



How Restructuring Medicaid Could Affect Children

More than one-third of America’s children rely on Medicaid for their health care, and more than half of Medicaid recipients are children.¹ Medicaid’s existing structure has helped states respond to every economic downturn, natural disaster, epidemic or innovative treatment since the program was enacted in 1965. As recently as last year, Congress put forth proposals to fundamentally restructure Medicaid financing with the goal of saving money for the federal government in the short- or long-term. Ultimately, restructuring Medicaid would erode health coverage for children and their families.

What Do We Know about Policy Proposals to Restructure Medicaid Financing?

Federal Medicaid funding caps would result in a huge cost-shift to states

Block grants or caps would shift risk to states and, along with it, the hard decisions on whether to fill funding gaps with state dollars, or to cut eligibility, benefits and/or provider reimbursements. Medicaid supplies more than half the federal money flowing in to states (see Figure 1). Proposals are designed to substantially decrease Medicaid spending, back loading cuts so the federal share decreases over time. (See for example, Figure 2, Center on Budget and Policy Priorities’ analysis of 2016 House budget plan.)

Restructuring Medicaid Financing

► Block Grants

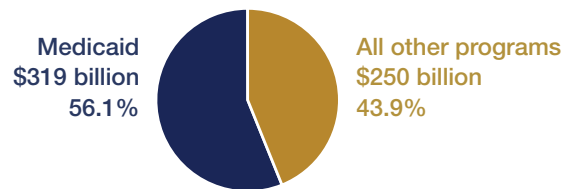
A block grant would cap the full amount of federal funding each state receives, based on current spending levels.

► Per Capita Caps

A per capita cap would set limits on federal spending per enrollee, accounting for enrollment increases, but not for any other changing health costs.

Either approach would constitute a radical restructuring of Medicaid financing, resulting in a shift of costs and risk to states, beneficiaries, and health providers.

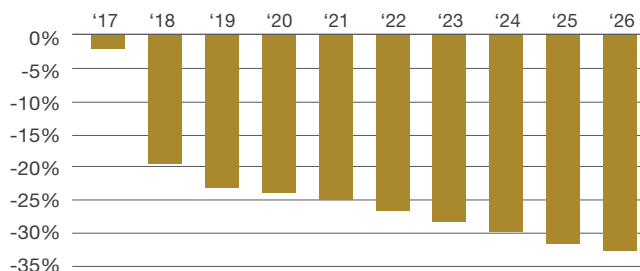
Figure 1. Medicaid is the Largest Federal Funding Source Flowing to States
Federal Funding Expenditures, FY 2015



Source: State Expenditure Report: Examining Fiscal 2014-2016 State Spending, National Association of State Budget Officers (NASBO). “All Other Programs” includes public assistance; elementary, secondary and higher education; corrections; transportation; and other.

Figure 2. Medicaid Cuts Would Grow Over Time

Percent cut in federal Medicaid funds, relative to current law



Source: Center on Budget and Policy Priorities analysis using January 2016 Congressional Budget Office Medicaid baseline and House Budget Committee documents.



Restructuring Medicaid would not add state flexibility, other than what to cut.

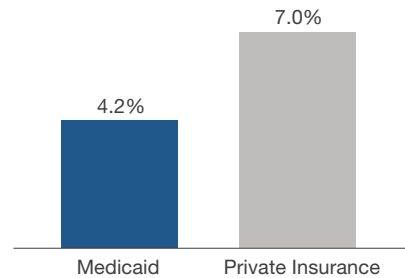
Proponents tout increased state flexibility in exchange for cost containment, yet states already have broad flexibility to manage their Medicaid programs. New flexibility without sufficient federal resources will not allow for new and innovative approaches; rather, it will allow—and when cuts kick in *force*—states to make cuts to eligibility, benefits, or cost-sharing protections.

Caps would not likely achieve major savings from “smarter” state spending since Medicaid is already efficient.

Medicaid is a lean program, with very low per-person costs and few places to cut without harming beneficiaries. Rising health costs challenge the entire health system, but Medicaid has not been a major contributor to cost growth over time. As shown in Figures 3 and 4, cost growth and per enrollee cost in Medicaid are lower than private insurance.² A recent Urban Institute study found that if Medicaid enrollees were instead covered in private insurance costs would be 25 percent higher.³

Figure 3. Medicaid Spending per Beneficiary Has Grown More Slowly Than Private Insurance

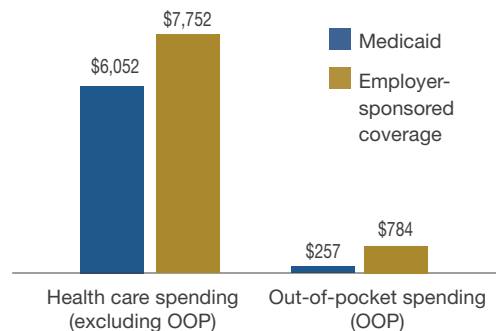
Annual average growth rate per enrollee, 1987-2014



Source: Centers for Medicare & Medicaid Services, National Health Expenditure Tables, December 2015, Table 21. Reproduced from chart by Center on Budget and Policy Priorities.

