TO: Medicaid Analysts
FROM: Jeanne Lambrew
RE: **CBO Scoring of a Per Capita Cap**
DATE: January 2, 1995

I had a conversation with Jean Hearne at CBO today, and learned the following:

1. The beneficiaries on the December fact sheet are not full-year equivalents. The following adjustments should be used to make them so:

   - Aged and disabled (including QMBs): 95%

   - Adults and children: 75%.

2. QMB expenditures and people: To allocate them to groups, assume that 65% of the dollars and people are aged, 35% of the dollars and people are disabled.

3. They also pull out the IHS, fraud and abuse, and survey and cert. expenditures. These expenditures are assumed to be allocated to groups in proportion to their spending.

We had a difference in the adjusted spending for the adults and kids; we are going to figure that out later.

Jeanne Lambrew
Don Johnson

TO: Medicaid plumbers
FROM: Richard Kogan
DATE: December 20, 1995

Enclosed is the revised version of my draft paper on estimating savings under a Medicaid per-capita cap. The numbers have changed from the original draft for two reasons. First, I have now incorporated CBO's December baseline into the models, and its internal composition makes a number of issues look different.

Second, I discovered a logic error in one of my formulas, giving states far to much likelihood of seeking new, cheap enrollees when their "marginal state costs" declined only slightly. This means that when leakage was likely to be moderately small under my original model, it would be noticeably smaller under my new model.

The bad news is that this correction does not reduce the amount of leakage if one assumes that unenrolled eligible persons are likely to be *much* cheaper than their enrolled counterparts. (In other words, my correction made fairly good situations even better, but did not help the worst-case scenarios.) In such a case, all states would have negative marginal state costs (they would make money, perhaps a significant amount, by enrolling new, cheap persons); a state would have to be both stubborn and antisocial to refuse federal largesse under those conditions.

I've also sent this to Chris Jennings and to OMB.
Please share this with anyone else at HHS who needs or wants it.

TO: Interested parties
FROM: Richard Kogan

CBO Scoring of a Medicaid Per-Capita Cap

December 16, 1995

CBO *will* make estimates of savings from a per-capita cap on Medicaid benefits. The reason CBO scored the administration's and coalition's plans at zero (outside of DSH) was that two specific design features seemed to give HHS sufficient *administrative* flexibility that it could arrange to have little or no savings.

CBO never previously made a formal estimate of the coalition's budget.

This morning I spoke with Paul Van de Water, Director of CBO's Budget Analysis Division. I am paraphrasing what he said, and apologize if I have mis-stated anything.

1) The administration's per-capita cap was not scored as producing savings because it allows the administration to set the capped growth rates at a level to be determined later, by the administration, using data from a new OMB/HHS baseline that has not yet been created. CBO believes that this gives the administration enough leeway to set the caps at a level where they don't squeeze and therefore won't produce any savings.

2) The coalition's bill does set capped growth rates. However, it provides ambiguous language about HHS's estimates of the *base-year levels* (the 1995 base from which future caps are calculated). CBO therefore concludes that HHS could arrange to produce caps that don't squeeze and therefore won't produce any savings.

Previous estimates of the coalition's budget ($84 billion in Medicaid savings) were not official. The numbers circulated by the coalition were based on conversations with CBO, and might have been accurate (at that time) given some or most features of the coalition's bill. But the previous figures did not take into account the design feature just discussed.

My calculations show that a per-capita cap should save about as much from CBO's new Medicaid baseline as from its old. While the new Medicaid baseline is lower (and a per-capita cap might therefore show lower savings), the internal composition of the new baseline offsets that effect. That is, a fixed block grant will show lower savings under the new CBO baseline, but a per-capita cap won't.