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## Block Grants Policy Brief

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# BLOCK GRANTS POLICY BRIEF

March 2020

## INTRODUCTION

In the preamble to his proposed fiscal year (FY) 2020 budget, President Trump stated that “the only way to reform Medicaid and set it on a sound fiscal path is by putting States on equal footing with the federal government to implement comprehensive Medicaid financing reform through a per capita cap or block grant.”<sup>1</sup> Later in November 2019, the Centers for Medicare and Medicaid Services (CMS) issued guidance to states for a new 1115 waiver option that would allow states to receive a block grant to cover adults who are not otherwise eligible for Medicaid.<sup>2</sup> This brief provides background on Medicaid block grants and per capita caps, describes the recent federal guidance to states, and highlights current proposals from Tennessee and Oklahoma.

### STATE



### FEDERAL



## BACKGROUND

Medicaid is a jointly run federal and state program that provides health insurance to low-income children, pregnant women, the disabled, the elderly, and, in some circumstances, the parents of low-income children. The federal government reimburses a percentage of states' costs, depending on a state's average per capita income, with wealthier states receiving less from the federal government than poorer states. Georgia's federal match is about average at 67% (i.e., for each \$1 Georgia spends on Medicaid, the federal government spends \$2.03). Under this funding arrangement, the federal match is made no matter how much a state spends on its Medicaid program.<sup>3</sup> In 1981, then-President Reagan proposed turning the financing of Medicaid into block grants for states instead of the unlimited federal match. Under a block grant, a state would receive a lump sum per year from the federal government for its Medicaid program no matter how much money a state might spend during the year. President Reagan's proposal was unsuccessful, but since then, similar proposals have been made every few years, the most recent being during 2017 when multiple bills aimed at repealing the Affordable Care Act (ACA) called for Medicaid block grants. Those bills were also voted down.<sup>4</sup>

Under a block grant, a state would receive a lump sum per year from the federal government for its Medicaid program no matter how much money a state might spend during the year.

<sup>1</sup> Trump, Donald J. (2019). A Budget for a Better America: Promises Kept. Taxpayers First. Fiscal Year 2020 Budget of the U.S. Government. Retrieved from <https://www.govinfo.gov/app/details/BUDGET-2020-BUD/summary>

<sup>2</sup> Centers for Medicare and Medicaid Services. (2020). Letter to State Medicaid Directors re: Healthy Adult Opportunity. Retrieved from <https://www.medicare.gov/sites/default/files/Federal-Policy-Guidance/Downloads/smd20001.pdf>

<sup>3</sup> Medicaid and CHIP Payment and Access Commission. (2016). Alternative Approaches to Federal Medicaid Financing. Retrieved from <https://www.macpac.gov/publication/alternative-approaches-to-federal-medicaid-financing/>

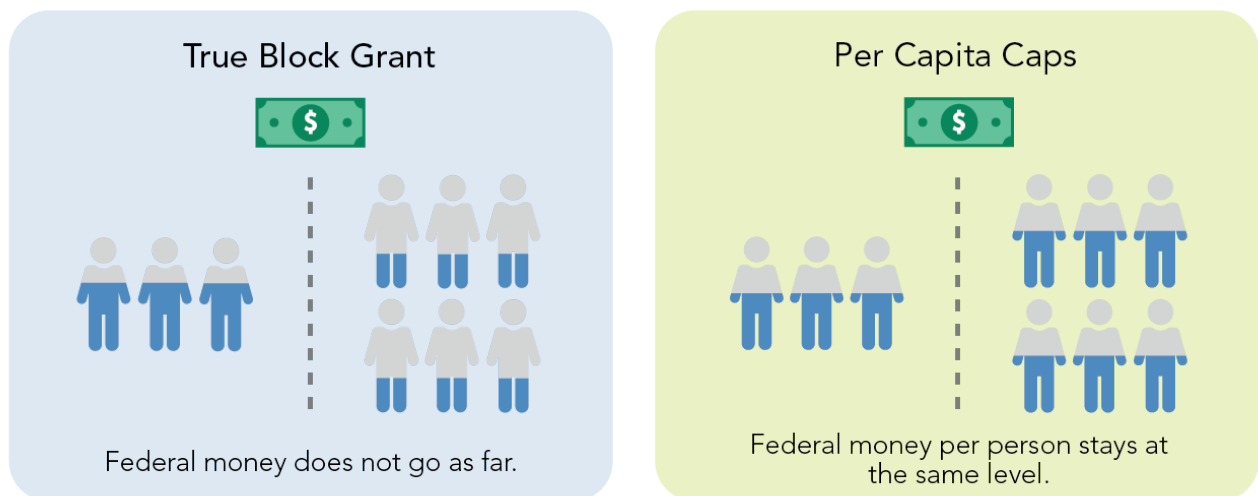
<sup>4</sup> Health Management Associates. (2020, February 5). HMA Weekly Round Up. Retrieved from <https://www.healthmanagement.com/wp-content/uploads/020520-HMA-Roundup.pdf>

