Even Medicaid Block Grants and Per Capita Caps with Modest Funding Cuts Shift Significant Risks and Costs to States

Proposals to convert Medicaid into a block grant or per capita cap are intended to achieve large and growing cuts to federal Medicaid spending, thus shifting significant costs to states. For example, the House Republican budget plan from last year would have cut *$1 trillion* – or 25 percent – in federal Medicaid spending over ten years, relative to current law (on top of the cuts from repealing the Medicaid expansion). To compensate for these severe funding cuts, states would likely have no choice but to institute draconian cuts to eligibility, benefits, and provider payments.

If and when Congressional Republicans and the Trump Administration actually unveil block grant or per capita cap proposals, it's possible that the block grant or cap may instead impose only modest federal Medicaid funding cuts in the first ten years or backload deep cuts at the end of the decade in an attempt to reduce growing opposition in Congress and among governors, advocates and stakeholders like health care providers and managed care plans. But regardless of the size and timing of the federal funding cuts achieved through the block grant or cap, these proposals pose a terrible risk for states and should be rejected.

- **Cutting Medicaid will immediately shift risks to states for unanticipated Medicaid costs.** Capping the federal government's share of Medicaid costs through a block grant or cap will leave states responsible for 100 percent of the costs of unexpected Medicaid costs, beginning on day one. A block grant and per capita cap would thus violate one of the principles laid out in the January 24th National Governors Association letter to House Majority Leader Kevin McCarthy: "Any reform proposal should protect states from unforeseen financial risks – such as the recent economic downturn or higher costs due to new drugs, treatment or epidemics – that could result in a spike in Medicaid enrollment or increased per-beneficiary costs."

- **Capping Medicaid will hurt states most when they can least afford it: during health emergencies and recessions.** Under a block grant or per capita cap, for example, states won't receive any additional federal funding to pay for needed health care services if they face a health care crisis like the lead poisoning emergency in Flint, a new disease or epidemic like Zika, a new treatment like for Hepatitis C or a natural disaster like Hurricane Katrina. A block grant also would fail to automatically increase federal Medicaid funding if more people enroll in Medicaid due to an economic recession when more people become eligible as they lose their jobs and health insurance at the same time the state sees tax revenues fall.

- **The explicit Medicaid cuts will grow over time.** States will eventually face larger and growing cuts in federal Medicaid funding under a block grant or per capita cap. That's because they typically achieve savings by growing Medicaid funding at a considerably slower rate than what is currently projected. As a result, even if federal Medicaid funding cuts are relatively small initially or the cuts don't start taking effect for a number of years, the federal funding cuts would grow steadily larger each year. That would be particularly problematic as the population continues to age. As the baby boom generation becomes older and more frail, they will incur much greater health and long-term care spending than they do now at the same time that the Medicaid funding cuts become deeper. In response, states would be

forced to either raise taxes or far more likely, institute increasingly severe cuts to their Medicaid programs.

- **If Congress radically restructures Medicaid financing, it will make Medicaid highly vulnerable to future, even deeper cuts.** Once the current financing structure is eliminated and replaced with a block grant or per capita cap, Medicaid funding will become increasingly vulnerable as another Congress looks for a go-to "offset" for other future priorities like tax cuts. That's because a block grant or per capita cap formula can be easily dialed up to achieve greater savings — for example, by further lowering the growth rates for the block grant or cap amounts. This has been the experience with other federal programs that have been converted to block grants. At best these programs have been the subject of benign neglect but often funding has been repeatedly slashed further over time.

Modest Medicaid funding cuts or backloading deep cuts from block grants and per capita caps, tied to greater programmatic flexibility, may appeal to some states at first glance. But make no mistake: once Congress breaks the federal-state financial partnership and no longer plays a "meaningful federal role" in order to cut federal spending and shift costs, states – and the tens of millions of their low-income residents who rely on Medicaid and the health care providers who serve them – will be left holding the bag.