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April 20, 2012

WHAT IF CHAIRMAN RYAN'S MEDICAID BLOCK GRANT HAD TAKEN EFFECT IN 2001?

Federal Medicaid Funds Would Have Fallen by 35 Percent or More in Most States, by Half in Some, by 2010

by Edwin Park and Matt Broaddus

House Budget Committee Chairman Paul Ryan's proposal to convert Medicaid to a block grant, which the House recently passed as part of Chairman Ryan's overall budget plan, would have cut federal Medicaid funds to most states by more than 35 percent by 2010 — and to several of them by more than 50 percent — if it had been in effect starting in 2001.

Every state would have received substantially less from the federal government than it actually received under current law, although some states would have faced steeper reductions. Cuts would have equaled 50 percent or more in 2010 in Alaska, Arizona, Delaware, Idaho, Nevada, and New Mexico. Cuts would have been 35 percent or more in those states plus Arkansas, Colorado, the District of Columbia, Florida, Georgia, Hawaii, Illinois, Indiana, Iowa, Maryland, Michigan, Minnesota, Mississippi, Missouri, Montana, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, and Wisconsin.

The Ryan block grant would cut federal Medicaid funding by $810 billion — or 22 percent — over the *next* ten years (fiscal years 2013-2022), relative to what states would receive under current law. This would be in addition to the effects of the House budget in repealing the Affordable Care Act's (ACA) Medicaid expansion.[1] By 2022, the cut would equal an estimated $163 billion for that year alone, a reduction of 34 percent compared to the Medicaid funding that states otherwise would receive for that year, with that percentage growing larger each year after that.[2]

States would have to offset these federal funding shortfalls by substantially boosting their own contributions to Medicaid or, as is more likely, using the greater flexibility that a block grant would provide to make deep cuts to eligibility, health and long-term care services, and/or provider

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[1] The Ryan budget would cut Medicaid by at least $1.7 trillion over the next ten years. The repeal of the ACA's Medicaid expansion would account for $919 billion of these cuts; $810 billion in reductions would come from the block grant. The reduction in federal Medicaid funding over ten years would equal 38 percent, relative to current law, if the effects of repealing the ACA's Medicaid expansion are included, and 48 percent in 2022.

[2] Edwin Park and Matt Broaddus, "Ryan Medicaid Block Grant Proposal Would Cut Medicaid by One-Third by 2022 and More After That," Center on Budget and Policy Priorities, March 27, 2012.

reimbursement rates. Last year, when Chairman Ryan included a similar Medicaid block-grant proposal in his budget, the Urban Institute estimated it would lead states to drop between 14 million and 27 million people from Medicaid by 2021 (in addition to the 17 million people who would no longer gain coverage because of the repeal of the ACA's Medicaid expansion).[3]

To help illustrate how states would likely fare under the Ryan block grant over time, we have estimated the state-by-state effects if it had been in effect between 2001 and 2010. We compare how much states would have received in federal funding under the block grant for fiscal years 2001 through 2010 to the actual federal funding they received during this period (not counting the additional Medicaid funds that states received in fiscal years 2003, 2004, 2009, and 2010 as a result of federal legislation that temporarily increased federal Medicaid matching rates in response to a weak economy).

Our findings show that:

- States would have received $555 billion — or 31 percent — less over this period than they actually did.

- In 2010 alone, the cuts in federal funding would have equaled an estimated $80.7 billion, a reduction of 37 percent.

- While the Ryan block grant would have hit all states hard over the ten-year period, it would have hit some states considerably harder than others.

The Ryan Medicaid Block Grant Proposal

The House-passed Ryan budget plan would convert Medicaid into a block grant. The federal government would no longer pick up a fixed percentage of states' Medicaid costs, but rather would provide each state with a fixed dollar amount, with states responsible for all remaining Medicaid costs.

The Ryan plan does not provide much more detail about its Medicaid block-grant proposal, but the proposal appears very similar to the block grant in last year's House-approved Ryan budget. If one assumes the design specifications are the same as in last year's proposal (except that the block grant's start date and the base year used to calculate the initial state block grant amounts would each occur one year later), each state would receive a fixed dollar amount starting in fiscal year 2014 that is set at the amount of federal Medicaid funding the state received in fiscal year 2011, adjusted for inflation and U.S. population growth since 2011.[4] The block grant amounts for subsequent years would be based on the prior year's amount, adjusted for inflation and population growth.

