Fact Sheet: Proposed Conversion of Medicaid to a State Block Grant or Per Capita Cap

Changing Medicaid to a Block Grant has been proposed. What is a block grant?
Under a block grant, states would be provided a finite amount of federal funding for Medicaid. This would be a major change compared to the present system, under which there is no budget cap on Medicaid funding for states.

What is the reason that a Medicaid block grant has been proposed?
Under the current system, as an entitlement, the federal government must provide funds for any approved Medicaid services (at least a 50% match and often much higher), and cannot limit via the federal budget the amount of funding states receive. Under a block grant, the federal government would control how much federal money is spent on Medicaid on an annual basis, providing a set amount to each state based on some type of funding formula. For states to manage their Medicaid programs with a fixed amount of federal funding, the entitlement to Medicaid would need to be eliminated.

What would be the impact of a block grant on the amount of federal funding available for Medicaid?

- Providing federal funding for Medicaid using a block grant would disconnect the level of federal funding from the number of Medicaid beneficiaries, and the cost of care and services. The federal contribution would remain the same, or grow only per a preset formula, no matter how large the number of individuals needing Medicaid grows or how much a state spends on health care for Medicaid recipients. Under the most recent Medicaid block grant bill proposed by Congress, federal funding for Medicaid would be reduced by 25% (over $1.4 trillion in funds) over the next decade.[i] If the expansion of Medicaid under the Affordable Care Act is eliminated, this figure balloons to a 40% cut.
- Medicaid's structure today is flexible to meet needs as the economy fluctuates. Block grants are subject to rigid funding caps that cannot adjust to unexpected change (such as a recession) and do not keep pace with the growth in health care costs.[ii]
- While some in Congress claim that a block grant would force states to be more efficient in their use of Medicaid funds, the reality is that Medicaid is already a cost-efficient program in comparison to private insurance[iii] and it is extremely unlikely that any possible efficiency measures would do anything more than put a small dent in this loss of federal funding.

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How would states make up such a large loss of federal funding?

Under a block grant, states would have to make up the reductions in Medicaid funding from the federal government through the following:

a) Providing additional state revenue to fund Medicaid. (This is unlikely given the general status and demands on state budgets.)
b) Major cutbacks in the number of individuals covered under Medicaid.
c) Making it more difficult to enroll in Medicaid and limiting the number of new enrollees.
d) Major cutbacks in the services covered under Medicaid.
e) Major cutbacks in the already low payment rates to service providers.

Analysis of a previous block grant proposal from House Speaker Paul Ryan found that between 14 and 21 million people would eventually lose their Medicaid coverage and that already low provider payment rates would be reduced by more than 30 percent.[iv] The result of lower payment rates would be fewer providers willing to provide Medicaid funded services, and for those still willing to provide services, lower quality services and increased fiscal challenges.

What would be the impact of a Medicaid block grant on people with disabilities?

Given that 10 million individuals with disabilities are covered under Medicaid, and 42% of Medicaid funding is for people with disabilities[v], converting Medicaid to a block grant would likely have a major impact on their lives, in terms of loss of health care, and loss of services. The following are additional potential impacts:

- Requirements for Medicaid funds to be used in community settings to the maximum extent possible, including integrated employment, could be watered down or eliminated completely under a block grant. For example, the Center for Medicare and Medicaid Services (CMS) CMS settings rule[vi] designed to avoid unwanted and unnecessary institutional settings, and requiring each state to have a 5-year transition plan to comply with this rule, could be discarded.
- There are currently over half a million individuals waiting for services under the 1915(c) HCBS waiver, including 350,000 with developmental disabilities.[vii] Even if similar services were available under a block grant, unless states can come up with additional funding, the already long waiting list for these types of services will grow exponentially.
- While states have a high degree of flexibility under Medicaid, under the current system they must still comply with a variety of federal requirements. While there would still be federal rules under a block grant, states would have a much wider degree of discretion in terms of how to use Medicaid funds. While on the surface, this may seem like a positive development, the result would be complete upheaval in terms of the quality and consistency of Medicaid funded services and systems that people with disabilities have come to rely on. Many individuals with disabilities who are currently eligible for Medicaid would likely no longer be eligible. For those who are still eligible for Medicaid, the following are just examples of the items that could be significantly curtailed or disappear under a block grant:

a) Funding of employment services and supports.
b) Funding of long-term services and supports.
c) The use of funds for home and community-based services.
d) The ability of individuals to purchase Medicaid when their earnings increase due to employment under the Medicaid Buy-In.
e) Automatic qualification for Medicaid for individuals on SSI.
    - Individuals who remain on Medicaid may have to pay much higher out of pocket expenses.
    - States could also potentially impose a work requirement for individuals on Medicaid, which would cause a major hardship for those who are medically unable to work, as well as becoming a major administrative burden.

Changing Medicaid to a per capita cap has also been proposed. How is that different from a block grant?

Under a per capita cap, the federal government would pay states a set amount per Medicaid enrollee, instead of a total aggregate amount that would occur under a block grant.[viii] Unlike block grants, the amount a state receives would also increase with each new enrollee[ix], and more of the existing federal rules for Medicaid may still apply. However, like block grants there would be a federal limit on Medicaid funding, and states would have to make up the difference. As with block grants, the most recent per capita cap proposal in Congress is based on a formula aimed at cutting federal Medicaid spending by up to 40% over next 10 years, resulting in the same level of massive cuts in rates and services.[x] Upcoming Medicaid reform proposals could include a combination of block grants and per capita caps.

What would be the impact on employment services and services of a block grant or per capita cap?

