Implications of Medicaid Financing Reform for State Government Budgets

Tax Policy and the Economy Conference

Jeffrey Clemens [1] Benedic Ippolito [2]

[1]University of California - San Diego

[2]American Enterprise Institute

September 14, 2017

Medicaid Financing in Recent Policy Discussions

Medicaid Financing in Recent Policy Discussions

Budgetary Effects of AHCA

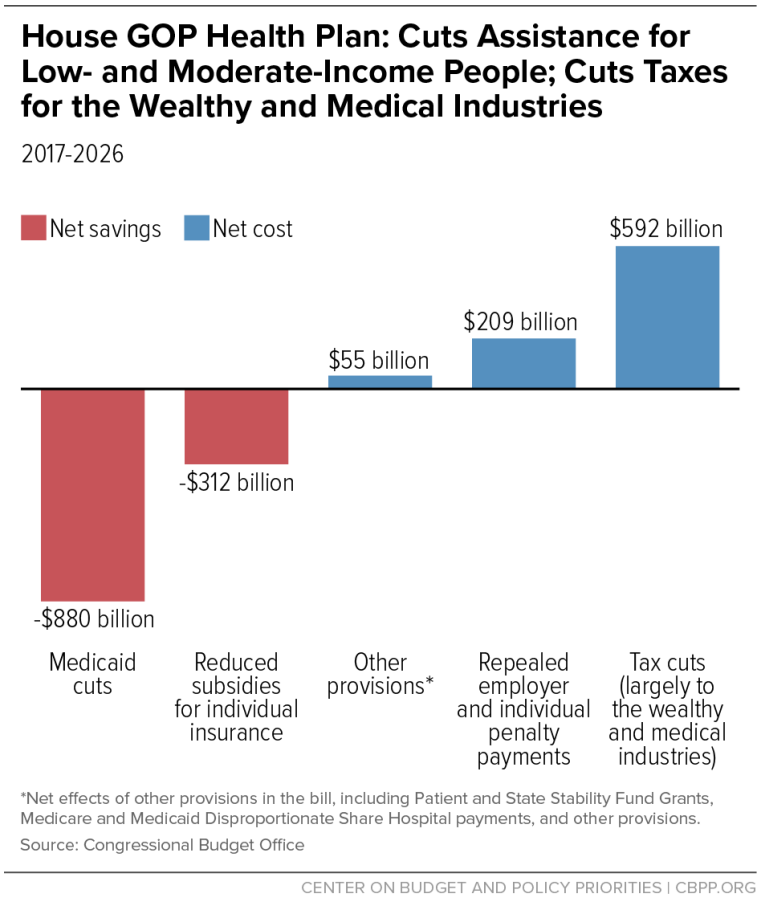


Figure from the Center on Budget and Policy Priorities. Underlying data are from CBO estimate of effects of AHCA as of March 13.

Medicaid Financing 101

Medicaid Financing 101

- Jointly funded by states and the federal government

Medicaid Financing 101

- Jointly funded by states and the federal government
  - States design program within broad limits, federal govt. “matches" claims indefinately

Medicaid Financing 101

- Jointly funded by states and the federal government
  - States design program within broad limits, federal govt. “matches" claims indefinately
  - Federal government pays 50-75% of cost, depending on state per-capita income (avg $\sim$60%)
  - Higher match rates for certain groups - 90% for ACA

Medicaid Financing 101

- Jointly funded by states and the federal government
  - States design program within broad limits, federal govt. “matches" claims indefinately
  - Federal government pays 50-75% of cost, depending on state per-capita income (avg $\sim$60%)
  - Higher match rates for certain groups - 90% for ACA
- In 2015, federal contributions to state Medicaid programs totaled $350 billion