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[3] John Holahan, *et al.,* "House Republican Budget Plan: State-by-State Impact of Changes in Medicaid Financing," Kaiser Commission on Medicaid and the Uninsured, May 2011.

[4] The fiscal year 2011 Medicaid spending amount used for each state would exclude Medicaid expenditures related to the temporary increase in the federal Medicaid matching rate enacted as part of the 2009 Recovery Act and the subsequent six-month extension of that provision through June 30, 2011.

Table 1

Estimated Federal Medicaid Spending Cuts Required by Ryan Block Grant

In billions of dollars

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-2022
Federal Medicaid Baseline Spending *	275	293	310	329	348	367	393	422	450	486	3,672
Ryan Medicaid Block Grant Funding **	n/a	256	263	270	278	286	295	304	313	323	2,862
Medicaid Spending Cuts under Ryan Block Grant	n/a	37	47	59	70	81	98	118	137	163	810
Percentage Cut	n/a	13%	15%	18%	20%	22%	25%	28%	30%	34%	22%

*Excludes spending related to the Medicaid expansion under the Affordable Care Act, which would also be repealed.

**Assumes that the block grant is the same as the block grant included in last year's House-passed budget plan, except that the start date and the base year would both be one year later: the block grant would start in fiscal year 2014, and the initial block grant amount would equal fiscal year 2011 Medicaid spending (after excluding the temporary increase in the federal Medicaid matching rate in the 2009 Recovery Act and the subsequent extension of that provision), adjusted annually for the percentage increase in the Consumer Price Index and in overall U.S. population growth. Those annual adjustments also would apply for subsequent years.

Source: CBPP analysis using CBO baseline estimates. Figures may not sum due to rounding.

The block-grant funding levels would not keep pace over time with health care costs, which rise faster than overall inflation. Nor would they keep pace with the expected increase in the number of Medicaid beneficiaries, which will outpace overall population growth; in particular, the aging of the population means that the number of *elderly* beneficiaries, who cost more to serve, will grow faster than the population as a whole. As a result, the block-grant funding levels would fall further behind state funding needs with each passing year. Funding growth would average more than 3.5 percentage points less per year than CBO's estimate of Medicaid's average growth rate over the coming decade under current law, excluding the effects of the Affordable Care Act.

Over the next ten years, the Ryan budget would shrink federal Medicaid funding by $810 billion or 22 percent relative to current law (not counting the loss of the additional federal Medicaid funding that states would receive under the ACA's Medicaid expansion, which the Ryan budget would repeal). By 2022, the federal Medicaid funding cut would equal $163 billion for that year alone, a reduction of 34 percent compared to what states otherwise would receive for that year (see Table 1). This percentage would grow larger each year after that.

To compensate for federal funding reductions of this magnitude, states would have to provide substantially more state funding (by raising taxes or cutting other programs) or, as is much more likely, cut back their programs substantially by scaling back eligibility (and covering many fewer low-income families and individuals), cutting back the health and long-term care services and supports that Medicaid covers, and further lowering reimbursement rates to providers.

Such cuts would add millions to the ranks of uninsured. As noted, the Urban Institute estimated that the similar Medicaid block grant in last year's House budget plan would cause states to shrink the number of low-income people receiving health coverage through Medicaid by between 14 million and 27 million people by 2021, which would constitute an enrollment reduction of 23 percent to 46 percent (in addition to the 17 million people who would not gain Medicaid coverage due to the repeal of the ACA's Medicaid expansion).

