



## **Children's Health Fund**

### **Policy Brief**

#### ***Medicaid Block Grant Proposal: What It Means for Kids***

**June 2011**

The Medicaid program is a vital part of our nation's health care safety net, a joint federal state program that provides health insurance to 50 million Americans, including nearly 30 million children.<sup>1,2</sup> Recent federal and state budget actions have taken aim at Medicaid. In April 2011, the House of Representatives passed a federal FY 2012 budget that would change the inherent nature of the program by converting the program into a block grant. This issue brief will examine how current proposals to change the structure of Medicaid would affect the millions of children and families who depend on Medicaid, and the program's ability to respond in times of crisis.

#### **Medicaid and Children**

Medicaid provides comprehensive health insurance coverage to the most vulnerable of our citizens, including over half (59%) of all low income children and half of all minority children.<sup>3</sup> Health insurance is critical for children in helping to ensure access to health care. Research has shown that uninsured and even part-year uninsured children experience higher rates of delayed care, unmet medical need and unfilled prescriptions. Further, uninsured children typically do not have a usual source of care and are less likely to have had a well child visit or doctor visit during the year than insured children.<sup>4</sup> Children who experience even minor disruptions, one to four months, to their health insurance are less likely to have a usual source of health care and more likely to have needed care delayed than those children with continuous coverage.<sup>5</sup>

The cornerstone of Medicaid's benefit package for children is the Early and Periodic Screening Diagnostic and Treatment (EPSDT) benefit. This federally required benefit, when administered, screens and detects health and developmental conditions early in childhood allowing for timely treatment. The EPSDT benefit ensures coverage of infants and young children for developmental assessments, well-child visits, vision, dental, and hearing services. States are required to inform children and their families of the availability of EPSDT services, their benefits, and where and how to obtain them. They are also required to provide transportation and scheduling assistance to ensure that children receive necessary services.<sup>6</sup>

### **Medicaid and Economic Crisis**

During the current economic downturn, the critical role of Medicaid as part of the safety net has been even more apparent. Widespread unemployment created a new population of children and families who met eligibility requirements for Medicaid, 7.6 million of whom joined Medicaid since December 2007, representing a 17.8 percent increase.<sup>7</sup> From 2007 to 2008, 4.6 million children gained coverage through Medicaid or the Children's Health Insurance Program (CHIP), as employer based coverage steeply declined over the same period. The increase in Medicaid and CHIP enrollment was due in a large part to increased federal support for Medicaid under the American Recovery and Reinvestment Act of 2009.<sup>8</sup>

Medicaid's growth over the past decade was driven largely by enrollment. During the last decade, poverty among children has steadily increased with the number of children living in poverty rising by 33 percent.<sup>9</sup> Over 15 million children live in families with incomes below the federal poverty level (FPL) which translates to \$22,050 for a family of four.<sup>10</sup> Forty-two million children under the age of 18 live in families that are "low-income", i.e., household income is less than two times the FPL.<sup>11</sup> The minimum federal requirements for Medicaid call for states to insure children under the age of 6 in families with incomes less than 133% of FPL and children ages 6-19 in families that make 100% of FPL. Over half of states go beyond these standards in an effort to insure more children and to adjust for cost of living differences.

Medicaid is counter-cyclical: when the economy contracts, more people become eligible for the program, conversely, when the economy expands and adds jobs, fewer people are eligible. As an open-ended entitlement program, anyone who is eligible for Medicaid is guaranteed coverage. However, the increased demand during economic downturn puts pressure on states, as Medicaid is a state/federal partnership. States have struggled with historic deficits due to economic conditions and must balance their budgets annually, unlike the federal government. Rising costs and historic state budget deficits have called the program into scrutiny, despite the fact that the federal government pays on average 56 percent of the costs through a federal matching formula with poor states getting as much as 75 cents for every dollar spent and wealthy states receiving 50.<sup>12</sup>

### **Ryan Budget Proposal**

A looming federal deficit and extended state budget deficits has shifted national attention towards entitlement reform. House Budget Chairman Paul Ryan (WI) proposed, and the House of Representatives passed, a Fiscal Year 2012 budget that includes historic and wide reaching changes to Medicaid, Medicare and the Supplemental Nutrition Assistance Program, also known as food stamps.

In terms of Medicaid, the Ryan budget would cut program spending by a total of \$1.4 trillion over the next 10 years. This cut would repeal expansion of Medicaid under the health care reform law and convert Medicaid from an open ended entitlement program to a block grant. These cuts translate into a 34 percent reduction from current law, including the health care reform law, and a 22 percent reduction to the existing program without expansion under health care reform.

Block grants are currently in place for the Temporary Assistance for Needy Families (TANF) program and smaller federal assistance programs. Proposals to block grant Medicaid date back to 1981 and the federal government offers block grants for other programs, but none comparable in size to Medicaid.

*How would a block grant work?*

Under a block grant, starting in 2013, the federal portion of Medicaid spending would be capped annually and distributed to states each year based on a formula, rather than actual costs. A block grant would cap future spending growth to 4 percent annually, limiting the ability of states to reimburse hospitals and providers, or to flexibly and appropriately respond to an economic downturn or other causes for increased spending, such as medical advances. States would be compelled, though hard pressed, to come up with state reserves to respond to such situations and would likely be forced to make up the difference by capping enrollment, cutting eligibility, limiting mandatory benefits, providing less extensive coverage to beneficiaries or lowering provider reimbursements.

CHF is concerned with the following possible outcomes under a Medicaid block grant:

- ***Loss of Insurance Coverage for Children***  
Analysis of the Ryan budget shows that under most scenarios, states will be unable to sustain the current level of enrollment in the program, even with benefit reductions and lowering financial thresholds for enrollment. Estimates show a loss of insurance in the range of 30.8 to 43.8 million people by year 2021.<sup>13</sup>
- ***Loss of EPSDT Coverage***  
**A block grant would likely allow states to drop EPSDT coverage.** Children, particularly those with special health care needs, would not have access the full range of needed services. States may seek to reduce benefit packages, including EPSDT and other services for children. For many parents, the cost of that care would be unaffordable for them to pay on their own.
- ***Loss of Ability to Respond to Increased Need***  
Block granting the program limits program flexibility. Without federal help, states will be hard pressed, or completely unable, to afford expansion to meet the needs of families losing their jobs and health insurance during periods of economic weakness.<sup>14</sup> For example, monthly enrollment of children in Medicaid increased by 16.4% nationwide between June 2008 and June 2010, reflecting an increase from 22.8 million to 26.5 million children enrolled.<sup>15</sup> This expansion would not have been possible under state block grants.

**Recommendations**

CHF opposes the Ryan budget, especially provisions that block grant the Medicaid program and strip the program of critical funds. Medicaid has been a stalwart of the health care safety net, providing health insurance for millions of our most vulnerable children and controlling costs at a rate that is lower than that of both national health expenditures and employer-sponsored coverage. Medicaid maintains a flexible structure for states to tailor their programs for residents, with 30 states operating under waivers with approval from the federal government. Now is the time to strengthen this program and to ensure its continued ability to provide for those who currently depend on Medicaid as well as those who will need Medicaid in the future.

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