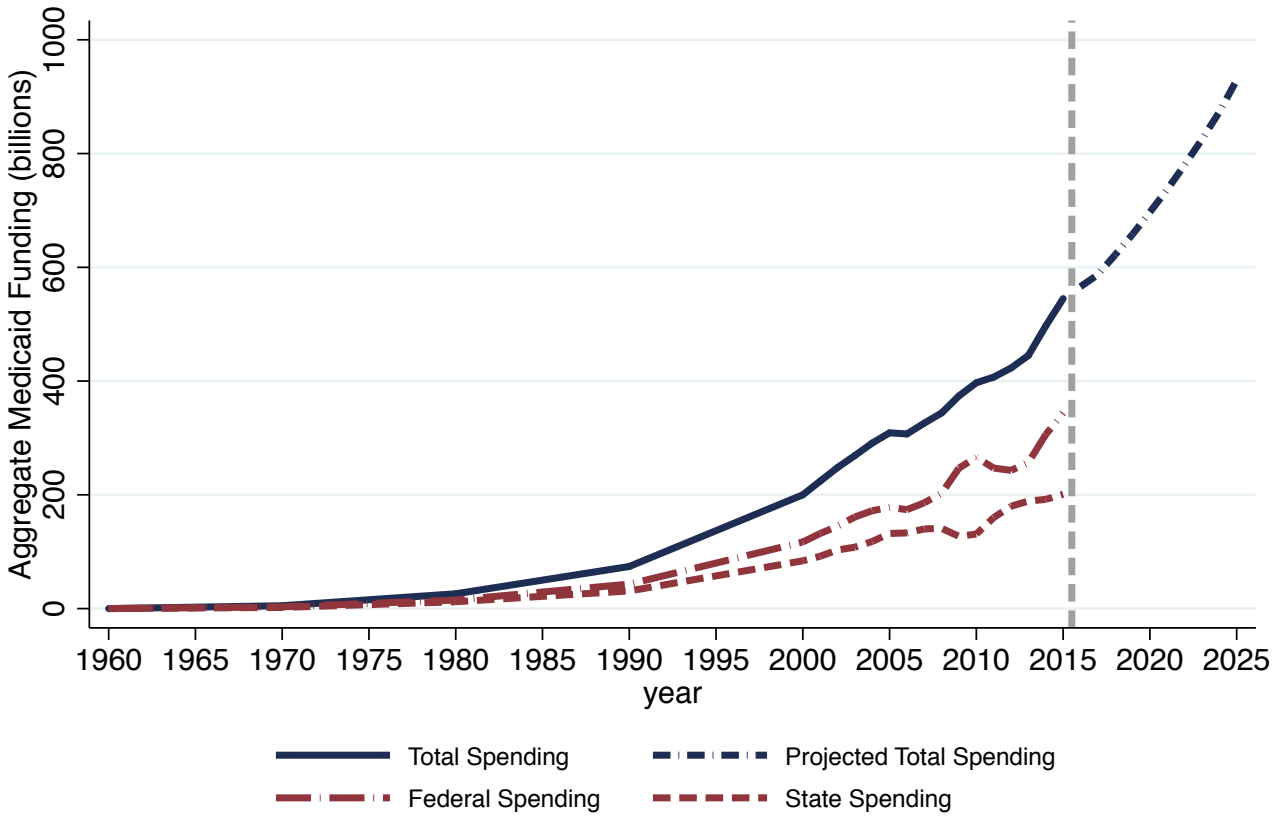
Medicaid Financing 101

- Jointly funded by states and the federal government
  - States design program within broad limits, federal govt. “matches" claims indefinately
  - Federal government pays 50-75% of cost, depending on state per-capita income (avg $\sim$60%)
  - Higher match rates for certain groups - 90% for ACA
- In 2015, federal contributions to state Medicaid programs totaled $350 billion
  - Largest federal transfer to states