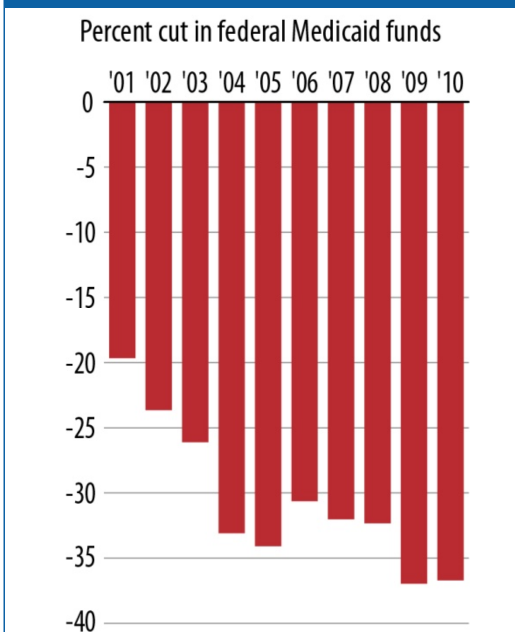
Such cuts also could impede access to needed care for tens of millions of people who continued to receive Medicaid coverage, as a consequence either of sharply curtailed benefits and substantial increases in co-payment and premium charges or of substantial reductions in provider reimbursements that cause substantial numbers of doctors, hospitals, nursing homes, and other providers to stop serving Medicaid beneficiaries. For example, the Urban Institute estimated that the similar block grant in last year's House-passed budget would result in reductions in provider reimbursements of roughly 31 percent by 2021.

Estimating the State-by-State Impact If the Ryan Medicaid Block Grant Had Been in Effect Over the Last Decade

Examining how states would have fared in the past decade if the Ryan Medicaid block grant had been in effect can help to illustrate the proposal's likely impact on individual states in coming years. We have estimated how much federal Medicaid funding each state would have received under the block grant if it had taken effect in 2001, and compared those amounts to the funding that each state actually received for 2001 through 2010. We assumed that the initial block grant level in 2001 would have equaled actual federal Medicaid spending in 1998, adjusted for actual general population growth and inflation. We applied the same adjustment for population growth and inflation to subsequent years.[5]

Figure 1

Ryan Block Grant Would Have Produced Increasingly Severe Medicaid Cuts Between 2001-2010



Source: CBPP analysis using actual federal Medicaid spending as reported in administrative data (CMS-64).

Our findings show that actual federal Medicaid funding outpaced what block-grant funding would have been by an average of about 3.2 percentage points per year. As a result, federal Medicaid funding under the Ryan block grant would have been $555 billion (or 31 percent) less than was actually provided between 2001 and 2010.

In general, the cuts would have deepened every year. (The notable exception is 2006, when actual federal Medicaid spending declined due to the transfer from Medicaid to Medicare of prescription drug costs for "dual eligibles" — low-income people enrolled in both Medicare and Medicaid — as a result of the institution of the Medicare drug benefit.) By 2010, the reduction in federal Medicaid funding would have equaled an estimated $80.7 billion, or 37 percent. (See the appendix.)

The largest jumps in the size of the cuts would have occurred during years in which the economy slowed or contracted. In a recession, when people lose their jobs and access to employer-sponsored

[5] CBPP calculations based on Centers for Medicare and Medicaid Services (CMS) data, excluding federal Medicaid spending resulting from the temporary increases in federal Medicaid matching rates that were in effect for fiscal years 2003, 2004, 2009, and 2010.

insurance, many become eligible for and enroll in Medicaid. For example, due to the recession in the early years of the decade, Medicaid enrollment grew by 9.3 million (or 28.5 percent) between December 2000 and December 2004. Similarly, as a result of the recent recession, enrollment increased 6.7 million (or 14.9 percent) between December 2008 and December 2010.[6]

Under current law, federal Medicaid funding automatically increases to help offset these higher enrollment costs; under a block grant, by contrast, states would receive no additional funding.[7] The reductions (expressed as a percentage cut, relative to the amount of federal funding actually provided) would have risen from 20 percent in 2001 to 33 percent by 2004, when states were still experiencing significant increases in their Medicaid caseloads. The magnitude of the cuts would then have remained relatively level (in percentage terms) for a few years, as unemployment fell and enrollment declined (and also as a result of the start of the Medicare drug benefit). But in 2009, the first year of the recent recession, the cuts would have begun growing very substantially again (see Figure 1).

While all states would have faced large funding reductions under the block grant, the cuts in some states would have been particularly severe. This variation likely reflects state-by-state differences in initial Medicaid spending levels and spending growth rates over time (including differences in how states fared during economic downturns and whether they experienced larger-than-average enrollment increases, as well as other differences due to factors like state-by-state differences in demographics and health care cost growth).[8] For example:

- Arizona would have been hit the hardest, receiving 61 percent less federal Medicaid funding over the ten-year period (and 71 percent less in 2010). The five states that would have experienced the largest percentage reductions — Arizona, New Mexico, Alaska, Idaho, and Nevada — would have experienced cuts that averaged 50 percent over ten years (and 57 percent in 2010).

