Medicaid Block Grant

The Issue

Medicaid was created by Congress in 1965 and came to Texas two years later. The program was designed to provide health benefits to specific groups—initially, to recipients of certain cash assistance programs. Since then, eligibility has gradually expanded and caseload growth has made Medicaid the single largest program in the state budget. In 2001, Medicaid consumed 20% of the All Funds (AF) budget but now accounts for about 30% of the 2014-15 budget.

Medicaid spending in Texas is experiencing steady, long-term growth. Program spending did not exceed $2 billion until 1987 but now totals $23.3 billion in state funds, with an estimated $1.5 billion shortfall that will have to be added in supplemental spending.

This growth in spending mirrors steady caseload growth in recent decades. Between 1999 and 2005, Medicaid added about one million clients and then grew by roughly one million more by 2010. Total enrollment in Texas now stands at about 3.7 million. The Affordable Care Act (ACA) will increase enrollment as some of those currently eligible but not enrolled join the program. Apart from the health care law, the aged, blind, and disabled Medicaid population (ABD), which accounts for most the spending, will continue to grow as the Baby Boom generation ages.

Although the program is administered by the state, the rules are dictated largely by the federal Centers for Medicare and Medicaid Services (CMS) in Washington, D.C. Any changes to the program must be approved by CMS through a waiver process, and major reforms to eligibility, benefits, and cost-sharing restrictions are constrained both by federal law and CMS. The only tool states have to control cost growth is reducing provider reimbursement rates, which in Texas are about half what private insurance pays. This has created an access problem for many Medicaid enrollees because a growing number of physicians refuse to accept Medicaid patients, citing low reimbursement and bureaucratic red tape.

The federal matching payment structure of Medicaid incentivizes the state to spend more on Medicaid, not less. Medicaid is jointly financed with federal and state tax revenue according to the Federal Medical Assistance Percentage (FMAP), which varies between states and changes year to year. In Texas, the FMAP is currently about 58%, which means the state pays roughly 42% of Medicaid costs and the federal pays the rest.

Such a funding structure makes it extremely difficult to cut spending. For example, a $100 reduction in state spending would mean a loss of about $250 from the overall Medicaid budget. Instead, state and local officials have an incentive to "pull down" federal Medicaid dollars by including as many state health programs as possible in Medicaid, thereby growing the program's budget.

The Facts

- For the 2012-13 biennium, the Legislature appropriated $39 billion in All Funds for the Medicaid program alone. In the current biennium, that figure is about $58.5 billion—a 50% increase.
- Children have increased as a percentage of total Medicaid enrollment due to economic factors and provisions of the ACA that are causing children to move from the Children's Health Insurance Program (CHIP) into Medicaid. The ABD population in Medicaid is also expected to increase consistently as the Baby Boom generation ages.

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- Rising Medicaid costs largely account for the growth in health and human services spending, which in the upcoming biennium could surpass education spending in the state budget.
- States must adhere to strict federal rules about how much Medicaid enrollees are allowed to contribute to the cost of care and what benefits they are entitled to receive. As long as the state participates in the program, Texas must provide medically necessary care to all eligible individuals, regardless of whether the enrollee needs or wants those benefits.
- States are not allowed to use federal Medicaid dollars to pay for private coverage for Medicaid-eligible individuals unless the state pays for wrap-around benefits not covered by the private plan.

Recommendations

- The state should continue to pursue a block grant for Medicaid in order to give the state greater flexibility to reform the program and greater certainty in the Medicaid budget from year-to-year. This includes petitioning the state's Congressional delegation to pursue block grant legislation in Washington, D.C.
- The Legislature should pass a Medicaid block grant act that would serve as a trigger if and when block grant funding is passed by Congress. Such a bill would send a strong message nationwide that Texas has developed a detailed plan for how to amend its state plan and enact fundamental Medicaid reform if it were given the opportunity to do so.

Resources

Save Texas Medicaid: A Proposal for Fundamental Reform by James Capretta, Arlene Wohlgemuth, John Davidson, Texas Public Policy Foundation (Mar. 2013).

Preliminary Medicaid Enrollment by Month-April, Texas Health and Human Services Commission (accessed June 2014).

Texas Medicaid and CHIP in Perspective, 9th Edition, Texas Health and Human Services Commission (Jan. 2013).

Summary of Senate Bill 1 Conference Committee Report, Appropriations for the 2014–15 Biennium, Legislative Budget Board (June 2013).