Current Medicaid Spending

Current Medicaid Spending

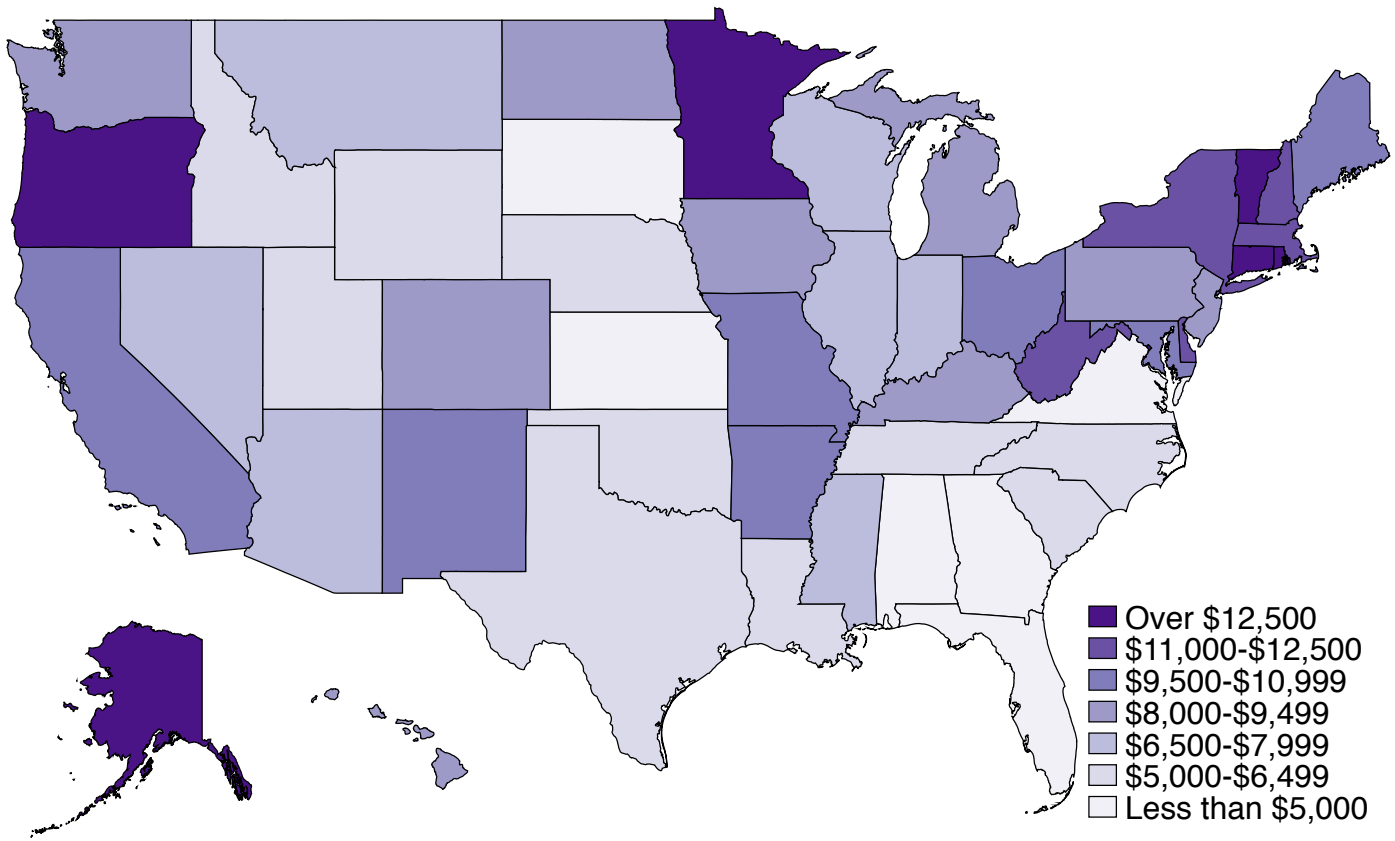
Total Medicaid Funding Over Time (and Projections)



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



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).

Potential Reforms

- Two general options
  - **Block grant** - states get fixed amount of federal contribution, regardless of program design

Potential Reforms

- Two general options
  - **Block grant** - states get fixed amount of federal contribution, regardless of program design
    - No subsidy on “intensive" or “extensive" margins

Potential Reforms

- Two general options
  - **Block grant** - states get fixed amount of federal contribution, regardless of program design
    - No subsidy on “intensive" or “extensive" margins
  - **Per-enrollee allocation** - states get set amount of money per enrollee

Potential Reforms

- Two general options
  - **Block grant** - states get fixed amount of federal contribution, regardless of program design
    - No subsidy on “intensive" or “extensive" margins
  - **Per-enrollee allocation** - states get set amount of money per enrollee
    - Maintains subsidy on extensive margin, but not intensive
    - Most similar to repeal-and-replace legislation

Empirical Analysis for Today

- Static Question: How is initial funding determined?

