PLYMOUTH INSTITUTE FOR FREE ENTERPRISE

PER CAPITA CAPS ON STATE MEDICAID FUNDS

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TOPLINE: The federal government should fund the same amount of Medicaid costs for similar populations whether they live in Maine, Texas, or California.

BACKGROUND: The federal government pays a set percentage of total Medicaid costs, including 90% for able-bodied adults without children—"expansion" enrollees—and between 50% and 77% for traditional enrollees, including pregnant women, individuals with disabilities, low-income children, and elderly individuals. Yet, per-capita Medicaid spending varies drastically by state, even within similar population types. For example, some states spend twice as much per expansion enrollee as others: four states spend under $5,000 per expansion enrollee while six states spend over $9,000. For low-income children on Medicaid, five states spend less than $2,500 per child while five spend over $4,500 per child. And across all population groups, states that expanded Medicaid spend significantly more per capita than non-expansion states, including roughly $900 more per capita across all enrollees, $4,100 more on the elderly, and $10,000 more on the disabled.

Many of these cost differences reflect state decisions regarding eligibility, provider payments, and the amount of waste, fraud, and abuse in Medicaid. Since states pay as little as 10% of Medicaid costs, they have little incentive to ensure efficient health care delivery or to prevent improper payments and fraud. Per-capita, population-specific or risk-based federal Medicaid payment caps would put states on the hook for their inefficiencies while also allowing them to retain 100% of their efficiencies; some states' would experience decrease Medicaid costs outright.

Action Item (Congress):

- **Enact risk-based per-capita federal Medicaid spending caps** to prevent states from gaming Medicaid to use funds intended for one covered population to fund services for another group or to indirectly subsidize certain providers over others.
    - Per-capita caps would slow the growth of Medicaid spending and make the program more efficient, while ensuring that each covered population is adequately funded.

How It Would Make Life More Affordable:

- Medicaid currently costs taxpayers $1 trillion per year, or $7,400 per U.S. household, and a significant portion of this—roughly 10% to 25%—is due to waste, fraud, and abuse enabled by the current financing structure.
- It would reduce Medicaid spending, saving state and federal taxpayers hundreds of billions of dollars over 10 years.

Related Legislation: American Health Care Act of 2017 (H.R. 1628 [115th Congr.]).

BOTTOMLINE: Federal Medicaid funds shouldn't subsidize state inefficiencies; they should provide similar reimbursements for similar populations.