Issue BRIEF

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Preliminary Analysis of New Bush Proposal to Block-Grant Medicaid

On Friday, January 31, 2003, HHS Secretary Thompson unveiled a new proposal from the Bush Administration to radically restructure the Medicaid program. Although the proposal, called the "State Health Care Partnership Allotments," has been characterized by the Administration as a way for states to preserve and expand health coverage for their most vulnerable residents, it is very likely to result in reduced access to health care for low-income people.

In fact, this plan takes advantage of the states' dire fiscal situation and their real need for federal aid to further the Administration's goal of undermining the Medicaid entitlement. Should Congress approve this plan, states would be forced to accept a Medicaid block grant in order to obtain any fiscal relief from the federal government. While there are still many unanswered questions about the plan, this document summarizes the skeletal information that we have now. To see the Administration's press release announcing the plan, go to (www.hhs.gov/news/press/2003pres/20030131d.html).

What Is the Administration's Plan?

The Administration proposes to offer states an estimated $12.7 billion in additional Medicaid funds from 2004 to 2010. States would be offered some $3.25 billion of it in 2004.[1] States that agree to accept these funds would receive all of their Medicaid and SCHIP funds thereafter as a combined block grant. The block grant would consist of two allotments: one for acute care and one for long-term care. States would be allowed to transfer a small amount of money (10 percent) between allotments. The amount of a state's allotment would be based on its expenditures in fiscal year 2002. States would be required to maintain a financial commitment to Medicaid and SCHIP based on their expenditures in fiscal year 2002.[2] Under the block grant, states would have broad authority to change the scope of coverage for optional Medicaid and SCHIP beneficiaries *without a waiver* from the federal government—although there would be some minimum requirement for coverage of mandatory beneficiaries.[3]

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States that decide against going this route would continue to operate their traditional Medicaid and SCHIP programs, but they would not receive any federal fiscal relief.

Does the Proposal Provide True Fiscal Relief for States?

No. Although the proposal advances some $12.7 billion of Medicaid funds to states over the next seven years, it is designed to be *budget-neutral* over 10 years. That means that states would receive smaller allotments in 2011, 2012, and 2013 to repay the $12.7 billion they received earlier, with the bulk of the money—an estimated $8.3 billion—*repaid in 2013 alone*. And beyond 2013, states that accept the block grant will receive less money than they would have received with traditional Medicaid funding. Under a block grant, states would be constrained in their ability to respond to increased demand for Medicaid—in the case of a future economic downturn, growing populations, or increased health care needs due to the aging of the baby boom generation, for example. Moreover, capped Medicaid funding will force states to make the very reductions in coverage and services for current beneficiaries that fiscal relief should prevent.

How Will the Plan Affect Beneficiaries?

The plan treats beneficiaries that states are required to cover under current federal law (mandatory beneficiaries) differently than other individuals that a state may choose to cover. The plan provides mandatory beneficiaries some protections: states would still be required to cover mandatory beneficiaries and would have to provide them the services that are mandatory under current federal law.

The story is quite different for people that states are not required to cover under current federal law: The plan would eliminate the Medicaid entitlement for the nearly 12 million "optional" beneficiaries, including 100 percent of children enrolled in SCHIP, 56 percent of seniors, 22 percent of people with disabilities, 43 percent of parents, and 20 percent of children enrolled in Medicaid.[4] Under the new structure, states would apparently have free rein to decide eligibility levels, enrollment limits, benefit structure, and cost-sharing rules for any non-mandatory group they choose to cover, *without a waiver* from the federal government. State Medicaid expenditures for optional beneficiaries and optional services are nearly two-thirds of all Medicaid spending and amounted to some $100 billion in fiscal year 2001.[5] This plan puts access to health care at risk for millions of people who rely on Medicaid and SCHIP to get the medical care they need.

Will More People Receive Health Coverage under This Plan?

It is unlikely that this plan will significantly increase access to health care for the uninsured. In fact, this proposal will *increase* the number of uninsured. States that decide to accept this fiscal relief will use it as just that—fiscal relief for shortfalls they are encountering, not new funds to support health coverage expansions. What is more, because states will receive less money starting in fiscal year 2011 than they are projected to need, this plan increases the pressure for states to reduce coverage for low-income people.

The amount of money proposed in this plan falls far short of what's needed to fill state Medicaid budget gaps. By contrast, some Members of Congress are considering much more significant assistance to the states. Bipartisan legislation currently pending in the Senate would provide states $20 billion over 18 months,[6] while legislation that will soon be submitted in the House offers states nearly $10 billion over 12 months. The Administration's $3.25 billion over 12 months, with an additional $9.5 billion over the next six years, pales in comparison. Moreover, unlike the Administration's proposal, the congressional plans would not reduce the amount of federal funds that states receive in later years in order to make up for the financial assistance they are provided. States need immediate, true fiscal relief through a temporary increase in the federal share of Medicaid payments without strings attached that jeopardize the health care of vulnerable people.

For more information about this or other Medicaid or SCHIP issues, contact Rachel Klein at Families USA (202-628-3030 or rklein@familiesusa.org).

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[1] It is unclear whether these amounts are fixed, or whether they would change depending on how many states decide to accept this fiscal relief.
[2] Both the federal allotment amount and the state "maintenance of effort" requirement would be increased each year, although it is unclear what formula would be used to calculate those increases. However, the Administration has been clear that the state financial commitment would decline relative to the federal allotment over time.
[3] See "Preserving Enrollment" and "Preserving Benefits" in *Preserving Medicaid in Tough Times: An Action Kit for State Advocates* for more information about mandatory and optional beneficiaries and services. The kit is available online at (www.familiesusa.org/

Action%20Kit%20State%20Advocates/2003/actionkit2003.htm).

[4] Kaiser Commission on Medicaid and the Uninsured, *Summary of "Mandatory" and "Optional" Eligibility and Benefits*, available online at (www.kff.org/content/2003/20030131/4002.pdf).

[5] Ibid.

[6] S. 138, introduced in the 108th Congress by Senators Rockefeller (D-WV), Collins (R-ME), Smith (R-OR), and Nelson (D-NE). H.R. 816 is sponsored by Representatives King (R-NY) and Brown (D-OH).