Medicaid Capped Funding

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Capping Federal Medicaid Contributions to the States Is Detrimental to Illinois

What is Medicaid Capped Funding?

Capping federal Medicaid contributions to states such as through Medicaid block grants or per-capita spending presents great risk to Illinois because our state is disadvantaged under the current Medicaid funding allocation. Due to the current low federal Medicaid spending in Illinois, proposals that cap spending would lock Illinois into insufficient funding levels.

- Illinois is ranked 49th among the states in Medicaid spending per beneficiary.
- Illinois has one of the lowest Medicaid matching rates in the country.
- Based on federal Medicaid spending per beneficiary, Illinois is 50th in the U.S.

What is Being Proposed?

Federal funding caps are designed to limit federal funding available to the states and are a fundamental change in the Medicaid funding formula. Under current law, eligible individuals have an entitlement to coverage and states are guaranteed federal matching funds with no pre-set limit. Under the capped proposals being discussed, individuals would not be entitled to coverage or certain services may not be covered.

Typically, the new proposals are advocated under the rationale of providing states greater flexibility to operate the Medicaid program. Flexibility in this instance means eliminating the individual’s entitlement to coverage and granting the states broad discretion to define who is covered and what that coverage includes.

Without an individual entitlement, there is little basis to hold states accountable for assuring that persons have access to quality care. Faced with budget pressures, states would be free to cut eligibility, benefits and reimbursement to providers. States already have flexibility to operate their program through the waiver process. Increasing flexibility without providing adequate funding is an empty promise.

How Do Caps Work?

One option is a block grant where future federal spending to a state is limited and the level of increases (e.g., for inflation) are reduced over time. If total costs to operate the program in a state exceed the cap, such as due to increased enrollment as a result of an economic downturn, the state would have to either cover those costs, or reduce eligibility to stay within the spending limit.

A similar proposal is a per-capita cap where savings are achieved also by reducing federal contributions over time. However, instead of capping total program costs, the federal cap is based on a pre-determined per beneficiary amount. Therefore, if enrollment increases spending would increase, but federal spending would not adjust for other factors that might increase spending on a per enrollee basis, such as new drugs and technology.

Federal Funding Caps Would Limit Investment and Innovation in Healthcare

These proposals also have negative implications for the state budget because they are designed to pass along costs to the states. This would put pressure on other state spending priorities and Illinois could be faced with the decision to reduce state spending on other priorities such as education, reduce Medicaid eligibility, benefits or reimbursement, or increase state taxes.

Either proposal would disadvantage Illinois since the future spending limitations would be based on current base year spending
and Illinois is last among the states. Therefore, Illinois would be locked into a historically underfunded Medicaid program, even if ACA Medicaid expansion funding were included. Also, the gap between Illinois and comparable states will widen even more, putting Illinois at a greater disadvantage compared to other states.

Since the passage of the ACA, Medicaid expansion has allowed hospitals to build on their forward movement of innovations in healthcare delivery as they seek to provide high-quality care at lower costs. Making drastic reforms to the Medicaid program at this time would undermine the investments already made by hospitals and stifle innovation.

Capping and Reducing Federal Medicaid Funding Is Bad for Illinois

- Illinois would be locked into historically low federal funding levels.
- Reduced federal funding will put greater pressure on the state budget.
- Proposals would erode federal entitlement protections for Medicaid beneficiaries.

See Illinois Medicaid Capped Funding Map

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