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Contrary to Republican Claims, Revised Senate Health Bill Provides No Additional Funding for States

State Grants Only Small Fraction of Bill's Cuts to Coverage Programs

By Aviva Aron-Dine

The revised Senate health bill includes $182 billion for a "state stability and innovation program," $70 billion more than the previous version. Supporters of the bill claim that these funds could be used both for "driving down premiums" and to "help pay for [out-of-pocket] health care costs."[1]

In reality, however, the Senate bill *devotes the entire $70 billion increase to payments to insurers,* intended to mitigate the impact of the so-called "Cruz amendment," which would allow insurers to go back to charging higher premiums or denying coverage to people with pre-existing conditions. Of the remaining funding, the bill dedicates at least $50 billion to reinsurance payments for individual market insurers from 2018 to 2021, leaving at most $62 billion for broader-purpose grants to states. Over the 2022 to 2026 period, when the bill's cuts to Medicaid and marketplace subsidies would be deepest, these grants would equal only *about 5 percent* of those cuts (see Figure 1).

These funds would be insufficient to bring down sticker price premiums *or* offset cuts to financial assistance for marketplace consumers *or* assist people losing Medicaid expansion coverage — much less all three, as the bill's supporters have suggested. And even if the grants were more adequately funded, they are poorly designed to help close the large coverage and affordability gaps the Senate bill would create.

As Senator Susan Collins of Maine noted:

> It seems to me you're using that [state stability and innovation program] money over and over again. It's supposed to relieve the cost of high premiums. It's supposed to solve the problem with deductibles being unaffordable. It's supposed to be available for high-risk or

[1] Senate Budget Committee, "Revisions to the Better Care Reconciliation Act," https://www.budget.senate.gov/bettercare.

reinsurance pool. It's supposed to be available under the Cruz Amendment to help prevent a huge increase in rates for people with pre-existing conditions.[2]

In reality, of course, the state stability and innovation funding can only be spent once, and it would mitigate almost none of the harm the bill's other provisions would do.

Senate Bill Provides No Net New Funding for States

Compared to the earlier version of the Senate bill, the version introduced yesterday provides an additional $70 billion for the bill's "state stability and innovation program." However, it also then diverts that $70 billion away from the program to instead fund payments for insurers to offset the harmful effects of the Cruz amendment on people with pre-existing conditions. That means that the new version of the bill includes *no net new resources for states.*

The Cruz amendment would allow insurers that offer at least one "community-rated" plan (that is, a plan where premiums would not vary based on health status) to offer additional plans subject to "medical underwriting" (plans for which insurers could vary premiums based on health history, deny coverage outright to people with expensive pre-existing conditions, or bar coverage of pre-existing conditions or impose a waiting period). Under such a system, healthier people would naturally gravitate toward underwritten plans, which would offer them lower premiums. Meanwhile, the community-rated plans would disproportionately enroll people with expensive pre-existing conditions, and insurers would price them accordingly. That would lead to large increases in premiums for these plans, putting coverage out of reach for many people with pre-existing conditions.

The Senate bill would use $70 billion of its "state stability and innovation program" for "payments to health insurers" to assist in "covering high risk individuals."[3] These payments would go only to insurers that offer plans for which they can charge higher premiums and deny coverage based on pre-existing conditions. And the payments are explicitly intended to help offset the premium increases that would otherwise result for people with pre-existing conditions who continue to purchase policies subject to the Affordable Care Act's requirements.

The additional $70 billion in funding likely falls short of what would be needed to achieve that goal (especially since funding would end altogether after 2026).[4] But regardless, *$70 billion that is used*

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[2] Alexander Bolton, "Centrist Republicans Push Back on GOP Healthcare Bill," *The Hill*, July 14, 2017, http://thehill.com/homenews/senate/341987-centrist-republicans-push-back-on-gop-healthcare-bill.

