ACHI
INSPIRING HEALTHY ACTS

MEDICAID FINANCING ALTERNATIVES

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Summary

Medicaid cost-saving and cost-containment strategies continue to be at the forefront of health reform discussions as policymakers consider options to modify current Medicaid financing in anticipation of additional federal flexibility. In fiscal year 2020, total combined federal and state spending on Medicaid in Arkansas comprised $7.5 billion of the state's $36 billion budget. Of Arkansas's total Medicaid expenditures, the state funds approximately one quarter.[1] Tasked with recommending an alternative approach to Medicaid financing in the state, the Arkansas Health Reform Legislative Task Force in 2016 examined the potential of "block grant" programs. The current federal administration has previously indicated an openness to block grants for Medicaid, and guidance is anticipated as early as January 30, 2020. This explainer looks at traditional Medicaid financing, finance reform inlcuding block grants, and how those approaches affect state funding.

Introduction

Medicaid financing has traditionally been a shared responsibility between states and the federal government, with the federal share based on a match rate — the federal medical assistance percentage (FMAP). The standard FMAP rate varies based on a state's average per capita income (50% minimum and 82% maximum), with lower income states such as Arkansas receiving greater federal assistance when compared to the national average (see Table 1). The limit on federal contributions under the FMAP approach is the amount of funds a state is willing to contribute towards its share in covering eligible individuals.

TABLE 1: ARKANSAS MATCH RATES FOR FISCAL YEAR 2020

	Federal Share	State Share
Standard Medicaid FMAP[2]	71.42%	28.58%
Children's Health Insurance Program[3]	91.49%	8.51%
Arkansas Works	90%	10%
Administrative Services	50%	50%

Shared contribution allows the federal government to set minimum standards while allowing for some state flexibility and innovation. Recently, states have explored proposals to gain greater

1401 W. Capitol Avenue
Suite 300, Victory Building
Little Rock, Arkansas 72201

501-526-2244
achi@achi.net
achi.net

flexibility to administer Medicaid in exchange for assuming greater financial risk of future cost growth through block grants, with Tennessee the first to submit a waiver to pursue a block grant. Arkansas law requires the governor to request a block grant for funding of the Medicaid program "as soon as practical if the federal law or regulations change to allow the approval of a block grant for this purpose" (Ark. Code Ann. § 23-61-1004(h)). Federal agency guidance in the absence of enumerated changes to federal statute or regulations would appear not to trigger this requirement.

Fixed Lump Sum Option

Under a fixed amount, lump sum finance approach, states would receive a fixed allotment based on historical spending levels in exchange for increased flexibility on program management.[4] The allotment would be adjusted annually at a predetermined, formula-driven rate.[5] States would be responsible for all costs that exceed the federal allotment.

The existing FMAP approach is countercyclical, offering increased financial protection for states during periods of economic recession when they may experience more potential enrollees. Under a fixed lump sum approach, federal funding would be capped and additional program expenses during an economic downturn would be the states' responsibility. If the strategy to determine the fixed federal allotment does not anticipate state and national economic cycles in such circumstances, states would be forced to decide whether to increase state funding or make program cuts, which may include changes to eligibility, benefits, and provider payment.

As proposed, in exchange for fixed federal financial exposure, states would gain program flexibility and avoid existing federal requirements. States would likely still be subject to some level of federal oversight. Although the U.S. Department of Health and Human Services (HHS) has wide-ranging authority through Section 1115 waivers to offer state flexibility, HHS does not have the authority under current federal law to waive the FMAP formula, which would be required to allow for this type of financing structure to enable complete state flexibility. There is also a question of whether block grant financing would be consistent with federal Medicaid law requiring waivers to further the purpose of Medicaid to provide medical assistance.

