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DRACONIAN REPUBLICAN STUDY COMMITTEE BUDGET WOULD CUT FEDERAL MEDICAID FUNDING NEARLY IN HALF BY 2022

Even More Extreme than the Ryan Block Grant

by Edwin Park and Matt Broaddus

The House Republican Study Committee has proposed an alternative budget to the plan designed by House Budget Committee Chairman Paul Ryan; both will be considered on the House floor this week. As part of its budget, the RSC proposes to end Medicaid and the Children's Health Insurance Program (CHIP), and also to repeal the Affordable Care Act (ACA).[1] In place of Medicaid and CHIP, states would receive a single block grant payment each year equal to the amount of federal Medicaid and CHIP funding that they received in 2012, with no adjustment for increases in health care costs or the size of the U.S. population, or even for general inflation.

Because the block grant would be frozen at 2012 levels and not adjust annually for increases in enrollment (e.g., as the population ages) or rising health care costs, the RSC budget would slash Medicaid funding by $1.1 trillion — or 30 percent — over the next ten years, relative to current law. (This does not count the loss of the substantial additional federal Medicaid funding that states would receive under the ACA to expand Medicaid but that they wouldn't receive under the RSC budget because it would repeal the ACA.) By 2022, federal funding would be *47 percent* below what states would otherwise receive through Medicaid that year. These funding cuts are even larger than those required under the severe proposal to convert Medicaid to a block grant and sharply cut its funding included in the Ryan budget plan. The Ryan block grant would cut federal Medicaid funding by $810 billion — or 22 percent — over the next ten years, with federal funding 34 percent lower by 2022 (not counting the additional cuts from repealing the ACA's Medicaid expansion).[2]

To offset the extremely large federal funding shortfalls under the RSC budget's block grant proposal, states would either have to substantially boost their own Medicaid funding or, as is far

[1] This aspect of the RSC budget plan is from a RSC block grant proposal announced on March 7, which has also been introduced as H.R. 4160 by Representative Todd Rokita (R-IN). See http://rsc.jordan.house.gov/Solutions/statehealth.htm.

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

more likely, use the essentially unlimited flexibility the RSC block grant would give them to make deep cuts to eligibility, the health-care services that are covered, and provider reimbursement rates.

Moreover, the proposal would allow states to divert a part of the federal block grant funds to other programs or to use it to *replace existing state spending* on Medicaid— the proposal has *no* maintenance-of-effort requirement for state Medicaid funding. Such diversion of funding would make the required cuts in health-care services for low-income families and individuals even more acute. The RSC block grant would almost certainly result in tens of millions of low-income Americans becoming uninsured or underinsured, with less access to needed care (in addition to the 17 million individuals who would no longer gain Medicaid coverage as a result of the RSC's proposed repeal of the Affordable Care Act).

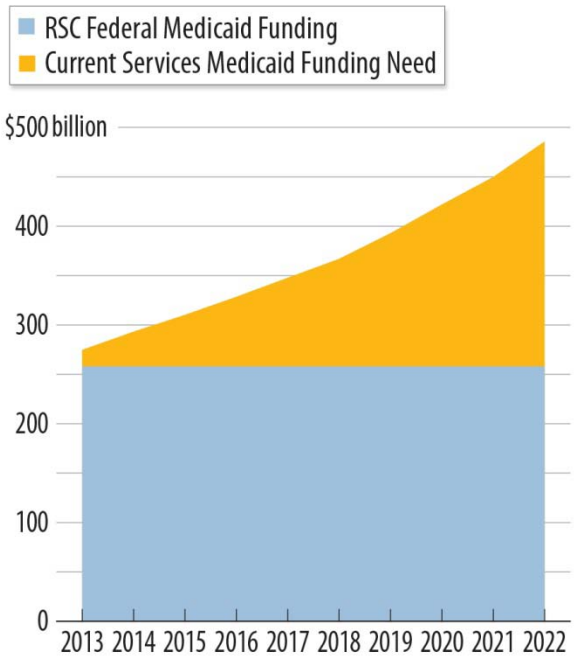
The RSC Proposal and Its Likely Impact

The Republican Study Committee block grant proposal, also known as the State Health Flexibility Act, would repeal Medicaid and CHIP as well as the Affordable Care Act. Instead of Medicaid and CHIP, states would receive a block grant that they could use to provide "health care-related items and services" to "indigent" individuals. The block grant would take effect on October 1, 2012 and remain in effect through fiscal year 2022, after which time it would have to be reauthorized.

Each state's annual block grant funding amount would be set at the amount of federal Medicaid and CHIP funding the state received in fiscal year 2012. The amount would be frozen at these levels; there would be no annual adjustment to take into account factors like increased enrollment (including the effects of the aging of the population) and rising health care costs. (See Figure 1.)

Figure 1

RSC Proposal Creates Growing Federal Medicaid Funding Gap



Source: CBPP analysis using CBO baseline estimates and legislative language of the RSC proposal.

- Based on the CBO March 2012 baseline, we estimate the block grant would provide $1.1 trillion — or 30 percent — less federal funding over the coming decade than states would receive in federal Medicaid funding under current law (after excluding the effects of repealing the health reform law's Medicaid expansion).

