

U.S. Senate
Washington, D.C. 20510

June 5, 2017

Dear Senator:

On behalf of Consumers Union, the policy arm of nonprofit Consumer Reports, we write to express our concern regarding the fundamental changes to the financing and structure of the Medicaid program in the American Health Care Act (AHCA) and similar changes the Senate might consider as it works on companion legislation. These proposed changes would reduce the scope and quality of coverage for the most vulnerable Americans and eliminate coverage altogether for millions more. The nonpartisan Congressional Budget Office (CBO) estimates that the proposed reductions in federal matching contributions to the program will result in “14 million fewer Medicaid enrollees by 2026, a reduction of about 17 percent relative to the number under current law.”¹

As an organization whose founding principles include ensuring access to quality, affordable health coverage and care for all Americans, Consumers Union opposes these broad changes to Medicaid, which will threaten the health and financial well-being of those most in need.

Per Capita Funding and Block Grants Will Lead to Deep Cuts in the Medicaid Program

The proposed fundamental change to how Medicaid is financed, from a fixed federal *percentage* of costs to a fixed *amount* of federal dollars under a *per capita* cap or block grant, is actually a **deep cut** to Medicaid and threatens healthcare for seniors, people with disabilities, veterans, and 30 million children, among others.

Currently, the federal government pays a set percentage of states’ Medicaid costs, with the federal dollars increasing when the number of enrollees and/or cost of care grow. Under a *per capita* cap, the federal government would give states a fixed amount per beneficiary, leaving the state responsible for all costs above that set amount. The proposed *per capita* funding formula in the AHCA would be based on the average cost per enrollee in 2016 for medical services in each state. The proposed formula allows for an annual inflation factor based on the medical care part of the Consumer Price Index (CPI-M), but the CBO estimates that health spending will grow at a faster rate than the CPI-M.² As a result, the proposed caps will not cover the actual cost of care that beneficiaries need, forcing deeper cuts to either benefits or enrollment, or both. Similarly, the block grant option, should states choose that over the *per capita* formula, is also a capped

¹ Congressional Budget Office, May 2017; <https://www.cbo.gov/system/files/115th-congress-2017-2018/costestimate/hr1628aspassed.pdf> (p. 17)

² CBO estimates that the consumer price index for medical care services for the period 2017-2026 will grow at an annual rate of 3.7% while the actual cost in Medicaid will grow at an annual rate of 4.4%; CBO report, March 2017 <https://www.cbo.gov/system/files/115th-congress-2017-2018/costestimate/americanhealthcareact.pdf> (p.10), confirmed by CBO report, May 2017, <https://www.cbo.gov/system/files/115th-congress-2017-2018/costestimate/hr1628aspassed.pdf> (p. 10)

amount that would cut the federal funding available to states and leave states with significant shortfalls.

The structural change to the funding of Medicaid and the move away from the current federal percentage financing structure is the key problem, not the specific formula of a capped growth rate. States simply will not be able to keep providing the same level of benefits to the same number of beneficiaries, under a capped financing structure.³ As the population ages and a larger portion of Medicaid beneficiaries become seniors with more complex and costly needs, or if there is an economic downturn in which a greater number of people need Medicaid, states will have to ration care or make difficult choices in other areas, like cutting funding for public education and social services. Not only will state budgets and services be undermined, but once Medicaid adopts a capped formula structure, there is nothing to prevent more federal funding cuts in the future. Lawmakers will look to reduce the caps in future years as they endeavor to save money to pay for other policy initiatives.

Furthermore, the rigidity of *per capita* allowances means that, in the event of an unexpected healthcare crisis—such as an outbreak of Zika or the opioid epidemic—or the discovery of a new but costly cure for a serious disease, states will be solely responsible for unexpected costs. It is hard to predict when a costly healthcare event will occur, but it is guaranteed that they will over the next decade.

It is worth underscoring that as the largest payer of mental health and substance abuse services in the U.S., the Medicaid program plays a crucial role in combatting the opioid epidemic.⁴ It has been able to do so because of the way Medicaid is structured: as states' Medicaid costs increased in parallel with the growing demand for treatment and care, federal funding rose as well to help states meet the needs of their residents. If the opioid crisis had occurred under a *per capita* cap, states would have had to make untenable choices, such as weighing whether to skimp on services for those battling addiction or to cut benefits for senior Medicaid enrollees.

Medicaid is also the *primary funder of long-term care* and support services for the aged.⁵ This includes both community- and home-based critical healthcare and long-term services and supports (LTSS), which provide assistance with daily activities such as eating, bathing, dressing, managing medications, and transportation. Setting caps on per-enrollee spending for low-income seniors, when the cost of their care is sure to increase substantially in future years as they age and need more intensive services, will leave states in an unworkable position and seniors at grave risk of losing their health and financial security.

Repealing the Medicaid Expansion Threatens Consumers' Health

³ It is estimated that these caps will cut federal funding to Medicaid by \$116 billion over ten years, on top of the expansion cuts. Center on Budget and Policy Priorities. *House Republican Health Plan Shifts \$370 Billion in Medicaid Costs to States*. March 8, 2017.

⁴ Letter to Senate Majority Leader McConnell from Senators Capito, Portman, Gardner, and Murkowski, March 2017; <https://www.capito.senate.gov/news/press-releases/capito-gop-senators-say-house-health-care-draft-lacks-key-protections-for-medicaid-expansion-population>

⁵ Kaiser Family Foundation, "Medicaid and Long-Term Services and Supports: A Primer," December 2015; <http://kff.org/medicaid/report/medicaid-and-long-term-services-and-supports-a-primer/>

Twelve million adult Americans in 31 states and the District of Columbia obtained coverage through the Medicaid expansion, some getting coverage and access to ongoing medical services for the first time in their lives.⁶ States adopting the expansion are permitted to allow single adults and parents of Medicaid children with lower incomes to obtain Medicaid coverage and needed care, regardless of whether they have a disability or dependents. States achieved these coverage gains because of an enhanced federal match of 100% through 2016, and 90% thereafter, for the expansion population.

Additionally, states that expanded Medicaid have realized budget savings, revenue gains, and overall economic growth from increased employment; increased revenues to hospitals and other providers, especially safety net and rural providers; decreases in uncompensated care; and savings in other state programs, such as state-funded behavioral health or corrections.⁷ Effectively repealing the expansion would reverse these gains.

The financing structure and Medicaid expansion are inextricably linked: it is simply impossible to maintain the expansion—and the coverage and health gains made as a result—without preserving the financing and structure of the program. Because of the threat this type of structural change poses to millions of consumers of all ages and backgrounds across the country, Consumers Union urges you to preserve the current Medicaid financing structure and to reject per capita caps, block grants, and repeal of the Medicaid expansion, all of which pose a threat to the Medicaid program and millions of consumers who rely on it. Instead, we ask you to prioritize protection of this critical program that provides essential coverage of healthcare services for so many Americans.

Sincerely,



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⁶ Kaiser Family Foundation, “What Coverage and Financing is at Risk Under a Repeal of the ACA Medicaid Expansion?,” December, 2016; <http://kff.org/medicaid/issue-brief/what-coverage-and-financing-at-risk-under-repeal-of-aca-medicaid-expansion/>

⁷ Kaiser Commission on Medicaid and the Uninsured, *The Effects of Medicaid Expansion under the ACA: Findings from a Literature Review*, June 2016.