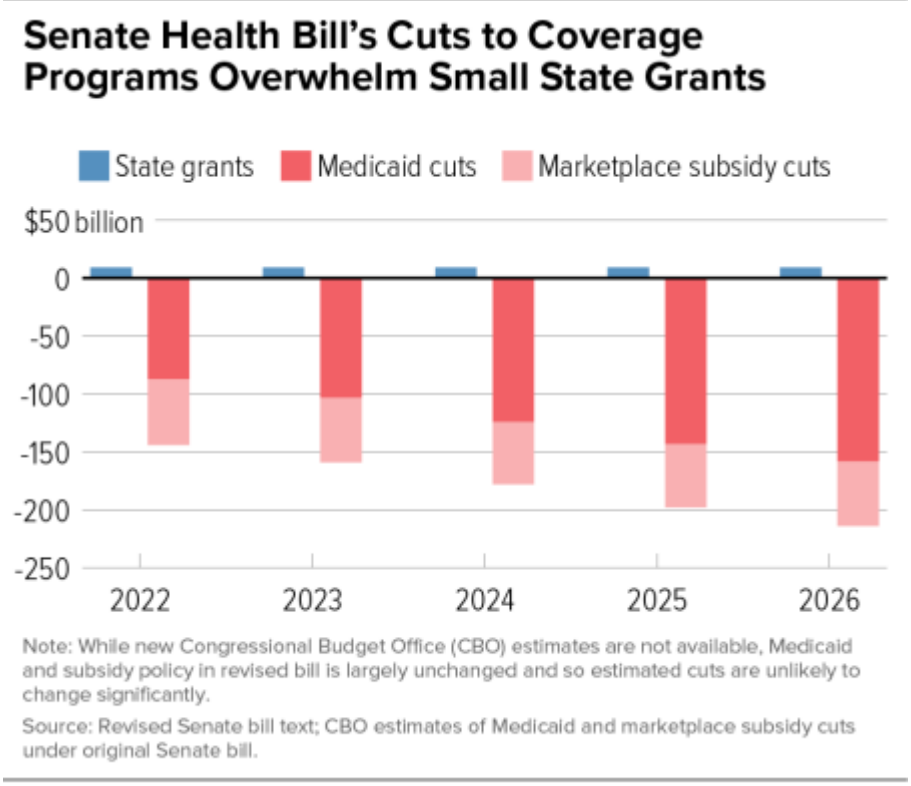
[3] Specifically, Section 301(a)(1) of Title III of the bill provides that the $70 billion in funding would come out of the state stability and innovation program funding.

[4] The $70 billion in funding for insurers to assist in covering high-risk individuals is intended to serve the same function as a high-risk pool. Researchers have estimated that significantly more funding would be needed to provide adequate, affordable coverage for people with pre-existing conditions through high-risk pools. See for example Linda J. Blumberg, Matthew Buettgens, and John Holahan, "High-Risk Pools Under the AHCA: How Much Could Coverage Cost Enrollees and the Federal Government?" Urban Institute, May 18, 2017, http://www.urban.org/research/publication/high-risk-pools-under-ahca-how-much-could-coverage-cost-enrollees-and-federal-government and Emily Gee, "House Health Care Plan Is Not Enough to Keep High-Risk Pools Afloat," Center for American Progress, May 2, 2017,

for payments to insurers cannot also be used for grants to states to mitigate the impact of the bill's Medicaid and marketplace subsidy cuts.

The Senate bill sets aside another $50 billion to $65 billion of the stability and innovation funding for reinsurance payments through 2021 to individual market insurers.[5] That leaves at most $62 billion for broader state grants, and, as shown in Figure 1, only about $9 billion per year in funding for 2022 to 2026, the years when the bill's cuts to Medicaid expansion take full effect.

FIGURE 1



Grants Are Too Small to Serve Any of Stated Goals, Much Less All of Them

With only about $50 billion available, the Senate bill's general purpose state grants are far too small to address the impact of the bill's coverage cuts.

https://www.americanprogress.org/issues/healthcare/news/2017/05/02/431698/house-health-care-plan-not-enough-keep-high-risk-pools-afloat/.

[5] The bill provides $50 billion for federally administered payments to insurers for 2018 to 2021 but also requires that $15 billion of the funding provided to states for 2019 through 2021 be used for reinsurance.

- **Premium and deductible increases for marketplace consumers.** The Senate bill would cut marketplace tax credits and cost-sharing assistance by $424 billion.[6] Even if *all $62 billion* of the Senate bill's state grant funding were dedicated to restoring these cuts, it amounts to less than 15 percent of those cuts.

  The Kaiser Family Foundation estimated that, because of the Senate bill's cuts to subsidies, current marketplace consumers would see their premiums for silver plan coverage increase by 74 percent.[7] If all of the Senate's state grant funding were used to mitigate this impact (and the bill's various subsidy cuts were reduced proportionately), consumers would see premium increases of 60 to 65 percent.

