

Medicaid Capped Funding: Findings and Implications for Alaska
April 5, 2017

On March 24, 2017, the House of Representatives determined not to move ahead with the American Health Care Act (AHCA), its proposal to repeal and replace the Affordable Care Act (ACA). The AHCA included provisions that would have capped federal Medicaid funds through per capita caps and block grants, and reduced or eliminated federal funding for the expansion of Medicaid to low-income adults. While the AHCA failed to advance, these Medicaid proposals are likely to remain a priority for Congressional leadership. To assist states in evaluating how they might fare under a capped funding model, Manatt Health analyzed state-specific data for all 50 states and the District of Columbia. The Alaska-specific data provided here offers insight into how base payment calculations and trend rates, as well as state policies and demographics, could impact Alaska under capped funding proposals. The data are drawn from a tool kit prepared by Manatt Health for the Robert Wood Johnson Foundation's State Health Reform Assistance Network.¹

Medicaid capped funding proposals are designed to provide the federal government with greater budget certainty and to reduce federal spending, and thereby reduce federal Medicaid funding for states, especially in the out years. In several recent proposals, including the AHCA, the size of the cap for each state is set based on its historical spending in Medicaid, trended forward by an annual, national "trend rate," rather than a state-specific trend. As a result, under a capped financing formula, federal Medicaid funding to states would no longer respond automatically to increases in state-specific health care expenditure growth, break-through therapies, public health crises, or, depending on the design of the cap, increases in enrollment due to growing populations, changing demographics, economic downturns or other factors. States might have additional flexibility to reduce eligibility, benefits or provider payment rates, but ultimately they bear the risk of costs exceeding the cap.

Data Considerations

This memo relies on the most recent publicly available data, and in some instances, it references 2011 data. While a state might have more recent data on its own program spending, 2011 is the most recent year for which per enrollee spending and historical growth rates are publicly available by eligibility group for all states. The lack of more recent 50-state data is challenging, but the comparison across states is helpful. In any event, faced with the lack of more recent 50-state data, Congress will likely need to rely on older and aggregated data in setting capped funding levels.

¹ <http://statenetwork.org/resource/data-points-to-consider-when-assessing-proposals-to-cap-federal-medicaid-funding-a-toolkit-for-states/>

Key Data Findings

- **Since its implementation in September 2015, Medicaid expansion has sharply increased coverage in Alaska.** If Medicaid restructuring eliminates or reduces funding for the Medicaid expansion, it would pose a significant threat to coverage in Alaska and to the State's budget.
 - More than 30,300 individuals are covered through the Medicaid expansion adult group in Alaska, nearly 17% of the State's Medicaid population as of February 2017.²
- **Even without fully accounting for the additional funding for new adults under expansion, Alaska's State budget relies heavily on federal Medicaid funding.**³ Medicaid represents the second largest source of federal funding for the State, just behind transportation. A loss of federal Medicaid funding could shift costs to the State, posing a threat to the Alaska budget and other State priorities.
 - Federal Medicaid funding (nearly \$906 million in 2015) makes up approximately 30% of all federal funding in Alaska's budget – a lower reliance than most states but a significant source of federal funding. By comparison, the next largest source of federal funds after Medicaid—for primary and secondary education—is just over 7% of the federal funds received by the State.
- **Alaska has among the highest per capita Medicaid spending levels relative to other states.** Although nearly all capped funding proposals start with a state's historic spending, under some proposals, Alaska may be expected to move the state's per capita expenditures toward the median over time.
 - Alaska ranked 4th among states in total per capita Medicaid spending per enrollee. In fiscal year 2011, average spending was \$9,481 per enrollee, well above the national average of \$6,502.
 - Alaska has relatively high spending across all eligibility groups: \$28,790 per disabled individual compared to a national average of \$18,518 (3rd highest); \$24,288 for per elderly enrollee compared to a national average of \$17,522 (12th highest); \$4,682 per child compared to a national average of \$2,492 (2nd highest); and \$6,471 per adult compared to a national average of \$4,141 (3rd highest).
- **Between 2000-2011, Alaska's Medicaid spending on a per capita basis grew more rapidly than the national trend rates typically advanced in capped funding proposals, and much faster than most other states for the elderly and disabled.** If Alaska's historical spending rates are indicative of its future spending rates, over time federal Medicaid funding under a capped funding proposal would be short of Alaska's needs.
 - Alaska's average annual per enrollee spending growth was above average in all eligibility groups from 2000 - 2011: 8.3% for the aged (3rd in nation), 5.4% for disabled (14th in nation), 5.8% for children (22nd in nation), and 5.7% for adults (36th in nation).
 - Alaska's Medicaid spending growth on these groups significantly outstripped per capita GDP (2.9%), CPI (2.5%), and medical CPI (4%) during that period.

² <http://dhss.alaska.gov/HealthyAlaska/Pages/dashboard.aspx>

³ The latest full year for which expenditure data are available is calendar year 2015. Alaska's Medicaid expansion had been in place for a brief period during that timeframe – since September 2015 – and it reported \$122,000 in federal Medicaid funding.

- **Alaska relies on DSH payments; depending on how they are treated in a capped funding approach, these federal funds may be at risk.** This is a critical issue for Alaska to monitor.
 - DSH payments made up 1.4% of all Alaska's Medicaid benefit spending in 2015.
- **Alaska Medicaid spending is disproportionately for seniors and people with disabilities.** As a result, capped funding is likely to disproportionately impact these populations.
 - In FY 2011, 56% of Alaska's Medicaid spending was for elderly and disabled enrollees even though they accounted for 20% of the State's Medicaid enrollment.
 - The expansion of Medicaid to low-income adults in Alaska undoubtedly has shifted the distribution of spending across eligibility groups, but, there is little doubt that when updated data become available, they will indicate that spending on the elderly and disabled remains substantial.
- **Alaska is one of the fastest growing states in the country, which puts it at particularly high risk under capped funding.** A capped funding formula that does not take enrollment into account would leave the State at higher risk than other states. Even if enrollment growth is accommodated by a per capita cap model, it would be at risk for the higher costs attributable to an aging population.
 - Alaska is the 10th fastest growing state in the country. While the country is expected to see its population grow by 8.4% by 2025, Alaska is looking at a 12.1% growth rate, or an additional 90,000 people.
 - By 2025, Alaska is expected to see its senior (age 65+) population – a group with high Medicaid costs – grow by 54%, among the fastest growth rates in the country (ranking 4th). Alaska's Medicaid enrollment of aged individuals from 2000 - 2011 likewise grew quickly – at an average annual rate of 3.4%, compared to the national average of 2.3%, the 12th fastest growth rate for this Medicaid population in the nation.
- **Alaska has among the highest uninsured rates in the nation – leaving Alaska with a bigger “hole” to address if and when the State is looking to cover additional residents.** Capped funding proposals to date do not take into account the size of each state's remaining uninsured population.
 - As of 2015, the uninsured rate in Alaska was 14.1% - the 2nd highest in the nation. However, it is very likely that the uninsured rate decreased further in 2016 due to expansion.
 - While the current Medicaid structure preserves Alaska's option to maintain its Medicaid expansion coverage, a capped model may eliminate or reduce federal financial support for any such expansion.