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MEDICAID

Key Policy and Data Considerations for Designing a Per Capita Cap on Federal Funding

GAO Highlights

Highlights of GAO-16-726, a report to congressional requesters

Why GAO Did This Study

Medicaid, a joint-federal state program that finances health care coverage for millions of low-income and medically-needy individuals, is an open-ended entitlement program. Federal and state Medicaid expenditures totaled $494.5 billion in fiscal year 2014 based on the most recent CMS actuarial report, which projected that spending will grow to about $920.5 billion by fiscal year 2024. Medicaid has been the focus of proposals to limit the federal expenditure commitment. One such approach, referred to as a per capita cap, would limit the amount of federal Medicaid funding states could receive per enrollee, adjusting the federal expenditure commitment based on the population covered. Whether to change the financing of the Medicaid program is a decision requiring congressional action. GAO was asked to examine considerations for designing a method to reimburse states on a per capita basis for individuals enrolled in Medicaid.

This report examines key (1) policy and (2) data considerations for designing a per capita cap on federal Medicaid funding. GAO reviewed its prior reports on Medicaid and a range of federal financing topics; conducted a literature review on Medicaid per capita caps; interviewed officials from 10 state Medicaid programs selected to vary in current per-enrollee spending, service delivery methods, and other program characteristics; and held interviews to obtain perspectives of subject matter experts selected on the basis of the literature review.

View GAO-16-726. For more information, contact Carolyn L. Yocom at (202) 512-7114 or yocomc@gao.gov.

What GAO Found

Through review of its prior reports, the literature and interviews with state Medicaid officials and subject matter experts, GAO identified several key interrelated policy considerations that could be useful should policymakers elect to pursue a per capita cap—a per-enrollee limit on federal Medicaid funding for states.

- **Coverage and flexibility**. Coverage entails decisions about whether all or a subset of Medicaid populations and spending categories would be financed under a per capita cap. Flexibility would entail balancing the ability of the federal government to prescribe program features—such as coverage of a set of services—with states' ability to choose program design features.
- **Allocation of funds across states and over time**. Considerations for allocating funds across states would include the extent to which a cap accounts for variation in the health care needs of states' Medicaid populations, geographic cost differences, state fiscal resources, and program design. Mechanisms to address change over time due to inflation or other changes in circumstances could also be considered.
- **Accountability**. Efforts to ensure accountability for the receipt of federal funds could include determining what existing, modified, or new mechanisms to use to verify the number and eligibility of enrollees covered by the cap. Additionally, accountability mechanisms could include measures aimed at achieving health care goals or tracking the effectiveness of the per capita cap policy in achieving federal objectives.
- **Broader effects**. Considerations would also include the potential effects that changes to Medicaid financing could have on other federally financed sources of health care, broader health care costs, states, and Medicaid enrollees. Such effects would be difficult to predict and would depend on the design features, as well as states' responses to a per capita cap.

Key data considerations for designing a per capita cap would include identifying appropriate data on enrollees and expenditures to help develop per capita cap amounts and allocate funds.

- **Centers for Medicare & Medicaid Services (CMS) enrollee and expenditure data.** CMS data could be used to develop estimates of per enrollee Medicaid expenditures, but the data have limitations; for example, not all CMS expenditure data can be easily linked to enrollees and doing so may require complex adjustments.
- **Other available federal data sources**. Data sources such as nationally representative population surveys could provide estimates of Medicaid enrollee characteristics or other aspects of state funding needs. However, these data sources would need to be combined with information on expenditures for services to identify the funding amounts needed to support particular program goals.

GAO provided a draft of this report to the Department of Health and Human Services for comment. The department had no comments on the draft.