- **Mitigating Medicaid coverage losses.** Likewise, $62 billion in grant funding amounts to less than 10 percent of the bill's cuts to Medicaid. Under the current bill, CBO projects that 15 million people would lose Medicaid coverage by 2026, the overwhelming majority of whom would become uninsured; as CBO concluded, "because of the expense for premiums and the high deductibles, most [people losing Medicaid coverage] would not purchase insurance."[8]

  The Administration has reportedly suggested that states could use their grant funding to improve private coverage options for people losing Medicaid due to the bill.[9] Even if all of the funding were used for that purpose, it would amount to about $600 per person per year. That is less than would be needed to bridge the gap between the private coverage available under the Senate bill and coverage affordable for low-income people.

Meanwhile, if the Senate bill's grants were fully dedicated to either of the above purposes, then the bill's sticker price premium increases for older consumers would be even larger. CBO assumed that most of the Senate bill's state grants would go toward reinsurance to bring down sticker price premiums. If the funds were not used for that purpose, silver plan premiums for an unsubsidized 64-year-old would likely increase by about $6,000 in 2026, instead of the $5,200 CBO projects.[10]

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[6] These figures reflect CBO's estimates for the original Senate bill. While estimates may change slightly due to interactions between provisions, the revised Senate bill makes no changes to the earlier version's marketplace subsidy policies, and minimal changes to the Medicaid provisions.

[7] Gary Claxton *et al.,* "Premiums Under the Senate Better Care Reconciliation Act," Kaiser Family Foundation," June 2017, http://files.kff.org/attachment/Issue-Brief-Premiums-under-the-Senate-Better-Care-Reconciliation-Act.

[8] Congressional Budget Office, "Better Care Reconciliation Act of 2017," June 26, 2017, https://www.cbo.gov/system/files/115th-congress-2017-2018/costestimate/52849-hr1628senate.pdf

[9] Paige Winfield Cunningham, "Trump Administration Tells Moderates to Trust It on Health Care," *Washington Post,* July 14, 2017, https://www.washingtonpost.com/news/powerpost/paloma/the-health-202/2017/07/14/the-health-202-trump-administration-tells-moderates-to-trust-it-on-health-care/5967ad23e9b69b7071abcb2b/?utm_term=.2c821723a4e3.

[10] A Brookings Institution analysis concludes that the assumption that the state grants are used for reinsurance payments reduces CBO's 2026 premium estimates by about 4 percent, implying that redirecting these funds would increase premiums by about $800 for a 64-year-old. See Matthew Fiedler and Loren Adler, "How Would the Senate's Health Care Bill Affect Individual Market Premiums?" Brookings Institution, June 29, 2017, https://www.brookings.edu/blog/up-front/2017/06/28/how-would-the-senates-health-care-bill-affect-individual-market-premiums/.

On top of these problems, the Senate bill's grant funding ends altogether after 2026, even as the bill's cuts to marketplace subsidies continue and its Medicaid cuts grow even deeper, rising to 35 percent of federal Medicaid funding by 2036, CBO estimates.[11] Moreover, states would have to put up state matching funds in order to access the stability and innovation grant funds. By 2026, the required state match would amount to 35 percent of total funding, which many states might find unaffordable, especially considering the growing federal funding shortfalls they would be facing under the bill's Medicaid per capita cap.

Grants Poorly Structured in Other Ways

Even if the Senate bill's state grants were substantially increased, they would still fall short as a substitute for either Medicaid funding or marketplace subsidies.

- Under current law, federal funding for Medicaid expansion automatically adjusts based on changes in the number of people needing coverage and in per-person costs. Federal funding for marketplace subsidies similarly adjusts based on need and costs. In contrast, the Senate bill's state innovation grants are essentially a block grant that provides a set amount of funding for a limited number of years: the grants would *not* adjust for recessions, demographic shifts, drug price spikes, or other changes in the cost to states of providing coverage.
- The allocation of these grants would also be left entirely to the Secretary of Health and Human Services' discretion, which means states would have no guarantee of their future funding amounts. That could make it impossible for states to depend on these funds as a way to provide coverage and care for their residents from year to year.

[11] Congressional Budget Office, "Longer-Term Effects of the Better Care Reconciliation Act of 2017 on Medicaid Spending," June 2017, https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/52859-medicaid.pdf.