Empirical Analysis for Today

- Static Question: How is initial funding determined?
  - Current state spending (or some fn(state spending))

Empirical Analysis for Today

- Static Question: How is initial funding determined?
  - Current state spending (or some fn(state spending))
  - Uniform allocation rule across states
  - What is the effect of uniform allocation rule on distribution of federal money?

Empirical Analysis for Today

- Static Question: How is initial funding determined?
  - Current state spending (or some fn(state spending))
  - Uniform allocation rule across states
  - What is the effect of uniform allocation rule on distribution of federal money?
- Dynamic Question: How do potential policy changes affect incentives to cover enrollees over time?

Modeling a uniform allotment

Modeling a uniform allotment

Consider the following block for state s in year t:

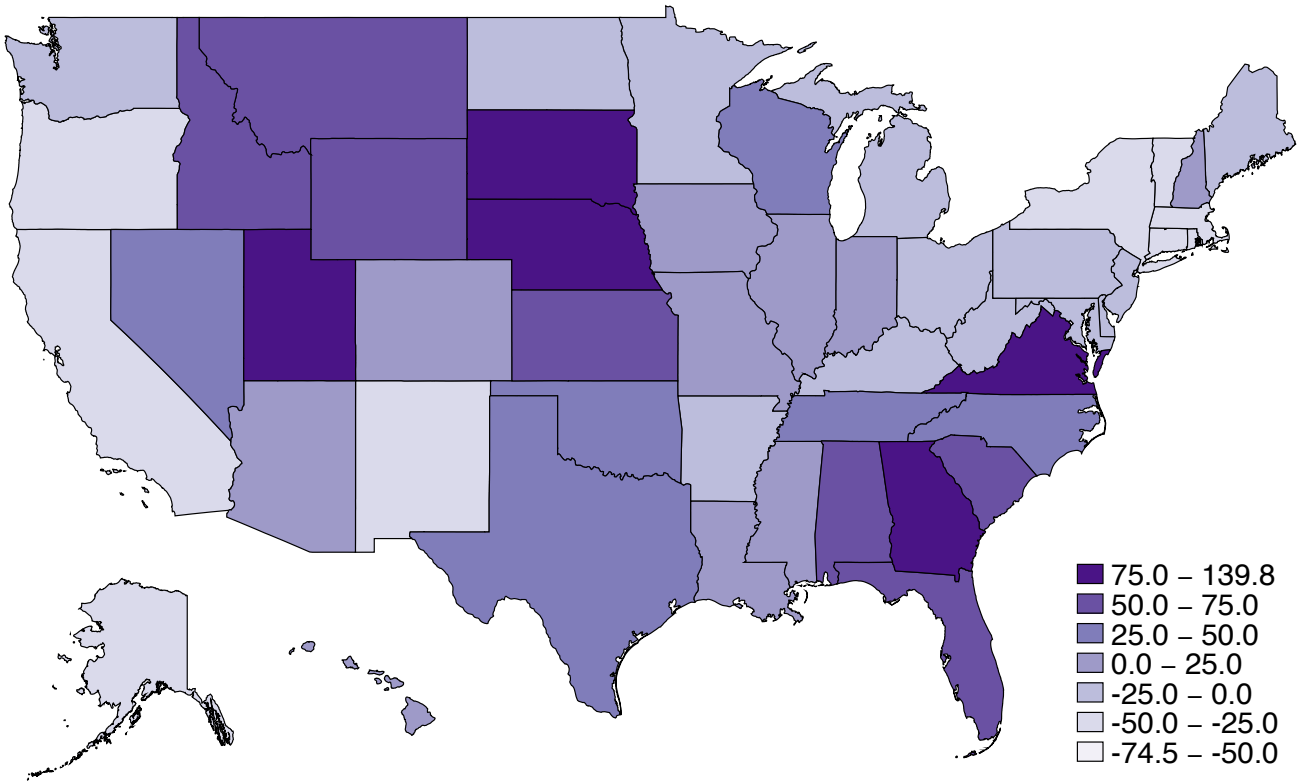
$$\text{Block Grant}_{s,t}^{UNB} = \frac{\text{PCI}_{US,t}}{\text{PCI}_{s,t}} \times \text{Pop.}_{s,t} \times \text{Scaling Factor}_{\bar{t}} \times \prod_{i=\bar{t}}^{t}(1+g_i). \quad (1)$$

