

Medicaid - Current Financing Structure

- Medicaid is the largest source of federal revenue to states
 - \$346 billion (federal funds) in 2015
- Medicaid is an entitlement program – all eligible individuals must be served.
- Federal requirements establish minimum income guidelines, coverage groups, and services.
- States have flexibility to provide coverage or set income guidelines resulting in wide variability in coverage and costs.
- States must follow federal rules – obtain approval through Medicaid state plan

Current Financing Structure

- Matching federal payments to states with no current cap.
- Federal Medical Assistance Percentage (FMAP) determines how much the state and federal government pay for their share of Medicaid expenditures.
 - Determined annually for the federal fiscal year (10/1 – 9/30) using previous 3 year's personal income data from each state.
 - Formula compares each state's average per capita income change in relation to each other.
- South Dakota SFY17 FMAP
 - Medicaid (Title XIX) 45.89% general – 54.11% federal
 - CHIP (Title XXI): 9.12% general – 90.88% federal
- Nationally FMAP rates range from 50 – 74% for services
- Administrative costs 50/50

Block Grants

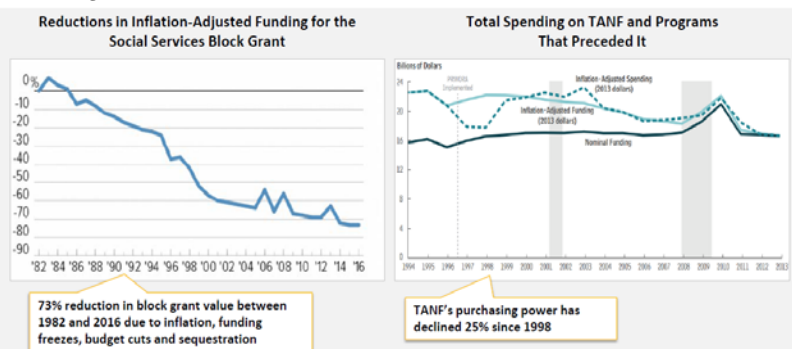
- Federal block grant refers to a grant program that provides federal assistance for a broadly defined function to meet a program goal.
- Includes requirements regarding target populations, allowable expenditures.
- Provides funding certainty to federal government; shifts risk for enrollment increases and health care costs to states.

Block Grants

- Amounts allocated among states typically established on historical expenditures in a base year.
- May remain flat or level funded – or have some inflationary factor applied each year.
- Some block grants provide a fixed amount of federal funding not conditioned on state spending or match.
- Some block grants require a maintenance of effort or match of state funds.
 - TANF block grant provides federal funding at the capped level so long as the state spends minimum amount of its own state dollars on TANF-related initiatives
 - Child Care block grant – match rate set annually based on FMAP

Block Grants

Total dollars of federal funding for TANF and Social Services block grants have declined in value due to inflation



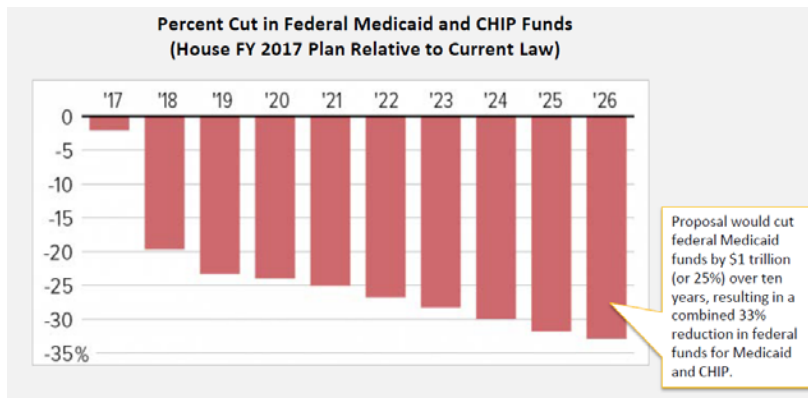
Source: CBPP, "Eliminating Social Services Block Grant Would Weaken Services for Vulnerable Children, Adults, and Disabled," Available at: <http://www.cbpp.org/research/eliminating-social-services-block-grant-would-weaken-services-for-vulnerable-children-and-disabled>, and Congressional Budget Office, "Temporary Assistance for Needy Families Spending and Policy Options," Available at: <https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/49887-TANF.pdf>

Per Capita Caps

- Under a Medicaid per capita cap, the federal government would set a limit on how much to reimburse states per enrollee.
 - A per-beneficiary federal cap would be determined for a base year; adjustments made annually based on a federally-determined growth limit.
 - There could be one uniform cap for all enrollees or a separate cap for each eligibility group (aged, individuals with disabilities, adults, children)
- Still shifts risk of cost but does account for changes in enrollment- includes similar risks to block grants if per capita amounts aren't adequate to fund services.

State Considerations

- Either approach reduces federal payments to states



Source: House Budget Committee, FY 2017 Budget Proposal, Appendix IV, Table S-4, Available online at: http://budget.house.gov/uploadedfiles/fy2017_a_balanced_budget_for_a_stronger_america.pdf. Figures in table include some savings due to changes to CHIP.

State Considerations

- How allotments are set
 - Historical spending per enrollee would generally favor states with more comprehensive coverage, higher income guidelines, more favorable reimbursement rates, etc.
 - State policy decisions drive a wide variability in per enrollee cost.
 - Include/exclude supplemental payments such as graduate medical education, disproportionate share payments, funding for American Indians served by IHS
- How allotments will be adjusted over time
- State spending requirements - i.e. Maintenance of effort or match
- Required services, populations, income guidelines

State Considerations

- Both approaches fail to address issues beyond state control
- Neither block grants nor per capita cap account for:
 - New drugs or other medical advances, public health crisis (flu outbreak), or sicker populations.
- If funding doesn't keep pace with enrollment or costs, result is states must choose between
 - Reducing eligibility
 - Reducing coverage or services
 - Reducing provider rates
 - Waiting lists