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MEDICAID PER CAPITA CAPS COULD CUT FUNDING FOR DUAL ELIGIBLE BENEFICIARIES

Capping Medicaid funding could also shift costs to Medicare

New modeling from Avalere finds that proposals to limit per capita federal Medicaid funding growth based on medical inflation could lead to a $44 billion spending cut for dual eligible beneficiaries—or people who qualify for both Medicaid and Medicare—over the next 10 years. Capped funding proposals have been included as part of recent Affordable Care Act (ACA) repeal conversations in Congress. While the future of these legislative initiatives remains uncertain, policymakers are expected to continue considering Medicaid reforms, which could have a significant effect on beneficiaries, states, and Medicare.

"These Medicaid reforms could inadvertently encourage states to reduce benefits for low income elderly beneficiaries," said Dan Mendelson, president at Avalere Health. "If not carefully designed, reduction in Medicaid coverage for duals—particularly in the provision of post-acute care—could reduce quality and increase Medicare spending through higher rates of hospitalization and more intensive use of services in these vulnerable populations."

Federal Funding Scenarios

Under a per capita cap funding model, the federal government would establish an initial, state-specific funding amount for each group of beneficiaries in Medicaid (children, adults, expansion adults, aged, disabled) and increase that amount annually by a fixed growth rate. States that exceed those caps would either pay a higher share of Medicaid costs or have to find ways to reduce their spending. Avalere's analysis evaluated two growth rates that have been included in recent proposals to implement per capita caps in Medicaid—the medical care inflation rate (CPI-M) and CPI-M plus 1 percentage point.

This analysis finds that proposals to limit per capita federal Medicaid funding growth based on medical inflation (CPI-M) could lead to a $44 billion spending cut for duals, $13 billion spending cut for all aged Medicaid beneficiaries, and $91 billion for all disabled Medicaid beneficiaries over 10 years. Increasing that funding formula to CPI-M + 1 percent comes much closer to expected costs for these beneficiaries, resulting in a $20 billion increase for duals and a $26 billion increase in available federal funding for the aged between 2020 and 2026. However, this higher growth rate would still result in reduced funding to the disabled by $8 billion over the same period.

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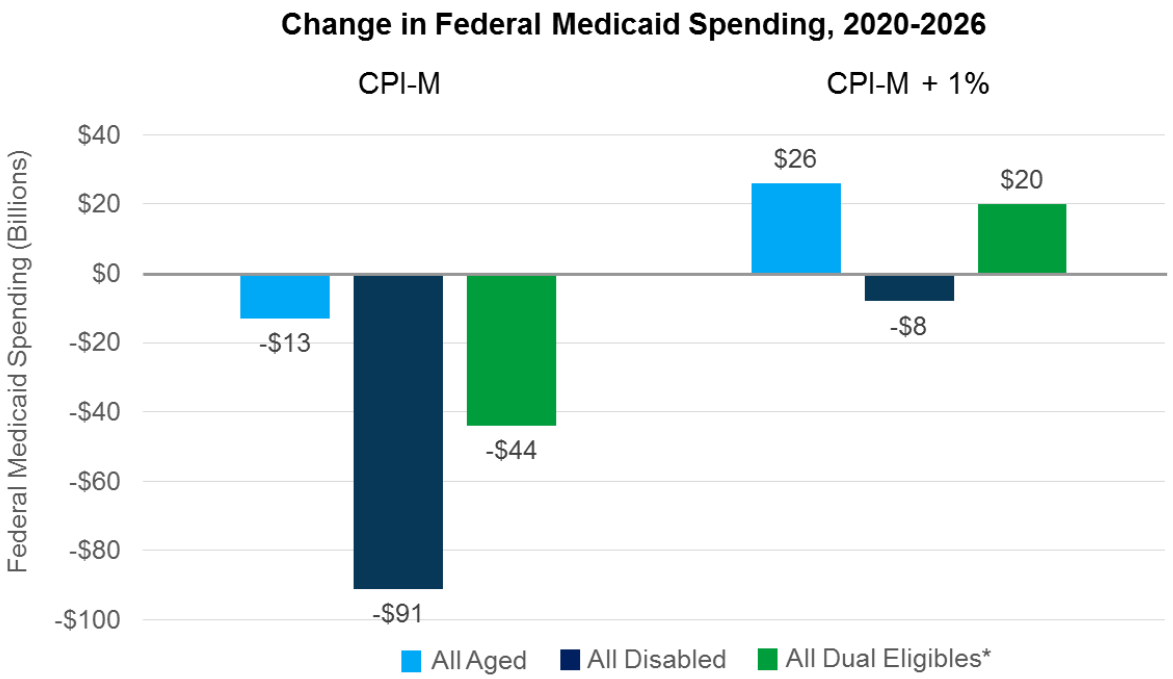
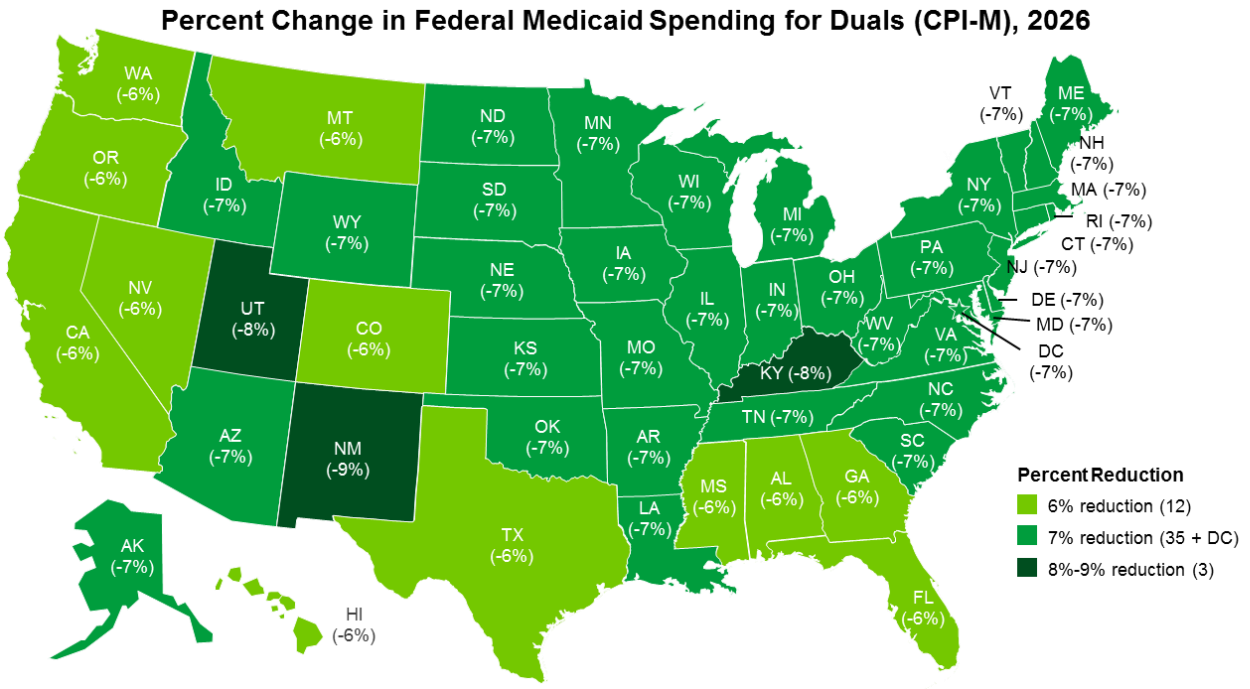


