Health Advocacy PROJECT

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MEDICAID MATTERS
for North Carolina's revenue, state budget, and economic wellbeing

Medicaid supports children, families, and older adults, helps people with disabilities reach their full potential, and serves as a safety net to all of North Carolina.[1] In 2016, Medicaid served more than 1.9 million North Carolinians and supported more than 83,000 Medicaid providers across the state.[2]

It also impacts our state's economy – the state would face a shortfall of at least $4.4 billion over the next 10 years if lawmakers restructure Medicaid. Considering the importance of Medicaid to our state, it's deeply concerning that members of Congress have produced a bill that would fundamentally restructure who Medicaid serves and how much North Carolina receives in federal money by establishing a per capita-based cap on federal payments.[3] Recent estimates show the proposed bill would cut federal Medicaid funding by $880 billion over 10 years. By 2026, Medicaid spending would be about 25 percent less than what would be projected under current law.[4]

All of this is occurring even though Medicaid's rate of growth in spending per enrollee has been comparable to or lower than that of private insurance since the early 1990s. For example, between 2006 and 2013, the average annual growth in spending per enrollee for Medicaid was 1.9 percent while the spending per enrollee for private insurance (4.4 percent) was much higher.[5]

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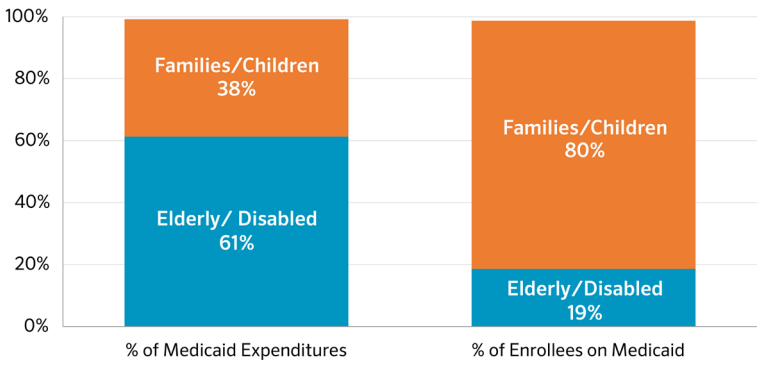
Proposed Medicaid restructure would shift Medicaid costs to North Carolina

The proposed bill calls for the adoption of a per-capita model that will cut federal contributions and shift Medicaid costs to all states over the next decade. This model means the federal government would provide fixed funding per beneficiary, without regard to the state's actual need. States would then be responsible for 100 percent of costs above fixed federal funding level.

Unfortunately, per capita-based caps do not account for the higher costs needed to meet the needs of the state's most vulnerable residents. As shown *to the right*, North Carolina's Medicaid expenditures per-enrollee for the elderly and people with disabilities are higher than the expenditures per-enrollee for families and children.[6]

Medicaid Costs by Eligibility Group



Currently, the federal government pays 66 percent of North Carolina's Medicaid's costs, and the state pays the remaining 34 percent, resulting in a 2-to-1 federal "match." For each of the past seven years, the state has received $8.2 billion in federal assistance on average. On the other hand, North Carolina has only had to contribute an average of $3.1 billion a year in state appropriations during the same period.[7]

Proposed Medicaid restructure would have a negative impact on our state budget

The proposed bill also calls for each state to have a per-capita amount that is based on their 2016 per-capita medical assistance expenditures and adjusting that amount in the future using the Consumer Price Index (CPI). However, **this type of adjustment will not be sufficient and would negatively impact our state budget.**

For example, the cost of specialized care for vulnerable populations is expected to increase by a rate higher than the CPI rate. According to recent Congressional Budget Office (CBO) projections, Medicaid spending would increase at an average annual rate of 4.4 percent, while the CPI adjustment would only equate to an increase of 3.7 percent between 2017 and 2026.[8]

A gap-analysis of this scenario (i.e., applying 2016 per-capita expenditures and CBO's 2017-2026 rate projections) shows North Carolina would have to come up with at least $4.4 billion additional dollars over the next 10 years just to cover the costs not captured by adjusting to the CPI rate.

This projection is just a minimum as it does not take into account the fact that a CPI adjustment would also be insufficient in addressing special needs—as federal funding currently does—such as a new disease, public health crisis, or new costly treatment. Under a per-capita model, states would bear all additional costs to address special needs. The General Assembly's Fiscal Research Division has also concluded that under a per capita-based cap model the state would bear all the risks for shortfalls related to changes in Medicaid utilization, pricing, and consumption.[9]

Proposed Medicaid restructure would force North Carolina to commit more money or cut Medicaid

Today, services essential to improving the health, safety and well being of all North Carolinians account for $5 billion (22 percent) of the state's general fund budget.[10] Of this amount, $3.6 billion (71 percent) is allocated for Medicaid. **If North Carolina receives less federal funding in the future to pay for Medicaid costs, the state's entire budget would be under more pressure to address other priorities involving health, public safety, agriculture, natural & economic resources, and general government functions.**

With a per capita-based cap on Medicaid the state would have to make tough decisions regarding whether to:

- **commit more of its own resources to finance Medicaid at current levels in the context of too few dollars for existing unmet needs without the federal retreat;**
- **cut payments to health care providers and health plans;**
- **eliminate services to vulnerable North Carolinians; and/or**
- **restrict eligibility for enrollment.**

There is no existing source of funds, including the Medicaid Reserve of $157 million, which could cover the losses from federal dollars. The Medicaid Reserve would cover just 8 percent of the gap created if the federal investment in health care to North Carolina was reduced by 25 percent.

North Carolina is already behind other states in terms of Medicaid funding & health indicators

As policymakers consider changes to the U.S. health care system, key indicators should not be forgotten. For example, compared to other states North Carolina ranks low on key health indicators. As of 2016, North Carolina ranked 35th in the nation for overall health.[11]

Additionally, **North Carolina spends considerably less on Medicaid per enrollee, regardless of their category, compared to other states.**[12] North Carolina ranks last on spending per elderly enrollee ($10,518); the national average per elderly enrollee is $17,522. North Carolina also ranks 42nd for spending per enrollee with disabilities ($15,060), while the national average is $18,518. When it comes to spending per child enrollee the state ranks 31st ($2,355) compared to the national average of $2,492.

Research shows that Medicaid spending varies across states primarily due to[13]:

1) **Available state revenue** *(e.g., per capita income, tax collections)*
2) **Demand for Public Services** *(e.g., poverty, unemployment, need for health coverage)*
3) **Health Care Markets** *(e.g., employer premiums, primary care shortage areas)*
4) **Medicaid Policy Choices** *(e.g., eligibility levels, benefits, payment and delivery system choices, long-term care delivery systems)*
5) **State Budget and Policy Process** *(e.g., political affiliation of Governor and legislature)*

These five domains are all at play in the debate over Medicaid changes. The ultimate policy choices at the federal and state level will result in whether North Carolinians have access to the health care they need. As the debate on the health care system continues to unfold, it is critical to remember that Medicaid matters to North Carolina, especially its most vulnerable populations, who will feel the impacts of these budgetary and spending changes in their everyday lives.

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1. http://www.ncjustice.org/sites/default/files/MEDICAID%20MATTERS%20-%20Brief%201.pdf
2. http://www.ncjustice.org/sites/default/files/CHARTBOOK_Understanding%20Medicaid%20And%20Its%20Impact%20in%20North%20Carolina.PDF
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