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

Redistribution From a Uniform Allocation Rule

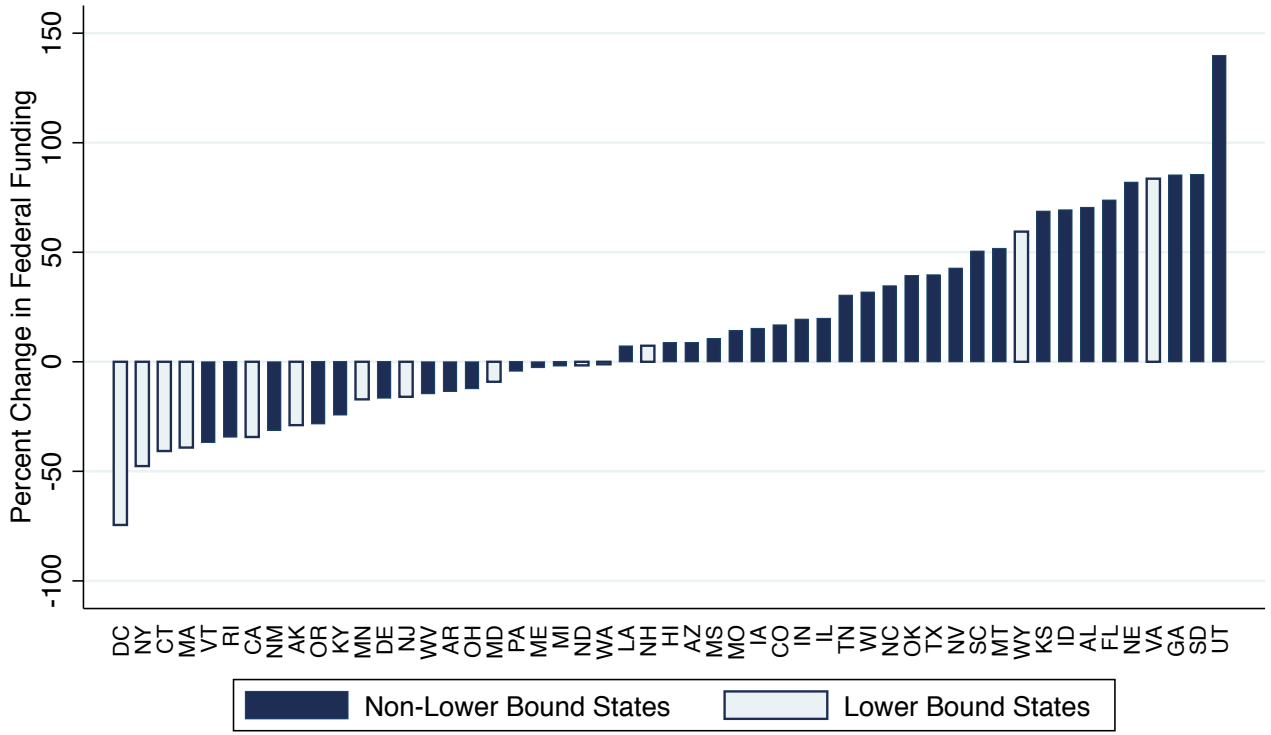
Percent Change in Federal Medicaid Funding Under a Uniform, Need-Based Block Grant