*Projections for spending changes for dual eligibles are based on weighted averages of the spending changes for the aged and disabled.

“Aged and disabled Medicaid beneficiaries have particularly acute medical needs and spending on healthcare for these individuals has grown quickly,” said Caroline Pearson, senior vice president at Avalere. “States could be forced to reduce coverage for these individuals if federal funding caps are set below expected cost growth.”

State-level Impact on Duals

Avalere’s analysis also examined the impact of capped funding at the state level, and found that under a CPI-M growth rate, states would see across-the-board reductions on federal spending attributable to duals’ care, ranging from 6 to 9 percent in 2026. The states most adversely impacted would be Kentucky, New Mexico, and Utah.



Per capita caps are likely to focus state budget control efforts on high-cost beneficiaries whose spending is rising rapidly. Aged and disabled beneficiaries are key drivers of state spending, particularly for long-term services and supports. State efforts to reduce costs for these beneficiaries could lead to reductions in covered benefits for these individuals, which may lead to higher rates of hospitalizations and other acute services covered by Medicare.

“Efforts to limit federal Medicaid responsibility cannot ignore that this program covers Americans with some of the most complex care needs, including dual eligibles,” said Bruce Chernof, president and CEO of The SCAN Foundation. “Per capita caps might relieve pressure on federal Medicaid spending for duals, yet a likely side effect is higher Medicare costs, which won’t solve the larger cost or quality conundrum.”

Individuals who receive both Medicare and Medicaid are a subset of the aged and disabled groups and are among the most vulnerable and high-cost populations in the programs. As of 2015, there were 11.4 million dual eligible beneficiaries. Payment for duals’ care is complicated, since Medicare is the primary payer of medical services (e.g., hospital, physician, post-acute care), whereas Medicaid covers long-term care and additional wraparound benefits, and pays beneficiaries’ Medicare premiums and cost sharing.

Avalere’s full analysis is available here.

The SCAN Foundation provided funding for this analysis. Avalere maintained full editorial control.

Methodology

Avalere used its Medicaid forecasting and simulation model to understand the potential implications of Medicaid per capita cap policies for the dually eligible population. The model is constructed using a variety of publicly available data sources on Medicaid spending and enrollment, demographic trends, and inflation.

For its Medicaid forecasting and simulation model, Avalere used a combination of the Centers for Medicare & Medicaid Services' (CMS) Medicaid Statistical Information System (MSIS) and Medicaid Budget and Expenditure System (MBES) data to estimate recent and historical Medicaid spending and enrollment. Avalere relies on the 2016 CMS Medicaid Actuarial Report for future Medicaid spending and enrollment, and on the U.S. Census Bureau for state-level population projections. Avalere uses CBO assumptions for future overall inflation and medical care inflation.

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