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policy brief

FAMILIES AT RISK:

IMPLICATIONS OF A GLOBAL CAP ON CONNECTICUT'S FEDERAL MEDICAID FUNDING

SUMMARY OF FINDINGS

- The state of Connecticut has indicated a willingness to accept a global cap on federal funding for its Medicaid program. A global cap would establish a pre-determined limit on federal funding for a five-year period and fundamentally alter the financing structure of the Medicaid program.

- Under a global cap, the state would be at 100 percent risk for any increases in enrollment or unanticipated increases in health care costs. Connecticut's per capita Medicaid costs are among the highest in the nation. The state also would have to pay 100 percent of the costs of program improvements such as restoring parents who lost coverage or increasing provider reimbursement.

- Connecticut's average annual Medicaid expenditure growth is one of the lowest in the nation. This makes it more likely that the formula devised to establish a global cap will provide inadequate federal funding for the growing health care needs of Connecticut's residents over time.

- To date, no state has accepted a global cap on its entire Medicaid program.

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Connecticut Health Foundation

THE ANTHEM FOUNDATION OF CONNECTICUT, INC.

OVERVIEW

Last year's budget implementer authorized the state to seek a federal Medicaid waiver with premiums, co- payments and benefit reductions that would have significant effects on Connecticut's children and families.[1] The budget implementer did not address the question of how Medicaid's financing structure might change under a federal waiver. Recently, the Department of Social Services (DSS) submitted a concept paper outlining its plans for the Medicaid waiver to the agency of the federal government (Centers for Medicare and Medicaid Services or CMS) that negotiates and approves Medicaid waivers. The plan suggests that the state may consider a global cap on Connecticut's federal Medicaid funding. This brief examines what such a cap would mean for Connecticut.[2]

HOW IS MEDICAID FINANCED TODAY?

Connecticut's Medicaid program is an open-ended federal-state matching program. Like Medicare, Medicaid is an entitlement program that guarantees health coverage to all eligible enrollees. In exchange for following federal rules governing the program, the federal government guarantees that it will provide matching dollars for all state expenditures. Connecticut's regular matching rate is 50 percent — meaning that the federal and state governments share equally in the cost of providing services. Under Medicaid's current financing structure, federal reimbursement rises and falls in accord with the state's own Medicaid expenditures.

HOW WOULD THIS CHANGE UNDER A WAIVER?

States entering into a Section 1115 Medicaid waiver agreement with the federal government must always negotiate a budget neutrality agreement. Budget neutrality is an administrative requirement that the federal government typically requires to ensure that it spends no more under a waiver than the federal government would have spent without a waiver.

Budget neutrality can be calculated in different ways. In the past, budget neutrality has typically been determined by establishing a per capita cap. Per capita caps establish a per-person limit on federal spending – thus there is no overall limit on federal spending as spending remains linked to changes in enrollment.[3] Recently several states have agreed to impose a global cap on elements of their Medicaid programs.[4] To date, however, no state has agreed to a global cap on its entire Medicaid program, yet this appears to be currently under discussion with Connecticut and a few other states.

WHAT IS A GLOBAL CAP?

