ALTERNATIVE MEDICAID PROPOSALS

AN ISSUE BRIEF FROM LEGISLATIVE BUDGET BOARD STAFF

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OBJECTIVE

Alternative Medicaid proposals attempt to reduce increasing fiscal pressures on state budgets. Alternative proposals include restructuring Medicaid as a block grant or opting out of Medicaid entirely.

KEY FACTS

- Medicaid expenses are shared by state and federal governments. Although state participation is voluntary, states must comply with federal requirements to receive federal funds.
- As the population of Texas has grown, the Texas Medicaid program and its state funding has increased substantially.
- Block granting Medicaid would end the state's obligation to pay a fixed portion of Medicaid expenditures in exchange for increased state flexibility. However, the fixed nature of block grants may not provide sufficient resources to maintain existing levels of health care.
- Opting out eliminates all requirements relating to Medicaid. However, it also eliminates billions of dollars in federal funding annually and may result in a significant burden on local governments.

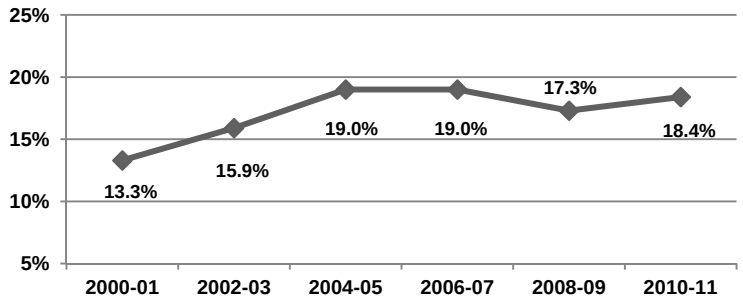
STATUTORY REFERENCES

Texas Insurance Code Chapter 5002 (Health Care Compact)

42 USC §1395dd (Emergency Medical Treatment and Active Labor Act)

Medicaid is jointly funded by state and federal governments and is administered by states. Although state participation is voluntary, Medicaid is an entitlement program. This means participating states must serve all eligible people and provide federally mandated benefits. The federal Affordable Care Act's (ACA) expansion of the Medicaid program heightened concern about state obligations. Although the Supreme Court's ACA decision rendered Medicaid expansion a state option, concerns remain regarding Medicaid's fiscal demands on states. The Texas Medicaid program has increased as the state's population has grown. The percentage of General Revenue Funds used in the budget for Medicaid has also increased substantially. From the 2000–01 to the 2010–11 biennium, Medicaid expenditures grew from 13.3 to 18.4 percent of General Revenue and General Revenue–Dedicated Funds in the Texas budget.

FIG. 1
STATE MEDICAID EXPENDITURES AS A PERCENTAGE OF GENERAL REVENUE AND GENERAL REVENUE-DEDICATED FUNDS



NOTE: The American Recovery and Reinvestment Act made the above 2008–09 and 2010–11 biennial percentages lower than they would have been otherwise.
SOURCE: Legislative Budget Board, *Fiscal Size-Up 2012–13 Biennium*.

Medicaid's growing demand on state dollars has resulted in proposals designed to reduce fiscal pressure on states. Two alternative proposals to traditional Medicaid participation are converting Medicaid funding to a block grant and opting out of the Medicaid system entirely.

BLOCK GRANT FUNDING OF MEDICAID

The state and federal governments share the costs of Medicaid, with the state portion determined primarily by the Federal Medical Assistance Percentage (FMAP) formula. FMAP rates are based on the state's per capita income (PCI) compared to the national PCI for a three-year period. The FMAP for Texas for federal fiscal year 2014 is 58.69 percent. This means Texas must fund the remaining 41.31 cents of each Medicaid dollar spent. Medicaid block grant proposals eliminate this shared funding system and Medicaid's entitlement structure. Instead, the proposals allocate each state fixed funding amounts paired with increased state flexibility in program eligibility and benefits. However, the fixed nature of block grants may not provide sufficient resources to maintain current levels of health care.

