



# Addressing Growth in Federal Medicaid Spending: Selected Financing Alternatives



Medicaid and CHIP Payment and Access Commission  
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# Context

- Congress considering ways to slow rate of growth in Medicaid spending
- States under pressure to come up with budget savings
- MACPAC being asked to comment on different approaches
- Purpose of today's session is to provide background on current Medicaid financing system and certain proposed alternatives

# Overview: Current Law

- State Medicaid programs are entitled to federal reimbursement for a share of Medicaid spending
- Federal share of most costs is determined by each state's federal medical assistance percentage (FMAP)
  - Administrative costs are matched at a flat rate
- FMAPs can change annually according to a formula that accounts for differences in state per capita income

# Dynamics of Open-Ended Financing

- Federal contribution to Medicaid is potentially unlimited and the federal government has little control over annual Medicaid spending
- States have an incentive to increase program spending, which draws down federal funds, but may be challenged to raise their share during recessions
- Medicaid spending tends to be counter-cyclical

# Proposed Alternatives

- Various alternatives have been proposed to address concerns with current open-ended financing model
  - Insufficient incentive for states to be efficient
  - Insufficient flexibility for states that want to implement program changes
  - Lack of federal budgetary control
- Each alternative creates policy trade-offs
  - Potential effects difficult to quantify without detailed proposals

# Block Grants

- Block grants would replace FMAP-based federal match with fixed, state-specific lump sums
- Limits federal liability for changes in Medicaid spending due to enrollment growth and increases in per-person spending
- Design considerations include initial grant amounts, indexing mechanism, program flexibility, state maintenance of effort

# Capped Allotments

- Capped allotments would maintain FMAP-based federal match based on actual state spending, up to a cap
- Limits federal liability for changes in Medicaid spending, requires states to contribute state share
- CHIP uses a capped allotment structure but formula for determining annual caps has required periodic adjustment

# Per Capita Caps

- Per capita caps would establish per enrollee limits on federal Medicaid payments to states
- Limits federal liability for changes in Medicaid spending due to increases in per-person spending, but allows for enrollment growth
- Design considerations include establishing per capita caps for states and eligibility groups, indexing mechanism, program flexibility



# Medicaid Shared Savings

- Shared savings approaches blend FMAP and per capita caps by providing matching funds up to a target, then reducing match for spending above the target but allowing states to keep a higher percentage of spending below the target
- Balances the incentives of per capita caps while limiting state risk if enrollment or per person spending increases
- Design considerations include spending and other program metrics, program flexibility

# Next Steps

- Congress has signaled that they will consider policy options for federal Medicaid payments
- MACPAC can provide input on technical and policy issues
  - Rate of growth applied to caps or targets
  - Populations and services that are included/excluded
  - Extent to which states assume risk for enrollment, increases in cost of services
  - Downstream effects on states, enrollees, and providers



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