Implications of Medicaid Financing Reform for State Government Budgets

Tax Policy and the Economy Conference

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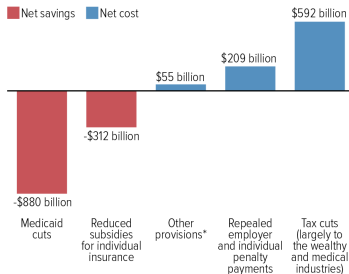
[2]American Enterprise Institute

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Medicaid Financing in Recent Policy Discussions

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Budgetary Effects of AHCA

House GOP Health Plan: Cuts Assistance for Low- and Moderate-Income People; Cuts Taxes for the Wealthy and Medical Industries

2017-2026

Net savings ■ Net cost ■

$592 billion

$209 billion

$55 billion

-$312 billion

-$880 billion

Medicaid cuts | Reduced subsidies for individual insurance | Other provisions* | Repealed employer and individual penalty payments | Tax cuts (largely to the wealthy and medical industries)

*Net effects of other provisions in the bill, including Patient and State Stability Fund Grants, Medicare and Medicaid Disproportionate Share Hospital payments, and other provisions.
Source: Congressional Budget Office

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

Figure from the Center on Budget and Policy Priorities. Underlying data are from CBO estimate of effects of AHCA as of March 13.

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    - Largest federal transfer to states
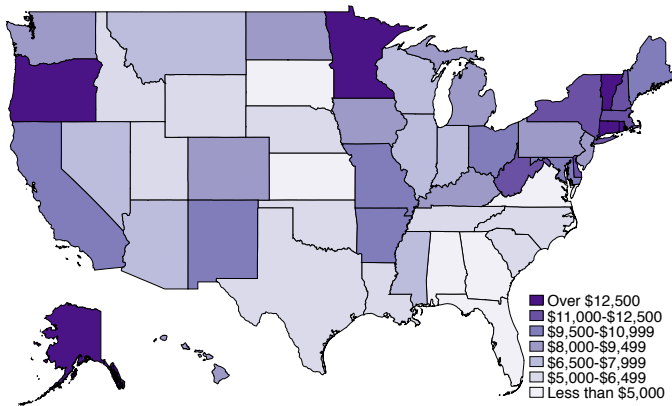
Current Medicaid Spending

Total Medicaid Funding Over Time (and Projections)
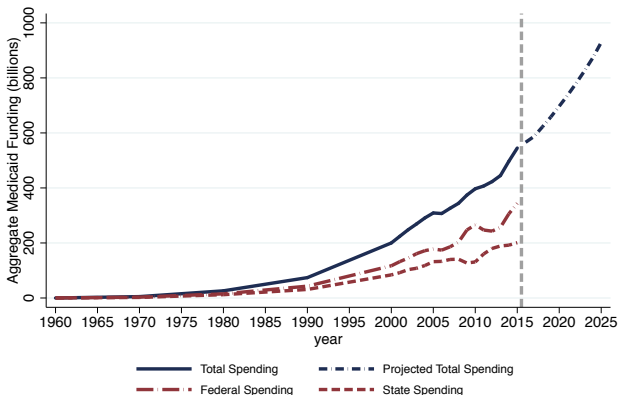
Medicaid spending data are taken from the National Health Expenditure Accounts from CMS. Note that projections are not broken into federal vs. state spending.

Federal Spending Varies Substantially Across States

Current Federal Medicaid Spending per State Resident in Poverty, 2015

Over $12,500
$11,000-$12,500
$9,500-$10,999
$8,000-$9,499
$6,500-$7,999
$5,000-$6,499
Less than $5,000

This figure presents federal Medicaid spending per state resident. Spending data are from Medicaid financial management reports submitted by states on form CMS-64 and state populations are from the Census Bureau's March 2016 Current Population Survey (covering 2015).

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    - **Block grant** - states get fixed amount of federal contribution, regardless of program design
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        - Maintains subsidy on extensive margin, but not intensive
        - Most similar to repeal-and-replace legislation

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- Dynamic Question: How do potential policy changes affect incentives to cover enrollees over time?

Modeling a uniform allotment

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Consider the following block for state *s* in year *t*:

$$\text{Block Grant}_{s,t}^{UNB} = \frac{\text{PCI}_{US,t}}{\text{PCI}_{s,t}} \times \text{Pop.}_{s,t} \times \text{Scaling Factor}_{\bar{t}} \times \prod_{i=\bar{t}}^{t}(1 + g_i). \quad (1)$$

PCI represents 3 yr moving average, g_t is a legislated growth rate, and the scaling factor is set such that sum of federal dollars across states equals actual spending from the base year $\bar{t}$.

