

Capping Medicaid Funding: How Block Grants Would Hurt States

Currently, the Federal Government Shares Responsibility—and Risk

Today, the federal government and the states share responsibility for providing health care to America's most vulnerable people. The federal government pays for a set share of each state's actual Medicaid costs (this share varies by state). If a state's costs go up—for example, during times of high unemployment—the amount paid by the federal government rises automatically to keep pace with these higher costs.

Block Grants Leave States High and Dry

If Medicaid funding is capped and Medicaid becomes a block grant, states will be left to shoulder the burden of increasing costs on their own. If actual Medicaid costs increase, states will have to make up any differences without federal assistance.

What Is a “Block Grant”?

A block grant is a fixed amount of money given by the federal government to the states for a specific purpose. Block grants may also be called “capped funding,” “allotments,” or “allocations.”

Why Would a Block Grant Hurt Medicaid?

■ **A block grant will force states to cut Medicaid**

A block grant would limit the amount of federal funds available for Medicaid based on today's costs. This would essentially freeze state programs at a point in time when states have already reduced Medicaid coverage and services in order to close budget gaps. As costs grow over time, a limit on federal funds will force governors and state legislators to pit the needs of different populations against one another, leaving many vulnerable people uninsured.

■ **A block grant will tie states' hands when crisis strikes**

While today's system guarantees that a state will get additional federal funds if Medicaid costs increase, under a block grant, states will be left to foot the bill themselves when costs go up. A downturn in the economy that causes more people to become uninsured, public health threats or natural disasters, advances in costly medical technology or new medicines, and the increasing costs of prescription drugs or other medical treatments—all these could drive a state's costs higher than anticipated.

- **Under a block grant, people who have Medicaid coverage would lose valuable protections that are currently in Medicaid law**

Such protections include limits on the amount of out-of-pocket costs they have to pay for health care, a standard benefit package, and the ability to enroll in the program at any time if they qualify.

- **A block grant reduces state flexibility**

Today, states have significant flexibility to design their Medicaid programs. They can choose who to cover, what services to offer, and how much to pay providers. Moreover, states have the flexibility to adapt their programs to changing conditions. With capped federal funding, states would lose that flexibility.

- **A block grant puts states in a fiscal straitjacket**

The health care needs of low-income people do not magically disappear just because there are fewer federal funds available. If the federal government caps its contribution to health care programs like Medicaid and SCHIP (the State Children's Health Insurance Program), states will be left holding the bag when the federal government stops paying.

But Isn't SCHIP a Block Grant?

The State Children's Health Insurance Program (SCHIP), which has helped states provide valuable services for low-income children, is a block grant, but there are important differences between SCHIP and Medicaid:

- SCHIP is very small compared to Medicaid, providing coverage to 4.5 million children while Medicaid serves more than 51 million people.
- SCHIP was designed to expand coverage to children who were not eligible for Medicaid. Unlike the President's proposal, it was designed specifically to avoid supplanting existing Medicaid coverage and to augment the coverage provided through Medicaid.
- While states have been able to do a lot of good with SCHIP, there are real problems with its allotment system. Some states are reducing coverage or have closed program enrollment because they were not allotted enough money to meet children's health care needs. Meanwhile, other states are returning SCHIP funds to the U. S. Treasury because they cannot use them fast enough. This formula is distinctly different from the current Medicaid reimbursement system, where states receive federal funds for the health care they actually provide to eligible people.