- The five states with the smallest reductions would have been cut an average of 19 percent over the ten-year period (and 23 percent in 2010). These states are North Dakota, Connecticut, West Virginia, New Hampshire, and New York. (See the appendix.)

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[6] Kaiser Commission on Medicaid and the Uninsured, "Medicaid Enrollment: December 2010 Data Snapshot," December 2011. Some of the enrollment increase for 2000-2004 was likely also due to Medicaid expansions for children that were funded through the Children's Health Insurance Program (CHIP) and greater participation among already eligible children resulting from states' simplification of enrollment procedures and greater outreach efforts.

[7] Even under Medicaid's current financing structure, states had difficulty absorbing the Medicaid enrollment-related costs that resulted from the past two economic downturns, because those higher costs coincided with plummeting state tax revenues and large state budget shortfalls. Congress temporarily increased the federal share of state Medicaid costs in fiscal years 2003, 2004, 2009, and 2010.

[8] For a further discussion of why certain states could face particularly severe cuts under a block grant, see Edwin Park and Matt Broaddus, "Medicaid Block Grant Would Produce Disparate and Inequitable Results Across States," Center on Budget and Policy Priorities, March 10, 2011.

APPENDIX

Estimated Cuts If Ryan Medicaid Block Grant Had Been in Effect, 2001-2010 ($ millions)

STATE	Reduction in Federal Funds, 2001-2010	Percentage Cut, 2001-2010	Reduction in Federal Funds, 2010	Percentage Cut, 2010
NATION	$554,974	31%	$80,724	37%
Alabama	7,209	27%	1,015	31%
Alaska	2,893	48%	407	53%
Arizona	24,971	61%	4,477	71%
Arkansas	8,372	39%	1,444	49%
California	60,298	33%	7,109	34%
Colorado	4,450	30%	808	40%
Connecticut	3,874	18%	718	26%
Delaware	2,081	43%	335	52%
DC	2,330	25%	432	35%
Florida	31,383	41%	4,397	46%
Georgia	15,930	37%	1,885	37%
Hawaii	2,245	37%	305	41%
Idaho	3,533	48%	490	52%
Illinois	13,751	24%	2,757	36%
Indiana	13,541	40%	1,597	41%
Iowa	5,102	32%	688	35%
Kansas	4,279	34%	488	33%
Kentucky	8,263	27%	1,308	33%
Louisiana	9,959	26%	1,383	30%
Maine	4,105	31%	445	30%
Maryland	9,234	35%	1,564	44%
Massachusetts	14,733	30%	1,853	32%
Michigan	12,616	24%	2,656	36%
Minnesota	9,837	33%	1,447	38%
Mississippi	9,733	38%	1,278	41%
Missouri	15,778	39%	2,311	45%
Montana	1,573	31%	229	36%
Nebraska	2,354	26%	207	21%
Nevada	2,939	47%	380	50%
New Hampshire	1,222	21%	121	18%
New Jersey	9,421	21%	1,105	22%
New Mexico	9,036	49%	1,418	57%
New York	45,826	21%	5,707	23%
North Carolina	20,201	36%	2,645	39%
North Dakota	584	17%	99	23%
Ohio	24,361	34%	4,073	42%
Oklahoma	8,375	40%	1,109	44%
Oregon	5,590	29%	927	37%
Pennsylvania	26,738	32%	3,666	36%
Rhode Island	2,608	29%	268	27%
South Carolina	8,298	29%	1,235	35%
South Dakota	1,088	26%	157	31%
Tennessee	14,010	31%	1,946	35%
Texas	34,878	31%	6,561	42%
Utah	3,409	35%	491	40%
Vermont	2,386	42%	363	49%
Virginia	8,418	35%	1,445	45%
Washington	7,910	26%	918	26%
West Virginia	3,098	20%	444	24%
Wisconsin	9,385	31%	1,531	39%
Wyoming	766	32%	86	32%

Source: CBPP analysis based on CMS Medicaid spending data. To determine states' block grant amounts under the Ryan proposal, we use federal Medicaid spending in 1998 as the base, adjusted annually by national population growth and the growth in the Consumer Price Index. We exclude federal Medicaid spending related to temporary federal matching rate increases in 2003, 2004, 2009, and 2010.