

Medicaid Reform Issues for Governors to Consider

- **NGA should not approve Medicaid reform principles that can be interpreted in any fashion to endorse the Administration's Medicaid block grant proposal.** The proposal poses significant risks for states yet the Administration has provided very little detail to Governors to help them evaluate the impact of the proposal.
- **States can obtain fiscal relief this year, as well as greater program flexibility, independent of accepting a long-term financial straitjacket.** The Administration's proposal conditions temporary fiscal relief on states agreeing to end the federal government's current financial obligation to share the costs of Medicaid with the states. If states want fiscal relief, the Administration's proposal not only requires states to accept a block grant (forcing states to accept full liability for health costs above the cap) but also requires states to pay back the up-front fiscal relief over 10 years. States may decide not to take the block grant option, but by doing so they would forfeit the opportunity to get any federal fiscal relief.
- **The Administration's proposal would block grant the vast majority of the federal funds provided to states through Medicaid, even if it exempts so-called "mandatory groups."** A block grant is defined as a fixed aggregate cap on federal funding provided to states for certain uses. Unlike the current financial entitlement where federal funding automatically rises with state needs, under the proposal, the block grant would provide each state with a limited amount of federal funds, calculated under a pre-determined formula, to pay for all so-called "optional" benefits and/or populations in that year. *That constitutes a cap on two-thirds of state Medicaid spending.* This capped amount would no longer be directly connected to a state's actual caseload, utilization changes, or health care inflation; no block grant has or probably ever could keep pace with a state's health costs.
- **Under a block grant, states would either have to cut services, take people off the program, lower provider payment rates, or raise taxes, and take the blame for doing so.** If Medicaid costs rise faster than current federal projections, as is likely, states will receive less federal funds under the Administration's proposal than they would under current law and they would be locked into the capped funding system. Because of the current fiscal crisis, states are already taking these painful measures now. A cap would make these problems both more severe and chronic, and as a result, states will have to face these tough choices regularly as federal funding becomes increasingly inadequate. At the same time, the block grant structure would inoculate the federal government from these tough choices and provide the federal government budget savings over time.
- **Rather than increasing federal responsibility for the elderly and people with disabilities (including Medicare beneficiaries) as Governors have advocated, the Administration's proposal moves in exactly the opposite direction.** Federal funding for most of the current Medicaid spending on the elderly and people with disabilities would be capped (including costly drugs and long-term care) and therefore shift responsibility for care of these populations to states.
- **The Administration's proposal could create significant inequities among states.** The cap would be calculated based on a state's spending in 2002, adjusted under a federal formula. States that have run efficient programs and have already instituted cuts and made tough choices to help balance their budgets in 2002 would be penalized for doing so. States that have relatively limited Medicaid programs would receive fewer funds per uninsured person than some states that had more expansive programs or that had paid providers higher rates. States would be locked into these levels forever. The block grant formula could be designed to create substantial winners and losers among states, potentially for political reasons.
- **This ill-advised, structurally flawed policy is unnecessary as the Senate has passed bipartisan legislation to provide fiscal relief to the states, and there is strong bipartisan effort to include fiscal relief in the upcoming economic stimulus legislation.** Last year, the Senate voted 75-24 to enact substantial state fiscal relief; a nearly identical bipartisan proposal providing more than twice the amount of fiscal relief has already been introduced. Other significant fiscal relief proposals have been offered in the House and Senate. Fiscal relief does not have to be held hostage to states accepting a cap for the vast majority of their Medicaid spending.