Block grants are usually proposed in one of two ways: a true lump-sum block grant or per capita caps. Under a true block grant, states would receive an annual lump-sum payment to help finance their Medicaid program. The amount of the payment would be based on a predetermined formula. Although there is usually no requirement for a state match, states may be required to maintain their current level of Medicaid funding.

Medicaid Block Grants to States: True Block Grants versus Per Capita Caps		
	True Block Grant	Per Capita Cap
<b>Federal Financing</b>	State receives an annual lump-sum payment to help finance its Medicaid program	State receives an annual payment per Medicaid member to help finance its Medicaid program
<b>Risk</b>	State bears the burden of any increases in enrollment or health care costs	State bears the burden of any increases in health care costs
<b>Flexibility</b>	State can structure its Medicaid program, eligibility, and services provided, with fewer restrictions than current Medicaid rules	

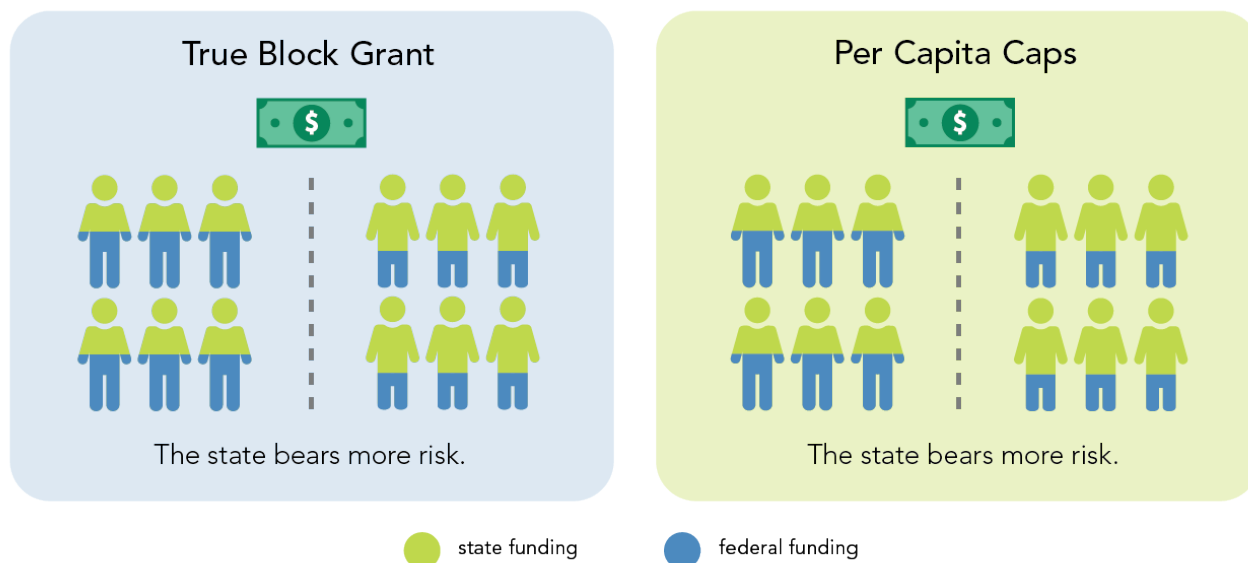
Previous proposals for block grants have sought to limit federal liability for Medicaid spending by reducing federal funding provided by current law. Although a state might receive less money under a block grant, they are supposed to be given more flexibility for their Medicaid spending than under current Medicaid regulations. Although a block grant could provide more flexibility to states and more budgetary predictability to the federal government, if a state's enrollment or cost of care suddenly increases, the state would have to shoulder those extra expenses.<sup>3</sup>