Figure 4: Medicaid Costs Less per Enrollee than Employer-Sponsored Coverage Than Private Insurance

2009 Costs per enrollee



Source: Urban Institute, 2013

How Would Federal Medicaid Caps Impact Children and Their Families?

Proposals to significantly restructure Medicaid financing could impact children by removing important coverage and benefits protections. They could also harm children and families indirectly through their impact on state budgets. Block grants or per capita caps would lock states in to their current spending levels and reduce federal payments over time, leaving states to assume the full risk of unanticipated costs due to fluctuations in the economy or health care needs.

Jeopardize the guarantee of coverage. A block grant would cut the federal government's contribution and allow states to limit enrollment to manage fewer federal dollars. While a per capita cap would allow for fluctuations in enrollment, it would not protect states or enrollees from any other increased costs, putting states in the position of having to make cuts and/or find ways to increase revenue.



Remove the guarantee of benefits, including Medicaid's child-centered benefit package known as the Early, Periodic, Screening, Diagnostic, and Treatment (EPSDT). Endorsed by the American Academy for Pediatrics, Medicaid's EPSDT provision helps families afford the care and early intervention their children need to help them meet developmental milestones. It works to ensure children receive the screenings and treatments to catch and treat delays or diseases as early as possible. Catching hearing problems and addressing with a hearing aid, for example, has a direct impact on a young child's success at school. Restructured Medicaid financing and enhanced state flexibility would likely eliminate the federal benefits guarantee that all children have today regardless of where they live. Ultimately this means that politicians, not pediatricians, will be in the position of deciding what services are necessary for children's health and development.

Put pressure on other children's programs in state budgets. A cap or block grant could force states to spend more state dollars on health care, placing pressure on other services critical to children in other parts of the state budget, such as child care, education, child welfare, juvenile justice, or family supports. Caps would also likely force state leaders to choose among vulnerable populations and/or the programs and services they need.

Put states and families at risk during an economic downturn. States would no longer be able to rely upon a strong federal partner to help them respond to growing needs during a recession. More families would need health coverage just as state tax revenues take a hit and require states to scale back spending.

Weaken states' ability to respond to public health crises. Medicaid's current funding structure allows states facing unanticipated emergencies, like Hurricane Katrina or the Zika virus, to rely on federal funds that increase without the need for emergency action by Congress. Federal caps would undercut an important tool states now use to respond to disasters or public health crises. Medicaid became the primary responder to the HIV/AIDS epidemic, and today is a key part of states' response to the new opioid crisis.

Tie states' hands when drugs, new treatments, and other health care costs rise. A block grant or per capita cap would not allow federal dollars to increase alongside unanticipated health costs. If costs of critical drugs or devices (e.g. EpiPens) increase or treatment needs (e.g. autism diagnoses) rise, states would either have to take on the full cost of services or deny treatment to children and families in need.

Additional Resources

[Caps on Federal Medicaid Funding would Give States Flexibility to Cut, Stymie Innovation](#), Center on Budget and Policy Priorities, 2017.

[Data Note: Estimated Medicaid Savings in the House Budget Resolution from March 2016](#). Kaiser Family Foundation, 2017.

[EPSDT: A Primer on Medicaid's Pediatric Benefit](#), Georgetown University Center for Children and Families, 2016.

[5 Key Questions: Medicaid Block Grants & Per Capita Caps](#). Kaiser Family Foundation, 2017.

[Frequently-Asked Questions About Medicaid](#). Center on Budget and Policy Priorities, 2016.

[Medicaid Block Grant to States Would Slash Federal Funding, Shift Costs to States, and Leave Millions More Uninsured](#). Center on Budget and Policy Priorities, 2016.

[Medicaid's Role for Children](#). Georgetown University Center for Children and Families, 2016.

[Medicaid Spending Growth Compared to Other Payers: A Look at the Evidence](#). The Urban Institute and the Kaiser Family Foundation, 2016.

¹ Georgetown Center for Children and Families, "Medicaid's Role for Children," Washington, D.C. and CMS Medicaid and CHIP Enrollment Report, September 2016.

² E. Park, M. Broaddus, H. Katch, and J. Cross-Call, "Frequently-Asked Questions About Medicaid," (Washington, D.C.: Center on Budget and Policy Priorities, 2016).

³ L. Clemans-Cope, J. Holahan, and R. Garfield, "Medicaid Spending Growth Compared to Other Payers: A Look at the Evidence," (Washington, D.C.: Kaiser Family Foundation, 2016).

This brief was authored by Elisabeth Wright Burak, with helpful reviews by Joan Alker, Kelly Whitener, and Catherine Hope. Design and layout provided by Nancy Magill.