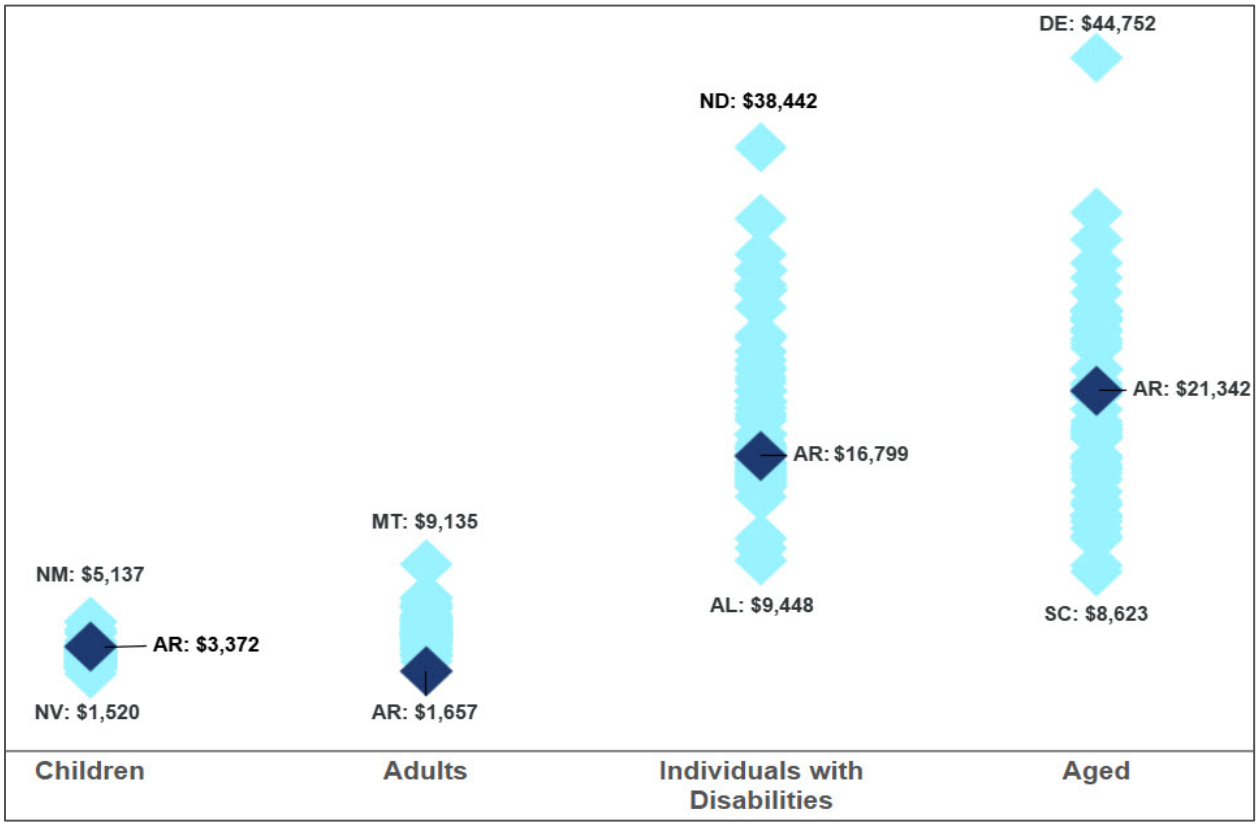
Fixed Amount per Enrollee

Another approach to Medicaid financing would be to provide states a fixed amount per enrollee, or "per capita caps," instead of a fixed lump sum. Per capita caps would set a limit on federal spending per enrollee, either for all beneficiaries or by eligibility groups.[6] Similar to fixed lump sum proposals, the per capita growth rate would be set below the projected growth in an effort to achieve federal savings. Unlike the fixed lump sum approach, per capita caps may protect against unexpected

enrollment increases due to natural disasters or changes in the economic environment, maintaining the countercyclical protections of state budgets. U.S. Congressional Republicans proposed this approach, described as a “per capita allotment,” in their plan released on June 22, 2016.[7]

Many comprehensive Section 1115 waivers that include beneficiaries from different eligibility categories have relied on this financing approach. Per capita caps (see Figure 1) and fixed lump sums may lock in historical funding levels, which vary significantly by state.

FIGURE 1: DIFFERENCES IN PER-CAPITA SPENDING BY ENROLLMENT GROUP[8]



Capped Federal Match

Unlike block grants, which require federal legislation to implement, HHS has the authority to place a “global cap” on a state’s federal match funds via a Section 1115 demonstration waiver. Under this approach, a state still receives matching funds based on services billed by providers, but the total amount of federal reimbursement based on the match rate is capped. Perhaps one of the most referenced demonstrations of a global cap is the Rhode Island Global Consumer Choice Compact Medicaid Waiver (see Case Study).

Conclusion

Medicaid program financing is complex. Due to innovative approaches to care delivery, such as Arkansas's premium assistance model and the need for states to more readily project and control budget expenditures, there has been significant state and national pressure to seek alternative finance models. Fixed federal funding may result in less federal spending, shifting risk to the states either to cover funding amounts in excess of the set federal limit (which could adversely affect states with lower income levels) or to cut services, enrollment, or provider payment. Countercyclical protections should be a component of future alternative financing strategies.

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CASE STUDY: RHODE ISLAND GLOBAL CONSUMER CHOICE COMPACT MEDICAID WAIVER ("GLOBAL WAIVER")

In 2006, Medicaid comprised one quarter of Rhode Island's budget.[9] The state originally asked for a fixed, upfront lump sum, which would terminate the state match, but instead HHS agreed to an aggregate budget ceiling of $12.075 billion over a five-year demonstration period, and the state had to spend the first dollar.

In exchange, Rhode Island had the ability to make certain program changes, including rebalancing long-term care and updating its provider payment methodology.

The waiver's budget ceiling was higher than projected, making it more generous and safer for the state than a typical block grant proposal. In addition, HHS granted the state the authority to obtain up to $22 million in federal matching funds annually for services previously covered only by the state, called Costs Not Otherwise Matchable (CNOM).

Between the American Recovery and Reinvestment Act of 2009 (which provided states with enhanced federal fiscal support), CNOM dollars, and a generous global cap, the federal government actually spent more money.

Moreover, Rhode Island did not receive significantly more discretion to administer Medicaid and was required to request permission from HHS to make additional changes throughout the waiver.[10]

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achi@achi.net
achi.net