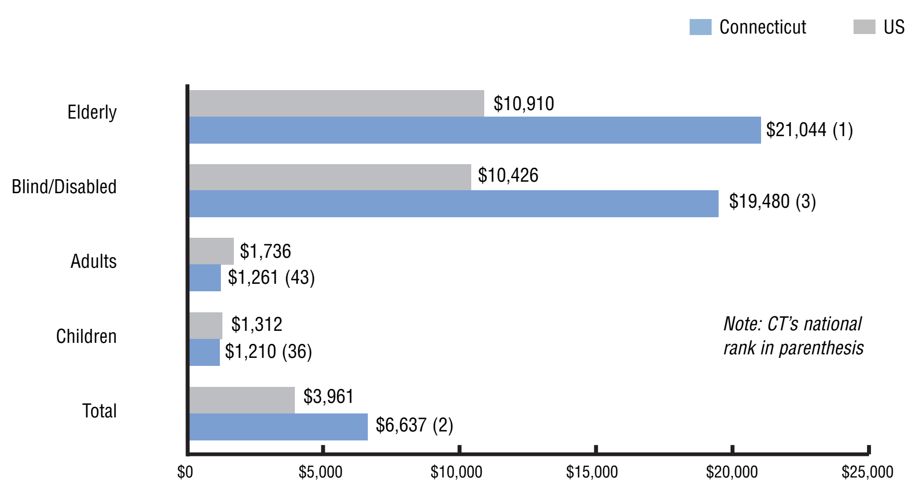
A global cap sets a pre-determined ceiling on the amount of federal funds that the state will receive for as long as five years. The program would no longer operate under the matching fund structure that exists today, which guarantees federal matching funds for all state expenditures. While the base amount established under a cap will increase each year through a pre-determined inflator or growth factor, there is no guarantee that capped federal funds will be sufficient to cover actual state costs. Under a global cap, the state would be at 100 percent risk for any and all increased costs due to growth in enrollment, new treatments or prescription drugs that come onto the market, new epidemics, or natural or man-made disasters.

HOW WOULD A GLOBAL CAP IMPACT CONNECTICUT?

Connecticut's per-person Medicaid costs are among the highest in the nation. This high level of spending in part reflects high health care costs in Connecticut, but most especially reflects high per capita costs for the elderly. As Figure 1 illustrates, Connecticut ranks second in the nation for per capita spending for Medicaid beneficiaries and first in the nation for spending on elderly beneficiaries.

Figure 1

Connecticut's Medicaid Expenditures Per Beneficiary, by Category, 2001



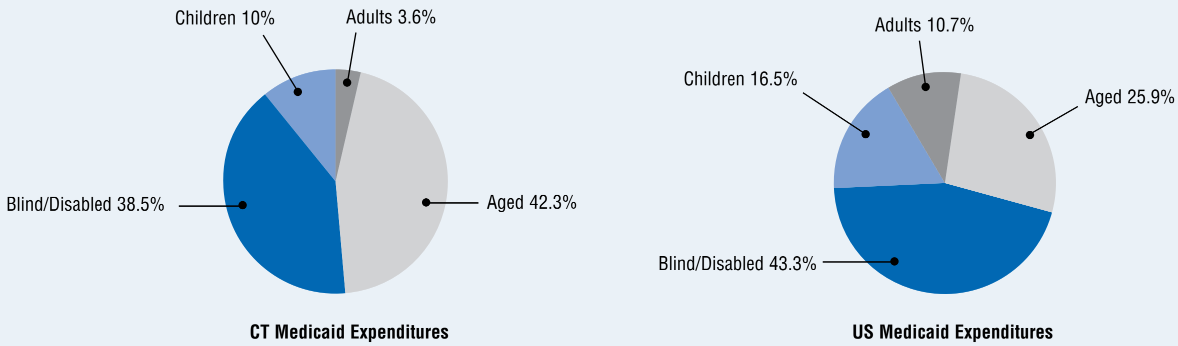
Source: Georgetown Health Policy Institute analysis based on CMS MSIS 2001 data. U.S. total excludes Hawaii and Washington, neither of which have submitted their data to CMS yet.

As a result, Connecticut's overall Medicaid expenditures are characterized by a relatively high proportion of spending on the elderly as compared to other beneficiary groups.

Should a cap be imposed on federal spending, these high health care costs would no longer be shared with the federal government once the cap is reached. In addition, a cap that does not accommodate Connecticut's growing health care needs will force the state to make very hard choices among the competing health care needs of the various Medicaid beneficiary groups.

Figure 2

Connecticut vs US Medicaid Expenditures (2001)



Source: Georgetown Health Policy Institute analysis based on CMS MSIS 2001 data. U.S. total excludes Hawaii and Washington, neither of which have submitted their data to CMS yet.

