



## Pennsylvania Partnerships for Children Medicaid Block Grant

A Voice for Kids A Voice for Kids A Voice for Kids A Voice for Kids A Voice for Kids A Voice for Kids

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**Issue:** Discussions in Washington regarding the U.S. deficit and what steps need to be taken to achieve debt reduction have resulted in a variety of options being explored by the President and Congress. One option under consideration would be to finance the Medicaid program through block grants to states.

Today, Medicaid operates as an entitlement program with a federal-state partnership that provides health care coverage for all individuals who meet established eligibility requirements. This includes many children as well as aged and disabled individuals who require financial assistance to gain coverage in order to pay for necessary medical services. States are eligible to be reimbursed by the federal government for Medicaid expenditures. Pennsylvania receives reimbursement from the federal government for approximately 56 percent of actual state Medicaid costs.

Block grants often have been utilized by the federal government to provide large sums of money to states or other regional jurisdictions for certain programs or services, but without strict provisions for how such money should be spent. **By transforming Medicaid from an entitlement program into a block grant, Congress effectively would cap the federal government's financial contribution to Medicaid to states.**

**Why it matters:** Having Medicaid operate as an entitlement program is particularly helpful in times of greater need when enrollment temporarily expands, such as recessionary periods when many individuals are jobless and without health care coverage. If Medicaid is changed to a block grant, even though Pennsylvania would gain greater flexibility in designing its program, it also would only have access to a pre-determined amount of federal dollars to spend each fiscal year for Medicaid coverage regardless of the need. While the legislation that passed the U.S. House of Representatives did not specify a formula as to how annual block grant amounts would be determined, most block grants, while allowing for yearly increases based upon inflation and population growth, follow a similar framework. Block grants normally require that states:

- receive a capped allocation each year, which may vary annually, and receive an amount of funds based upon a formula;
- may be required to provide a minimum level of funding; and
- decide who is eligible.

While past experience shows Congress usually provides broad flexibility at first, history also shows strings will be added over time.<sup>i</sup>

**Where we are now:** Pennsylvania's Medicaid program currently insures more than 2.2 million individuals, with 1.1 million of those being children. While approximately one-half of enrollees are children, they account for less than one-fifth of Pennsylvania's total expenditures for Medicaid. By far the majority of spending (more than two-thirds) is used for services required by individuals who are elderly or disabled, including many individuals in nursing facilities.

With the 2010 passage of the Patient Protection and Affordable Care Act (PPACA), the Medicaid program is set to expand coverage to thousands of currently uninsured individuals with incomes up to 133 percent of poverty beginning no later than January 1, 2014. The cost of the newly insured individuals will be borne fully by the federal government for the first three years beginning in 2014 and will continue to be funded primarily by the federal government until the reimbursement number decreases to 90 percent in 2020. Therefore, it is difficult to imagine the implementation of a Medicaid block grant without Pennsylvania being left with a potential liability to provide necessary coverage without adequate financial resources to provide the coverage.

**The Problem:** It is anticipated that any formula used to block grant Medicaid would result in a financial shortfall for Pennsylvania. For example, if the House-passed Medicaid block grant proposal had been in effect over the last decade, Pennsylvania would have received \$13.4 billion or 17 percent less than the financial contribution we actually received under current law.<sup>ii</sup> What if Pennsylvania would have had to make up those dollars? Would the Commonwealth have reduced eligibility, thereby increasing the numbers of uninsured Pennsylvanians? Would Pennsylvania have reduced benefits for enrollees, including children, jeopardizing the quality of health services? Consider the possibilities – Pennsylvania could be faced with providing less children with health care coverage potentially resulting in fewer infants and toddlers receiving well-baby visits and necessary immunizations, a reduced number of visits to the dentist and an increase in the number of visits to emergency rooms where treatment is more expensive? These are the questions Pennsylvania must ask NOW as Congress considers a Medicaid block grant program for the future.

With an aging population being more expensive to provide coverage for and with a growing number of aging individuals in Pennsylvania, costs will rise. Using the July 1, 2010 population of individuals age 65 or older in Pennsylvania, it is projected that number will grow by more than one million individuals by July 1, 2030.<sup>iii</sup> Even if Medicaid enrollment remained stable, most block grant formulas do not increase at the same rate as medical costs increase. Less federal money coming into the state to meet increasing costs could result in less health care services available to citizens, reducing the use of preventative care and increasing chronic illness and overall health care costs.

Assuming a Medicaid block grant is enacted and federal FY 2012 is the base year for the calculation of reimbursement, estimates indicate that Pennsylvania would receive \$56.1 billion fewer federal dollars, **which is a 31 percent reduction over the next 10 years.**<sup>iv</sup> Additionally, if one takes these assumptions and accepts that Medicaid cuts would be spread among all Medicaid eligibility groups, including children, enrollment would be reduced by 1,088,000 individuals or 41 percent.<sup>v</sup>

**Recommendation:** Pennsylvania would suffer a large loss in federal funds – approximately thirty-one percent - to help pay for the cost of health care services for over one million low-income individuals, therefore, alternatives for deficit reduction should be considered and all attempts to block grant Medicaid should be resisted.

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<sup>i</sup> The Henry J Kaiser Family Foundation. *Medicaid and Block Grant Financing Compared*. January 2004. Pages 3-4.

<sup>ii</sup> Edwin Park and Mark Broaddus. *What if Ryan's Medicaid Block Grant Had Taken Effect in 2000?* Center on Budget and Policy Priorities. April 2011. Page 6.

<sup>iii</sup> Population projection from the Pennsylvania State Data Center.

<sup>iv</sup> John Holahan, Matthew Buettgens, Vicki Chen, Caitlin Carroll and Emily Lawton, all based at the Urban Institute. *House Republican Budget Plan: State-by-State Impact of Changes in Medicaid Financing*. May 2011. Table 1, page 14.

<sup>v</sup> *Ibid*, Table 4, page 17.