

Capping Medicaid Funding: The Problem with Block Grants

■ What Is a “Block Grant”?

A “block grant” is a fixed amount of money that the federal government gives to states for a specific purpose. (Sometimes, block grants are referred to as “capped” funding or “allocations.”) In Medicaid today, states are reimbursed for actual Medicaid costs instead of being limited to a specific amount of federal funding. This financing system ensures that federal funds are spent efficiently and only for the purposes intended in federal law. Under a block grant, the federal government would estimate in advance how much states need so some states get more than they need and others get less than they need.

■ How Is a Block Grant Different from Medicaid Financing Today?

Medicaid costs are shared by the states and the federal government. States receive between \$1 and \$3 from the federal government for each \$1 they spend on Medicaid; this is called the “federal match” system. States are guaranteed additional federal funds if their Medicaid costs increase. Under a block grant, states would have limited federal funds; if their actual costs increased, states would have to make up any difference without federal assistance.

■ Why Would a Block Grant Hurt Medicaid?

- *Block grants will force states to scale back coverage over time.* Because a block grant would limit the amount of federal funds available for Medicaid based on expenditures today, it would essentially freeze state programs at a time when states have already reduced Medicaid coverage and services in order to close budget gaps. As costs grow over time, a limit on federal funds will force governors and state legislators to pit the needs of different populations against one another, leaving some unserved.
- *Block grants will hinder states’ ability to respond to increasing health care needs of their residents.* While today’s system guarantees a state additional federal funds if costs increase, under a block grant states would have to negotiate with the Administration or with Congress for additional federal funds when costs go up. A downturn in the economy that causes more people to become uninsured, public health threats or natural disasters, advances in costly medical technology or new medicines, and the increasing costs of prescription drugs or other medical treatments—all these could drive a state’s costs higher than anticipated under the block grant.
- *Under a block grant, people who have Medicaid coverage would lose valuable protections that are currently in Medicaid law.* Such protections include limits on the amount of out-of-pocket costs they have to pay for health care, a standard benefit package, and the ability to enroll in the program at any time if they qualify.

- *Block grants limit federal funding and therefore put states at risk for paying for any health care costs they incur above the fixed amount.* The health care needs of low-income people remain regardless of the amount of federal funding available. If the federal government caps its contribution to the states for health care through Medicaid and SCHIP, states will be left holding the bag when the federal government stops paying.

■ **But Isn't SCHIP a Block Grant?**

Some block grants, such as the State Children's Health Insurance Program, have helped states provide valuable services for low-income people. *But* –

- SCHIP is very small compared to Medicaid, providing coverage to 4.5 million children while Medicaid serves more than 47 million people.
- SCHIP was designed to expand coverage to children who were not eligible for Medicaid. Unlike the President's proposal, it was designed specifically to avoid supplanting existing Medicaid coverage and to augment the coverage provided through Medicaid.
- While states have been able to do a lot of good with SCHIP, there are real problems with the allotment system. Some states are reducing coverage or have closed program enrollment because they were not allotted enough money to meet children's health care needs. Meanwhile, other states are returning SCHIP funds to the U.S. Treasury because they cannot use them fast enough. This formula is distinctly different from the current Medicaid reimbursement system, where states receive federal funds for the health care they actually provide to qualified people.

