supplemental payments to total payments locked in at FY 2016 level which may affect provider willingness to contribute to state share

AHCA: What's Covered

- Per capita caps excludes:
  - certain enrollees: e.g., partial benefit enrollees, Medicaid expansion CHIP
  - certain expenditures: e.g., administration, Medicare cost sharing
- Block grant changes definition of covered services

AHCA: State Flexibility

- No changes to state flexibility or requirements under the per capita cap
- Block grant provision would substantially change requirements for states
- Trump administration has signaled that it will offer additional flexibilities under Section 1115 waivers, but these are not addressed in AHCA

MACPAC Resources

- **Alternative Financing Proposals (June 2016 report)**
  https://www.macpac.gov/publication/alternative-approaches-to-federal-medicaid-financing/

- **Presentations from March and April 2017 meetings**
  - **https://www.macpac.gov/publication/illustrations-of-state-level-effects-of-per-capita-cap-design-elements/**
  - **https://www.macpac.gov/publication/medicaid-reform-implications-of-proposed-legislation/**

- **Setting Per Capita Caps: Differences between Current Methods and Financing Proposals (March 2017 issue brief)**
  https://www.macpac.gov/publication/setting-per-capita-caps-differences-between-current-methods-and-financing-proposals/

MACPAC

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