INTERSTATE HEALTH CARE COMPACT

The Interstate Health Care Compact (HCC) is a model law incorporating a federal block grant funding mechanism. The HCC authorizes states to suspend any federal law, rule, or regulation relating to health care while receiving an ongoing federal grant supporting health care delivery. The HCC becomes effective after enactment by at least two states and after Congressional consent to its terms.

The HCC specifies that each member state shall determine the base funding amount. States determine HCC base funding by using federal fiscal year 2010 expenditures for health care in each member state. Federal government expenditures were substantially higher in 2010 because of increases resulting from the American Recovery and Reinvestment Act. The HCC specifies that the ongoing annual grant is not subject to the annual Congressional appropriations process and is to be a mandatory appropriation. It provides that the funding information submissions of member states shall be audited by the U.S. Government Accountability Office. Base funding amounts are adjusted on an annual basis to reflect inflation and changes in state population.

As of November 2012, seven states, including Texas, have enacted the HCC into state law. The HCC was enacted in Texas in Senate Bill 7, Eighty-second Legislature, First-called Session, and is now codified in the Insurance Code Chapter 5002. However, Congress has not yet consented to the law, which according the terms of the HCC is necessary for it to become effective.

CONGRESSIONAL PROPOSALS TO CONVERT MEDICAID INTO A BLOCK GRANT

In 2011 and 2012, U.S. House of Representatives Budget Committee Chair Paul Ryan proposed converting Medicaid into a block grant. These proposals would have increased state flexibility relating to Medicaid. However, they would not have allowed states the same degree of discretion relating to non-Medicaid requirements as the HCC. Representative Ryan's proposals did not allow state suspension of federal health care statutes or regulations other than those relating to Medicaid. For example, these proposals did not alter the hospital emergency department obligations specified in the Emergency Medical Treatment and Active Labor Act (EMTALA).

OPTING OUT OF MEDICAID

House Bill 497, enacted by the 81st Legislature, required a joint study from the Texas Health and Human Services Commission and the Texas Department of Insurance. The study was to determine the fiscal impact and effect on the health care infrastructure to the state if its Medicaid participation ended. The resulting publication reported that if Texas opted out of Medicaid, it would lose an estimated $17 billion annually in federal funding. The report estimated that ending Texas Medicaid could result in 2.6 million Texans losing health insurance. The agencies reported that the move could result in a significant cost shift from the federal and state government to local governments.

Opting out of Medicaid would not result in any decreased federal tax liability for Texas citizens. Texas taxpayers would still be making payments to the federal government supporting federal Medicaid program expenditures in other states.

CONSIDERATIONS IN ANALYSES OF ALTERNATIVE MEDICAID PROPOSALS

Important considerations in analyses of block grant proposals include the degree of state flexibility allowed for eligibility and benefit determinations, the grant base amount, the methodology for reflecting health care cost changes and shifting demand for health care services, and the frequency of regular grant adjustments. Additional considerations include the extent to which changes in economic conditions or natural disasters trigger contingency grant adjustments.

Analyses of block grant and proposals to opt out of Medicaid must also consider shifts in costs to local governments. Unless federal law is changed to allow state suspension of federal health care requirements beyond Medicaid as specified in the HCC, states will still have other mandates resulting in expenses. For example, EMTALA imposes requirements on hospitals with emergency departments. EMTALA requires a screening examination for all individuals presenting at an emergency department. Hospitals must treat and stabilize individuals found to have emergent conditions and the statute restricts transfer of such individuals. These requirements apply regardless of an individual's ability to pay for treatment. EMTALA fines hospitals up to $50,000 per violation and establishes a private cause of action for individuals or other hospitals harmed by a violation.

USEFUL REFERENCES

Impact on Texas if Medicaid is Eliminated, published by the Texas Health and Human Services Commission and the Texas Department of Insurance, December 2010: http://www.hhsc.state.tx.us/hb-497_122010.pdf

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