Redistribution From a Uniform Allocation Rule

Percent Change in Federal Medicaid Funding Under a Uniform, Need-Based Block Grant
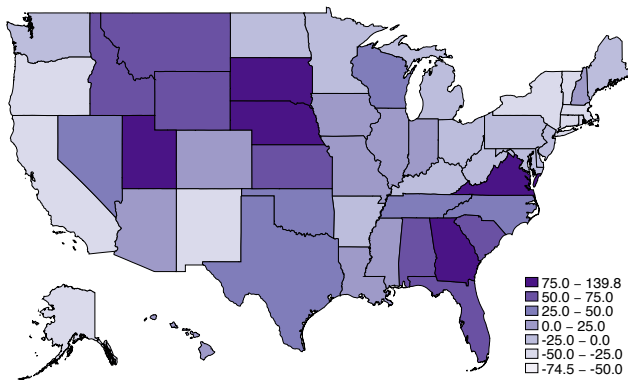

This figure presents the percentage change in federal Medicaid funding by state under a uniform, need-based block grant relative to the current system. Total federal spending is calculated from Medicaid financial management reports submitted by states on form CMS-64, while per-capita income by state are taken from the Bureau of Labor Statistics.

Redistribution From a Uniform Allocation Rule

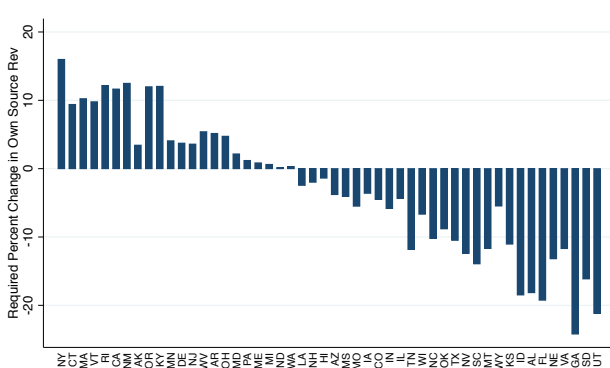Changes in Federal Medicaid Funding Under a Uniform, Need-Based Block Grant
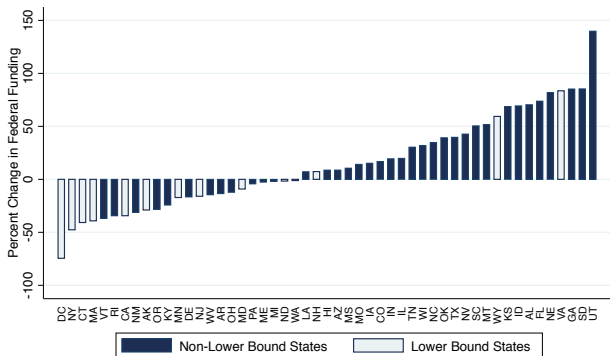
This figure illustrates the percent change in federal funding for each state under the block grant relative to its allocation under the current financing system.

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Changes in Federal Medicaid Funding as a Percent of Own-Source Revenue

Changes in Federal and State Medicaid Funding under a Uniform, Need-Based Block Grant: This figure illustrates the absolute change in federal funding under a need-based, uniform block grant as a portion of each state's own source revenue. Data on state own source revenue are taken from the latest available Survey of State Government Finances from 2014.

A Not-So-Subtle Political Economy Point

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Changes in Federal Medicaid Funding Under a Uniform, Need-Based Block Grant - With Vote in 2016 Presidential Election
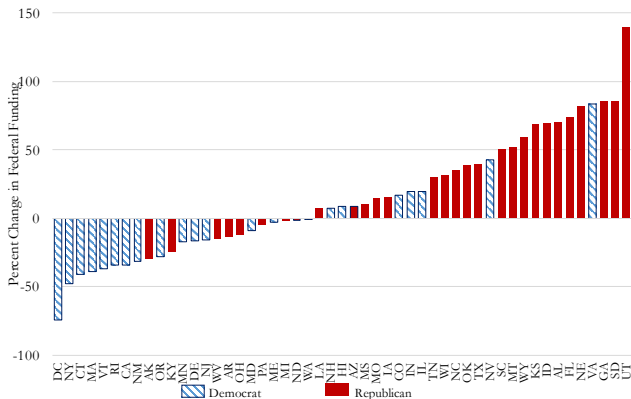
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  - AHCA - Covers 60% of initial costs, grows at CPI-M (roughly CPI+1)

Medicaid Reform and Extensive Margin Subsidies

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Changes in Extensive Margin Subsidy
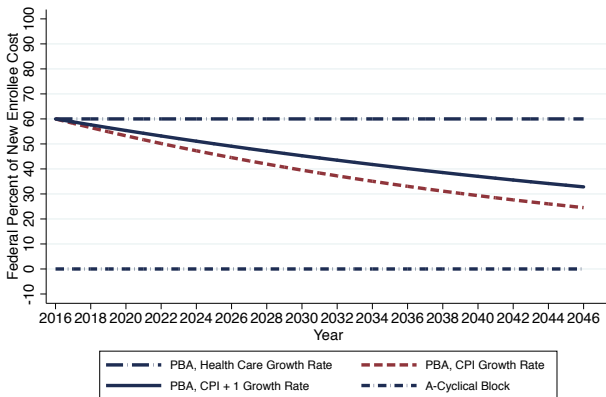
This figure illustrates the extensive margin federal subsidy over time - i.e. the portion of costs the federal government will pay per marginal enrollee. Long-cost growth is taken from CBO long-term budget outlook. Cost growth = Nominal GDP growth rate + 1 = 5.5%

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- New technologies?