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

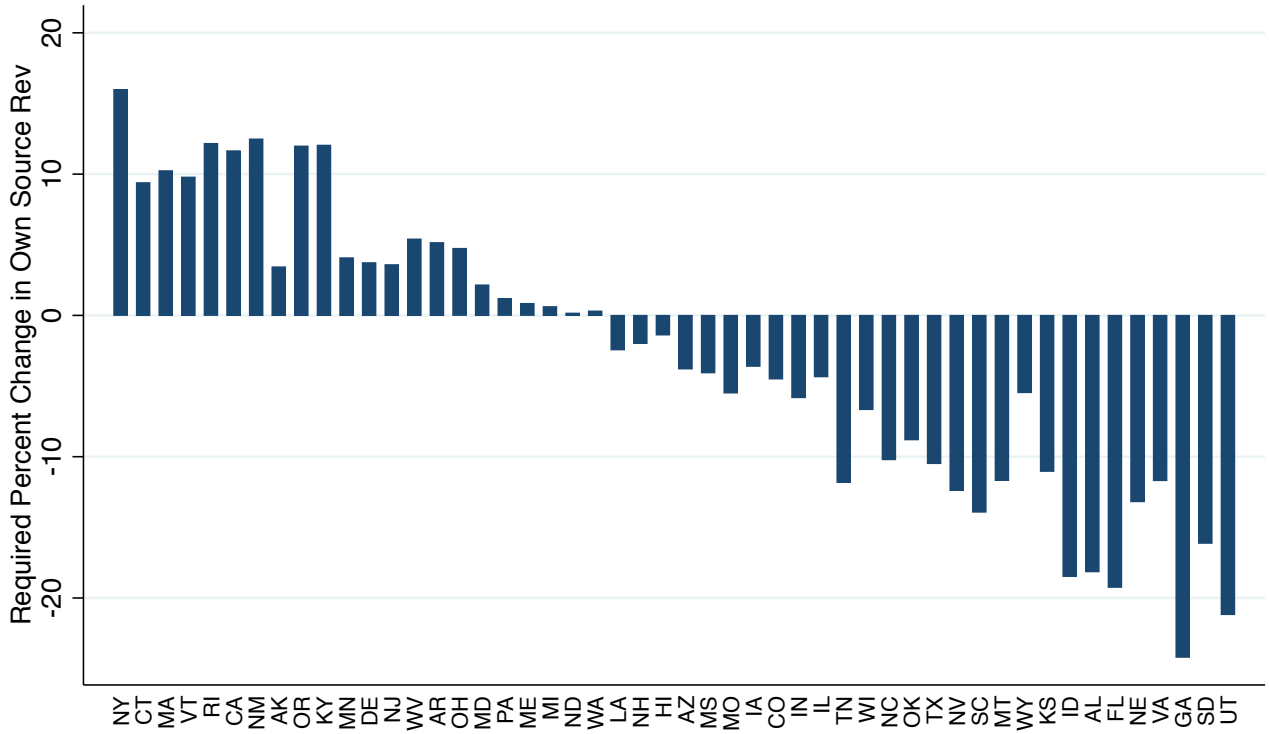


This figure illustrates the percent change in federal funding for each state under the block grant relative to its allocation under the current finacing system.