### If the number of people enrolled in Medicaid increases...



Per capita caps work similarly to a true block grant, except that instead of a state receiving a lump sum for its entire program, the state would receive a set sum for each person enrolled in Medicaid in a given year. Therefore, a state would be protected if its enrollment suddenly increases; however, the state would still have to shoulder the burden of any sudden increases in health care costs.<sup>3</sup> The differences between the two types of block grants are shown in the table below.

## If health care costs increase...



## CURRENT OPPORTUNITIES

### Proposed FY 2020 Budget

The FY 2020 budget proposed by President Trump in March 2019 did not provide many specifics about how states could move their Medicaid programs to block grant financing. Instead it called for “a new Federal-State partnership ... to eliminate inefficient Medicaid spending” and called on states “to design State-based solutions that prioritize Medicaid dollars for the most vulnerable and support innovation.”<sup>1</sup> Despite a lack of formal federal guidance, Tennessee’s legislature passed a bill during their 2019 legislative session mandating that their Medicaid agency submit a proposal to amend their TennCare 2.0 1115 waiver to change the financing of most of their Medicaid program to a block grant.<sup>5</sup> More details on Tennessee’s proposal are provided in a special section below.

### Healthy Adult Opportunity Initiative

On Jan. 30, 2020, CMS issued a letter to state Medicaid directors alerting them to a new program opportunity using an 1115 waiver. Under the Healthy Adult Opportunity (HAO) Initiative, states can apply for an 1115 demonstration waiver to cover nondisabled, nonelderly adults who are not otherwise eligible for Medicaid.<sup>2</sup> This group is essentially the same as that targeted by the ACA’s Medicaid expansion. According to the guidance from CMS, states can submit proposals to cover this population under either block grant or per capita cap financing, create new eligibility conditions and income levels, charge premiums and cost-sharing (not to exceed 5% of household income), and impose work requirements. Although given broad flexibility in designing their program, states will be expected to align coverage with that provided in their individual health insurance market (but not traditional Medicaid), including coverage of the ACA’s essential health benefits and any pre-existing conditions. Monitoring and evaluation requirements of 1115 waivers apply as usual.<sup>2</sup> It should be noted that this opportunity is only for adults not already eligible for Medicaid. This does not make any changes to the financing of already-existing Medicaid programs, which will continue to be matched by federal dollars.

<sup>5</sup> Rosenbaum, Sara. (2019, September 25). What a Medicaid Block Grant Would Mean for Tennessee: An Update. The Commonwealth Fund. Retrieved from <https://www.commonwealthfund.org/blog/2019/what-medicare-block-grant-would-mean-tennessee-update>

## STATE EXAMPLES

### Tennessee

As mandated by their legislature, on Nov. 20, 2019, Tennessee's Medicaid agency submitted their 1115 amendment proposal to change their TennCare managed care program from a traditionally financed Medicaid program into one largely financed through a federal block grant. Under their proposal, federal funding of most of TennCare would be provided through an annual lump-sum block grant to the state. Federal funding would be based on average TennCare enrollment for the previous three years, the cost of covering the four eligibility categories in its proposal absent the waiver, and Tennessee's Federal Medical Assistance Percentage for Medicaid.