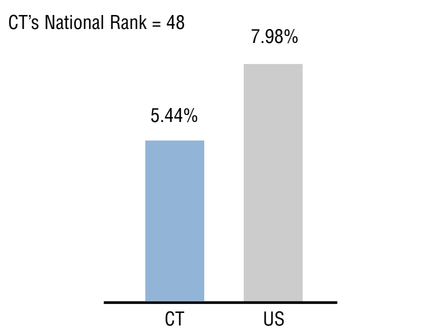
UNDER A GLOBAL CAP FORMULA, CONNECTICUT'S GROWTH FACTOR IS LIKELY TO BE LOW

Negotiations with CMS will focus on two components of a global cap – a base amount and an inflationary increase or growth factor. Typically a state's growth factor is based on historical levels of expenditure growth in a state's Medicaid program. State Medicaid expenditure growth usually fluctuates very widely, but in Connecticut these expenditures have consistently grown at very low levels. Between 1998 and 2002, Connecticut's Medicaid expenditures grew at the lowest rate in the nation.[5] As Figure 3 shows, Connecticut's Medicaid expenditure growth over a recent ten-year period also was extremely low.

It is notoriously difficult to predict increases in health care costs. Connecticut's historically low growth rate makes it extremely likely that the formula negotiated to establish a global cap will have a relatively small percentage increase to account for growth in program costs – making it more likely that unanticipated health care costs, increases in enrollment or new technologies will not be adequately reflected in the formula.

Figure 3

Average Annual Medicaid Expenditure Growth CT vs US (1992-2002)



Source: Georgetown University Health Policy Institute analysis.

UNDER A GLOBAL CAP THERE ARE NO INCENTIVES TO MAKE PROGRAM IMPROVEMENTS

Under a global cap, the state would not receive any additional funding from the federal government, as it does today, if it decides to make improvements to its Medicaid program. For example, should the state decide to restore coverage for parents or increase provider reimbursement and/or capitation rates the state would not receive any additional federal dollars.

Any Medicaid program improvements would have to be funded entirely with state dollars.

CONCLUSION

A global cap would fundamentally alter the financing structure of Connecticut's Medicaid program. Connecticut's high per capita costs and historically low growth rates are likely to combine to provide the state with inadequate federal funds to meet the health care needs of its residents.

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- Under a global cap, the state would be at 100 percent risk for any increases in enrollment or unanticipated increases in health care costs. Connecticut's per capita Medicaid costs are among the highest in the nation. The state also would have to pay 100 percent of the costs of program improvements such as restoring parents who lost coverage or increasing provider reimbursement.

- Connecticut's average annual Medicaid expenditure growth is one of the lowest in the nation. This makes it more likely that the formula devised to establish a global cap will provide inadequate federal funding for the growing health care needs of Connecticut's residents over time.

- To date, no state has accepted a global cap on its entire Medicaid program.

REFERENCES

1 See previous briefs in this series at www.cthealth.org.

2 A previous Connecticut Health Foundation (CHF) publication looked at implications of a block grant for Connecticut in more detail. Many, but not all, of the issues are similar in a waiver context. See Alker, J. Mann, C. and Pervez, F. *Federal Proposals to Restructure Medicaid: What Could They Mean for Connecticut?* July 2003, at www.cthealth.org.

3 Per capita caps, however, may also prove inaccurate in anticipating future growth in health care costs, new technologies, etc.

4 Guyer, J. *The Financing of Pharmacy Plus Waivers: Implications for Seniors on Medicaid of Global Funding Caps* (Washington, D.C.: Kaiser Commission on Medicaid and the Uninsured), December 2003.

5 Georgetown Health Policy Institute analysis. Connecticut's average annual growth from 1998-2002 was 5.51 percent as compared with a national average of 10.09 percent.

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