Redistribution From a Uniform Allocation Rule

Redistribution From a Uniform Allocation Rule

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

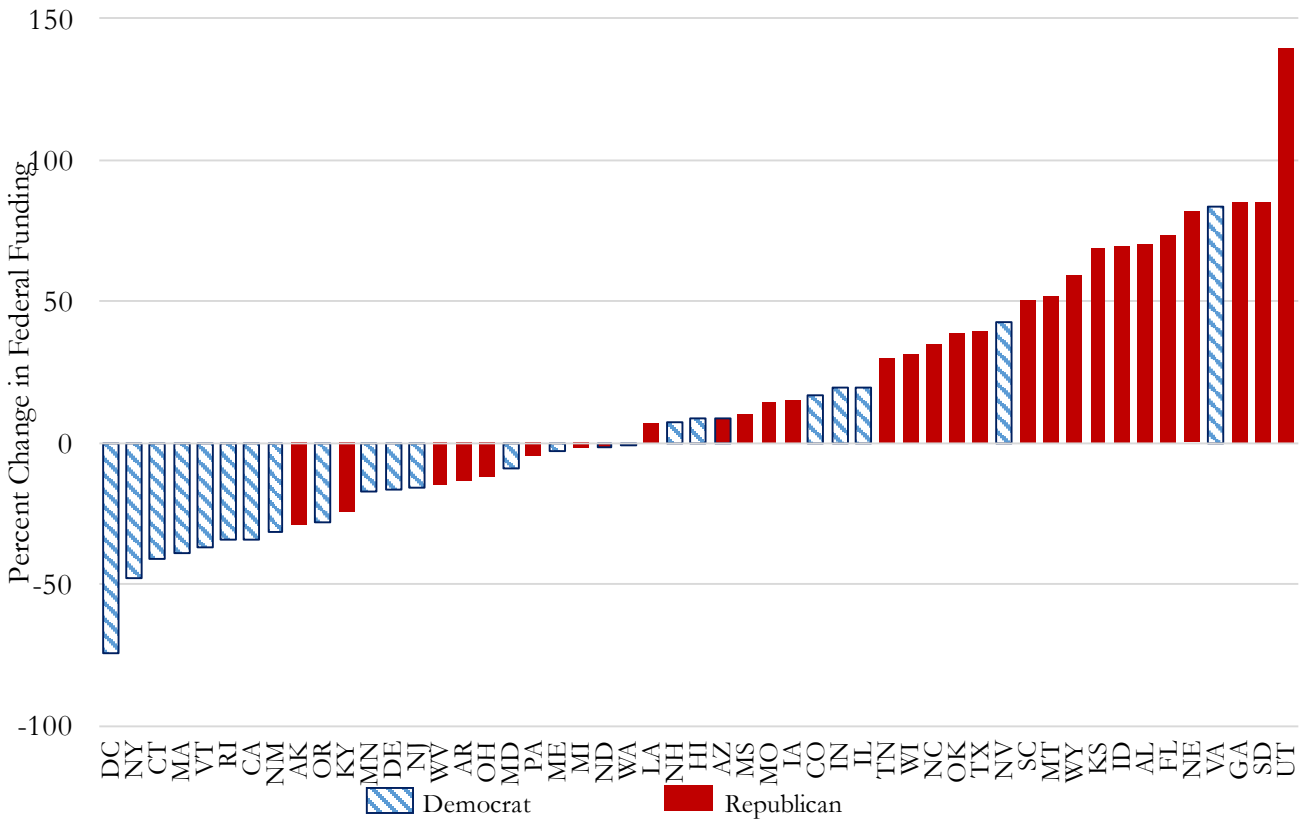


Changes in Federal and State Medicaid Funding under a Uniform, Need-Based Block Grant: This figure illustrates the absolute change in federal funding under a need-based, uniform block grant as a portion of each state's own source revenue. Data on state own source revenue are taken from the latest available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

A Not-So-Subtle Political Economy Point

A Not-So-Subtle Political Economy Point

Changes in Federal Medicaid Funding Under a Uniform, Need-Based Block Grant - With Vote in 2016 Presidential Election



This figure illustrates the percent change in federal funding for each state under the block grant relative to its allocation under the current finacing system.

Long-term incentives for coverage

Long-term incentives for coverage

- What portion of costs does the federal govt. pay for an enrollee?
  - Assume CBO long-term cost growth=nominal GDP growth+1=5.5%

Long-term incentives for coverage

- What portion of costs does the federal govt. pay for an enrollee?
  - Assume CBO long-term cost growth=nominal GDP growth+1=5.5%
- Consider 3 status-quo options
  - Block grant, inflation growth rate

Long-term incentives for coverage

- What portion of costs does the federal govt. pay for an enrollee?
  - Assume CBO long-term cost growth=nominal GDP growth+1=5.5%
- Consider 3 status-quo options
  - Block grant, inflation growth rate
  - Per-beneficiary allotment, covers 60% of initial costs (in aggregate), grows at health care cost growth rate

