



What Are the Implications for Virginia If AHCA Incorporates Capped Funding for Medicaid

as of April 5, 2017

The implications for Virginia's Medicaid spending under the proposed AHCA bill can have a significant impact on the Commonwealth's budget.

The proposed AHCA bill contains provisions that would cap federal Medicaid funds available to Virginia through per capita caps and block grants, and reduce or eliminate federal funding for the expansion of Medicaid to low-income adults. Medicaid capped funding provides the federal government with greater budget certainty and reduces federal spending; therefore, it means greater uncertainty for the state and reduced federal Medicaid funding to Virginia. As proposed, the size of the cap for each state is based on its historical spending in Medicaid, trended forward by an annual, national "trend rate," rather than a state-specific trend. As a result, federal Medicaid funding to Virginia going forward, would no longer depend on Virginia's health care expenditure growth or, (depending on the final design of the cap), increases in the state's enrollment due to a growing population, changing demographics, economic downturns or other factors unique to Virginia. (*State Health Reform Assistance Network, Medicaid Capped Funding: Findings and Implications for Virginia, April 5, 2017. A Robert Wood Johnson Foundation Program.*)

Factors for Virginia to consider:

- Virginia could be disadvantaged relative to states that receive federal funding from Medicaid expansion. Under a block grant proposal, expansion states and states with higher eligibility levels than Virginia could receive higher funding allowances than non-expansion states. And since Virginia has relatively low eligibility levels for its Medicaid enrollees, it risks receiving a relatively small allotment under any proposal that uses a block grant.
- Virginia's lower than average per capita Medicaid spending level puts it at risk of being locked into a relatively low capped payment. Since nearly all capped funding proposals start with a state's historic spending, Virginia may be locked into low capped federal payments. Virginia spends approximately 2/3 of its Medicaid dollars on the elderly and disabled and its average spending for the aged enrollee is below national average.
- The proposed block grant is based on a state's historical spending, increased by national growth trends. Since Virginia is one of the fastest growing states in the country, it is at particularly high risk. Under a capped funding formula that does not take enrollment growth into account, the State is at higher risk than other states with lower growth rates.
- Virginia's State budget relies heavily on federal Medicaid funding. Medicaid represents the single largest source of federal funding for the State. A loss of or reduction in federal Medicaid funding could shift costs to the State, posing a threat to the Virginia budget and other State priorities, such as education. Federal Medicaid funding (\$4.1 billion in 2015) makes up nearly 43% of all federal funding in Virginia's budget. By comparison, the next largest source of federal funds—for transportation—is 14% of the federal funds received by the State.