

Planned Medicaid Changes Put State Health System at Risk

By Laura Harker, Policy Analyst

Congressional proposals to remake the federal Medicaid funding system into one based on block grants or one that is capped per enrollee threaten to squeeze Georgia's budget in coming years. Replacing the existing system with either one endangers health care innovation in Georgia or shrinking the number of people with access to coverage.

Almost 2 million Georgians, or one in five of all state residents, can see a doctor through the state's Medicaid program. Medicaid is a vital source of health coverage for Georgia children, covering nearly half of all children up to age 19. Medicaid also provides coverage to pregnant women, low-income seniors and people with disabilities. Medicaid is a major payment source for the state's hospitals and other health care providers. Medicaid pays for more than half of the births in Georgia and is the primary payer for three-fourths of Georgia nursing home patients.

Medicaid benefits are funded through a state and federal government partnership. The state manages the program in accordance with federal guidelines and the federal government provides about two-thirds of the funding. In the 2017 state budget year, for every dollar Georgia spends on Medicaid the state receives \$2.11 in federal money. When a state experiences an economic downturn and Medicaid enrollment grows, the federal government increases the share it pays for the state's Medicaid program. So states do not bear the full costs of managing program growth and in some cases can save money compared to the prior year. The governor's 2018 budget year starting July 1, 2017 projects Georgia will save \$46.9 million in general funds due to an increase in the federal share of Medicaid.

The health of Georgia's Medicaid program will depend largely on proposed federal changes. Below is a comparison of two of the federal proposals to restructure Medicaid and what they might mean for Georgia. The table below compares Medicaid's structure today with proposals to shift to a block grant or per-capita capped system.

Current Medicaid Structure	Block Grants	Per Capita Caps
Federal government pays for a <i>percentage</i> of the state's Medicaid spending	Federal government pays a <i>fixed amount</i> to the state to cover Medicaid spending	Federal government pays a <i>fixed amount per enrollee</i> to the state to cover Medicaid spending
State can draw down more federal money as both program enrollment and health care costs rise	State cannot leverage more federal money beyond the fixed amount and higher costs are shifted to the state	State can only leverage more federal money to cover higher enrollment, but not higher health care costs
Health coverage <i>is guaranteed to all eligible Medicaid enrollees</i> , as the federal share adjusts to help states when need grows	Health coverage <i>can be reduced or cut</i> if the state is short money to cover costs above the block grant amount	Health coverage <i>can be reduced or cut</i> if the state is short money to cover costs above the capped amount
States can receive federal matching funds for innovative measures to reduce health care costs and improve quality	State investments in health care innovation will no longer be matched with federal money	State investments in health care innovation will no longer be matched with federal money

Block Grants Reduce Federal Funding, Shifting Costs to the State

The block grant Medicaid funding system proposes to replace federal government payments for a percentage of a state's Medicaid program to a fixed amount. If the state's Medicaid spending grows under a block grant system and the fixed federal contribution is not enough to cover the increase, the state is left to cover the new costs. The resulting strain on Georgia's budget means state lawmakers would choose among cutting services, reducing reimbursement rates or denying health coverage to eligible Georgians.

In the 2017 state budget year, Georgia relied on almost \$13.7 billion in federal funding or 31 percent of the overall budget. The majority of those federal funds - \$7.4 billion – are for Medicaid and PeachCare. Block grants reduce federal funding over time, leaving states with less federal money to help pay for their Medicaid benefits. The U.S. House last year debated a budget plan proposing to cut federal Medicaid funding by one-third in a decade. A significant share of the costs will be shifted to states even if federal cuts are slowly phased in and states will lose a way to receive federal help to ensure all eligible residents and services are covered.

A Medicaid block grant poses unique challenges for Georgia because federal block grants are often based on past spending. Georgia ranks 49th among the states in Medicaid spending per enrollee and a block grant system might cement that low status. Georgia is one of 19 states that did not expand Medicaid income eligibility under the Affordable Care Act. If the block grant amount is based on prior spending, Georgia and other non-expansion states lose the opportunity to use federal funds to expand coverage.

Per-Capita Caps Also Leave States on the Hook for Rising Costs

Per-capita caps on Medicaid spending are included in the Affordable Care Act replacement plan Congress introduced this week. Per-capita caps propose to assign a fixed amount of money for each enrollee based on age and disability status. This system offers adjustments as enrollment numbers change but does not account for the tendency of health care costs to outstrip overall inflation. Setting a cap on each enrollee puts an arbitrary limit in place that is not responsive to the actual cost of providing health care to vulnerable Georgians. The average health care costs for older Georgians will rise as the population ages and a capped program would make the state wholly responsible for demographic changes. States would also be stuck with other higher-than-expected costs, including epidemics and the introduction of new medical treatments.

Both per-capita caps and block grants remove Georgia's flexibility to innovate and instead turn the focus to short-term cuts to benefits and provider payments. Medicaid now offers waivers for federal matching dollars to states, providing an option to test innovative approaches to Medicaid payment and health care delivery. Federal waivers allowed Georgia to expand access to community-based services for older residents and people with developmental disabilities. Georgia also used a waiver to reduce the state's high rate of low-birth weight babies through the Planning for Healthy Babies program. Georgia's investments in innovation stand to lose federal financial support under a per-capita cap or block grant.

Georgia's Medicaid program provides access to critical health services for 2 million people and supports the state's hospitals and other health care providers as a large source of coverage. Maintaining the current Medicaid funding structure is critical to sustain Georgia's health care system and ability to provide health coverage.