The ability of individuals with significant disabilities to become successfully employed in the community is highly reliant on Medicaid funded supports and services, which would likely be decimated under a Medicaid block grant or per capita cap. The result would be:

- Cutbacks in already inadequate levels of funding to service systems and service providers for employment supports.
- Cuts in already often inadequate rates for service providers.
- Further limits or possibly complete lack of availability of long-term post-placement supports.
- Given that employment services and supports are a state option (not a requirement), states could end any type of Medicaid funding of employment services and supports.

Thus, more so than is even now the case, people with disabilities would be unable to get the necessary services and supports that enable them to get real jobs at real pay, to maximize their earnings via employment, and live lives characterized by a sense of dignity, self-worth, and

independence. For those able to still get services, it is likely the quality of those services would be significantly diminished, and not necessarily focus on integrated employment.

Could public Vocational Rehabilitation and other sources make up for any loss of Medicaid funding?

No. Medicaid is a primary funder of employment-related services and supports for individuals with disabilities (approximately $1 billion annually just for individuals with intellectual and developmental disabilities alone), and no other sources could come close to making up for the loss of some or all Medicaid funded employment services and supports. The public Vocational Rehabilitation (VR) system and other resources (Social Security Ticket to Work, Community Mental Health Block Grants, the public workforce system, etc.), provide significant levels of employment supports and services for individuals with disabilities. However, VR funding ($3 billion annually in federal funds) is already in high demand and level funded via federal legislation, and there are also regulatory limitations on how VR funding may be used, particularly for long-term services and supports. Other funding sources also have similar budget and/or regulatory limits on their use, and could not replace Medicaid funding.

What's the Bottom Line?

The bottom line in terms of a Medicaid block grant or per capita cap is that it would decimate the services and supports that individuals with disabilities are highly reliant on in their day-to-day lives, and much of the burden would fall on individuals and families to cobble together supports and services - even more so than is currently the case. Given the high level of reliance on Medicaid for both health care and long-term services and supports, this loss of funding would have a devastating impact not only on the health of individuals but also on the ability of individuals to live independent lives integrated in the community. In addition, the slow but steady progress that has been made in terms of full integration and inclusion of individuals with disabilities into society, including integrated employment, would be severely impacted and could very well be reversed.

Resources:

- **Congressional Budget Office – *Medicaid and CHIP*** - https://www.cbo.gov/topics/health-care/medicaid-and-chip
- **CMS Medicaid Website** - https://www.medicaid.gov/medicaid/index.html
- **CMS Medicaid Information on Home and Community-Based Services** - https://www.medicaid.gov/medicaid/hcbs/
- **Medicaid and CHIP Payment and Access Commission** *(a non-partisan legislative branch agency that provides policy and data analysis and makes recommendations to Congress, the Secretary of the U.S. Department of Health and Human Services, and the states on a wide array of issues affecting Medicaid and the State Children's Health Insurance Program)* - https://www.macpac.gov
- **The Henry J. Kaiser Family Foundation** *(a non-partisan source of facts, analysis and journalism, focusing on national health issues)* - http://kff.org

[i] Edwin Park, *Medicaid Block Grant Would Slash Federal Funding, Shift Costs to States, and Leave Millions More Uninsured* – Center on Budget and Policies Priorities, November 30, 2016 - http://www.cbpp.org/research/health/medicaid-block-grant-would-slash-federal-funding-shift-costs-to-states-and-leave

[ii] *Health-Related Options for Reducing the Deficit: 2014 to 2023* – Congressional Budget Office, December 2013 - https://www.cbo.gov/publication/44906

[iii] Lisa Clemans-Cope, et. al., *Medicaid Spending Growth Compared to Other Payers: A Look at the Evidence* - The Henry J. Kaiser Family Foundation, April 13, 2016 – http://kff.org/report-section/medicaid-spending-growth-compared-to-other-payers-issue-brief

[iv] John Holahan, et al., *National and State-by-State Impact of the 2012 House Republican Budget Plan for Medicaid*, Kaiser Commission on Medicaid and the Uninsured, October 2012, http://kff.org/health-reform/report/national-and-state-by-state-impact-of

[v] Julia Paradise, *Medicaid Moving Forward* – The Henry J. Kaiser Family Foundation, March 9, 2015 - http://kff.org/health-reform/issue-brief/medicaid-moving-forward

[vi] *Department of Health and Human Services, Centers for Medicare and Medicaid Services, 42 CFR Part 430, 431 et al. Medicaid Program; State Plan Home and Community-Based Services, 5-Year Period for Waivers, Provider Payment Reassignment, and Home and Community-Based Setting Requirements for Community First Choice and Home and Community-Based Services (HCBS) Waivers; Final Rule*, Federal Register, January 16, 2014 - www.medicaid.gov/Medicaid-CHIP-Program-Information/By-Topics/Long-Term-Services-and-Supports/Home-and-Community-Based-Services/Home-and-Community-Based-Services.html

[vii] *Waiting List Enrollment for Medicaid Section 1915(c) Home and Community-Based Services Waivers* - http://kff.org/health-reform/state-indicator/waiting-lists-for-hcbs-waivers/?currentTimeframe=0

[viii] John Holahan, Matthew Buettgens, Block Grant and Per Capita Caps, The Urban Institute, September 8, 2016 - http://www.urban.org/research/publication/block-grants-and-capita-caps

[ix] Robin Rudowitz, et. al., *Overview of Medicaid Per Capita Cap Proposals, The Henry J. Kaiser Family Foundation,* June 22, 2016 - http://kff.org/report-section/overview-of-medicaid-per-capita-cap-proposals-issue-brief

[x] Source: Center for Public Representation

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