- Because the block grant funding amounts would fall further and further behind actual state needs each year, by 2022, the federal funding cut would equal $228 billion for that year, or 47 percent less than they would otherwise have received for Medicaid (see Table 1 for year-by-year estimates).[3] If Congress reauthorized the block grant after ten years at the same frozen funding

[3] CBPP analysis based on CBO baseline estimates and legislative language of the RSC block grant proposal.

Table 1

Federal Medicaid Spending Cuts Required by RSC Block Grant Proposal

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
Medicaid Block Grant Under RSC Proposal **	258	258	258	258	258	258	258	258	258	258	2,580
Medicaid Spending Cuts under RSC Proposal	-17	-35	-52	-71	-90	-109	-135	-164	-192	-228	-1,092
Percentage Cut	-6%	-12%	-17%	-21%	-26%	-30%	-34%	-39%	-43%	-47%	-30%

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

**The RSC proposes to repeal Medicaid and the Children's Health Insurance Program (CHIP) and replace them with a frozen single block grant equal to total federal Medicaid and CHIP funding received by the state in fiscal year 2012. For illustrative purposes, we assume that states would use the portion of the block grant attributable to 2012 Medicaid funding for their former Medicaid programs and the portion of the block grant attributable to CHIP for their former CHIP programs.

Source: CBPP analysis using CBO baseline estimates and legislative language of the RSC proposal. Figures may not sum due to rounding.

levels (as it has done with the Temporary Assistance for Needy Families block grant established by the 1996 welfare law, which appears to be the model for the RSC bill), the percentage reductions would grow even larger after 2022. Over time, most of the health coverage that Medicaid provides would disappear.

- These funding cuts would be even larger in years when enrollment or per-beneficiary health care costs rise faster than is currently projected under the baseline. Unlike the current Medicaid program, where funding rises automatically in response to a recession or unanticipated costs resulting from epidemics or medical breakthroughs that improve health or save lives but increase costs, states would have to bear *all* of those added costs as well.

The RSC block grant proposal gives states unlimited flexibility on how to use block grant funds, including how to define the health-care-related items and services that they would cover and which indigent individuals they would serve. The only major requirements are that states could not use the block grant to fund abortion services (or to purchase any private insurance coverage on behalf of indigent individuals that includes coverage of abortion services) or to provide health services to undocumented immigrants (except for emergency medical services, as they must provide under the current Medicaid program). States also could not discriminate on the basis of disability, gender, race, or national origin. Beyond these requirements, the federal government could not limit or even oversee how states use these funds (except for ensuring that states conduct an independent audit that looks at state compliance with these minimal requirements).

It would be virtually impossible for states to compensate for the sheer magnitude of the ensuing federal funding reductions without instituting deep cuts to beneficiaries and health care providers. As noted, these cuts would likely be deepest at the very times when individuals and families most need Medicaid — such as during recessions, when states face large revenue declines and thus have the hardest time contributing more state funding.

For example, the Urban Institute estimated that the Medicaid block grant in last year's House-passed budget plan (which is very similar to this year's Ryan block-grant proposal) would lead states to cut Medicaid enrollment by between *14 million and 27 million* people by 2021, on top of the 17 million individuals who would no longer gain coverage due to the repeal of the health reform law's Medicaid expansion. The Urban Institute also estimated that last year's block-grant proposal would cause states to cut total reimbursements to health care providers by approximately 31 percent in 2021.[4] Because of the even more severe reductions in federal Medicaid funding under the RSC block-grant proposal, the cuts in enrollment and reimbursement rates in state Medicaid programs would likely be even larger.

Aggravating these problems, states could take steps under the RSC proposal that would result in even less funding being available to finance health coverage for low-income families and individuals.

- States could choose to divert a substantial share of the federal funding they receive to other purposes. Under the block grant, states could explicitly use up to 30 percent of each year's block grant funding to carry out three state-administered programs: welfare (TANF), food stamps (now known as SNAP, which the RSC also favors converting to a block grant at reduced funding levels), and State Supplemental Payments (SSP), which many states use to bring federal Supplemental Security Income (SSI) payments closer to the poverty line. Moreover, because states would have complete discretion over how they define "health-care related items and services," they would be able to use the block grant funding for other purposes that are not clearly related to health care (and are not permitted under Medicaid today).

- There is no "maintenance of effort" requirement that states must continue providing the same level of state funding as they contribute to their Medicaid and CHIP programs today. As a result, states could use the federal block grant funding to *supplant* some or all of their existing state Medicaid and CHIP spending. If, for example, states supplanted their Medicaid funding to the fullest extent possible, combined federal and state expenditures for health care for Medicaid-eligible populations could fall by an estimated 55 percent over the next ten years, relative to current law (excluding the effects of repeal of the health reform law's Medicaid expansion).

- Finally, states could elect to place an unlimited amount of their block grant funding into a rainy day fund and hold it in reserve for future years of high unemployment or other periods of increased need.

Conclusion

The Republican Study Committee has declared that its block grant proposal would lead states to innovate, improve access to care, and provide higher-quality care to their most vulnerable residents. Yet the block grant would result in severe cuts in federal funding for state Medicaid programs. To

[4] 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.

compensate for funding cuts of this magnitude, states would have little choice but to institute deep cuts to eligibility, benefits and/or provider payment rates, resulting in millions more low-income individuals and families ending up uninsured or underinsured and losing access to needed health care.