This methodology would result in a block grant of approximately \$7.9 billion in the program's first year. If actual enrollment exceeds projected enrollment in any category during the base year, then the block grant amount will be adjusted going forward on a per capita basis to reflect the enrollment increase. In addition, half of any savings that accrue to the federal government would be reinvested in Tennessee. The block grant proposal does not include funding for several items, such as services that are already carved out of Tennessee's 1115 waiver, outpatient prescription drugs, various hospital uncompensated care payments, Medicare and Medicaid dual eligibles, and administrative costs. These would continue to be financed as they have been under the current TennCare program. Tennessee's application is still pending.<sup>6</sup>

### Oklahoma

Unlike Tennessee, which is seeking to transform the financing of its entire program into a block grant, Oklahoma has chosen to pursue the new HAO initiative described by CMS in its Jan. 30, 2020, letter to states. On Jan. 30, 2020, the same day that CMS released its guidance for the HAO initiative, Oklahoma Gov. Kevin Stitt announced that Oklahoma would be pursuing an 1115 waiver under the new HAO initiative to cover its adult population that is not currently eligible for Medicaid. Oklahoma's proposal is to be known as Sooner Care 2.0 and has not yet been formally submitted to CMS (as of March 10, 2020). Under this proposal, Oklahoma will seek to amend its current 1115 waiver to add the HAO eligibility category, as well as seek a state plan amendment to begin transitioning its members to a full risk-based managed care system. The new HAO eligibility group will be the first population under the new delivery system. Oklahoma intends to pursue maximum flexibility to mandate premiums, cost sharing, and work requirements for its HAO program. In addition, flexibility will be sought to expand treatment for opioid addiction and substance use disorders among HAO members. Specifics of how Oklahoma's block grant would be calculated and whether it would be a true block grant or a per capita cap are not yet available. However, Gov. Stitt did state that he expects about \$1.1 billion in additional federal funding to become available.<sup>7</sup>



## CONCLUSION

On Jan. 7, 2020, Georgia submitted an application for an 1115 waiver to CMS. Under Georgia's proposal, the state would expand its Medicaid program to cover those not currently eligible for Medicaid up to 100% of the federal poverty level and be allowed to impose work requirements on the expansion population.<sup>8</sup> When CMS released its guidance on the new HAO block grant option later in January, some speculated that Georgia might amend its application to take advantage of this new financing opportunity since it would mostly cover the same population and give the state even more flexibility.<sup>9</sup> So far, however, no changes to Georgia's application have been announced.

<sup>6</sup> Tennessee Division of TennCare. (2019). TennCare II Demonstration, Amendment 42 application. Retrieved from <https://www.medicaid.gov/Medicaid-CHIP-Program-Information/By-Topics/Waivers/1115/downloads/tn/tn-tenncare-ii-pa10.pdf>

<sup>7</sup> Stitt, Kevin. (2020, January 30). Press Release: Stitt Administration Announces Sooner Care 2.0. Retrieved from [https://www.governor.ok.gov/articles/press\\_releases/stitt-administration-announces-soonercare-2-0](https://www.governor.ok.gov/articles/press_releases/stitt-administration-announces-soonercare-2-0)

<sup>8</sup> Georgia Department of Community Health. (2020). Georgia "Pathways to Coverage" section 1115 demonstration waiver application. Retrieved from <https://www.medicaid.gov/Medicaid-CHIP-Program-Information/By-Topics/Waivers/1115/downloads/ga/ga-pathways-to-coverage-ca.pdf>

<sup>9</sup> Miller, Andy. (2020, January 30). Could federal Medicaid idea reshape Ga. waiver? Georgia Health News. Retrieved from <https://www.georgiahealthnews.com/2020/01/federal-medicaid-idea-reshape-georgia-waiver/>