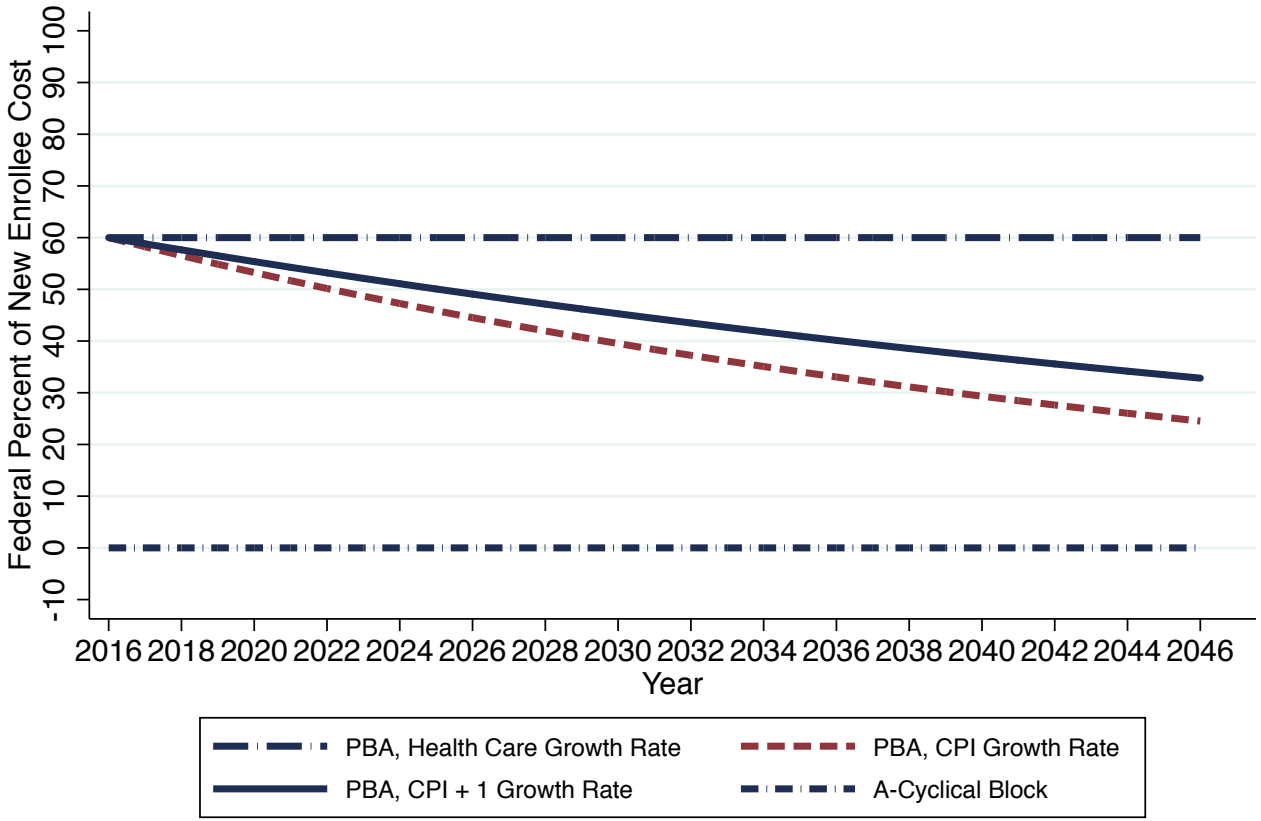
Long-term incentives for coverage

- What portion of costs does the federal govt. pay for an enrollee?
  - Assume CBO long-term cost growth=nominal GDP growth+1=5.5%
- Consider 3 status-quo options
  - Block grant, inflation growth rate
  - Per-beneficiary allotment, covers 60% of initial costs (in aggregate), grows at health care cost growth rate
  - AHCA - Covers 60% of initial costs, grows at CPI-M (roughly CPI+1)

Medicaid Reform and Extensive Margin Subsidies

Medicaid Reform and Extensive Margin Subsidies

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%

A host of economic and policy design issues remain

A host of economic and policy design issues remain

- How to transition?
  - Plausible transition rules cost $100s of billions (in paper)

A host of economic and policy design issues remain

- How to transition?
  - Plausible transition rules cost $100s of billions (in paper)
- What is the base year?

A host of economic and policy design issues remain

- How to transition?
  - Plausible transition rules cost $100s of billions (in paper)
- What is the base year?
- How do you deal with economic downturns?

A host of economic and policy design issues remain

- How to transition?
  - Plausible transition rules cost $100s of billions (in paper)
- What is the base year?
- How do you deal with economic downturns?
  - Current system automatically responds but a block, for example, doesn't

A host of economic and policy design issues remain

- How to transition?
  - Plausible transition rules cost $100s of billions (in paper)
- What is the base year?
- How do you deal with economic downturns?
  - Current system automatically responds but a block, for example, doesn't
- New technologies?