

How The Medicaid Per Capita Cap Works

- To give an example of how the per capita cap works, say we are trying to estimate the spending limit in 2000.

	Per Capita Spending*	Index Adjuster **				Indexed Per Capita	Enrollment	Limit
		1997	1998	1999	2000			
	1996					2000	2000	2000
Aged	\$11,300	5.9%	5.8%	4.7%	4.7%	\$13,879	1,000	\$13.9 m
Disabled	\$9,100	5.9%	5.8%	4.7%	4.7%	\$11,177	2,000	\$22.4 m
Adults	\$1,500	5.9%	5.8%	4.7%	4.7%	\$1,842	3,000	\$5.5 m
Children	\$2,400	5.9%	5.8%	4.7%	4.7%	\$2,948	6,000	\$17.7 m
TOTAL							12,000	\$59.5 m
FEDERAL ***								\$35.7 m

* From CBO's January 1997 baseline; includes Federal and State spending

** From CBO's nominal GPD assumptions and the President's policy

*** Assumes a matching rate of 60 percent

- The limit is calculated by (1) multiplying the 1996 per capita spending by the index adjusters for the years between 1996 and 2000; (2) multiplying the indexed per capita spending for 2000 by enrollment by group for that year; (3) adding the group-specific limits to get a single number (\$59.5 million); and (4) multiplying that limit by the matching rate (60%).
- This limit would change if enrollment in the State were different. For example, if the number of children enrolled were 6,500 instead of 6,000, the kids' limit would increase to \$19.2 million, and the total limit would be \$61 million instead of \$59.5 million.

2. FINANCING: Formula

A "per capita cap" is a policy that limits Federal Medicaid spending growth on a per person basis. The Federal payments under this policy automatically adjust to a state's enrollment: if a state has an unexpected increase in enrollment, the Federal government will share in the costs for that population.

- Per person spending levels are estimated using appropriate and definable base year. Certain spending items, such as payments for Medicare premiums and cost-sharing and Disproportionate Share Hospital payments, will be excluded from the spending limit.
- Future year spending limits will be calculated by applying an index to the base year spending per group (estimated separately for non-disabled children, non-disabled adults, disabled and elderly).
- States will receive Federal matching funds up to this indexed spending per person for any current or new enrollee.
- The maximum total amount of Federal matching funds for a given state will depend upon the number and mix of people in the program.
- Protection from recession. Under a period of economic recession, increased enrollment in a state will automatically result in additional federal funds for states. Under a per capita approach, federal dollars will be specifically linked to the number and casemix of enrollees. The Center on Budget and Policy Priorities estimates that Medicaid costs due to increased enrollment could increase between \$8 billion and \$29 billion over seven years depending on the intensity (mild or severe) of the recession.
- Protection from inflation. The Center on Budget and Policy Priorities also estimates that if inflation were just 1 percentage point higher than CBO projects for the next seven years, then total Medicaid costs would be \$65 billion higher over seven years. A per capita approach that uses an index linked to inflation will allow federal funds to match changing state needs in such a situation.

BACKGROUND

PUC

2. FINANCING: Formula

Formula: The proposed formula retains the current Federal matching structure, but Federal spending growth per beneficiary is limited through a per capita cap. The limit is calculated by:

1. **Calculating the base year Federal and state spending per beneficiary**, by beneficiary group, for each state. The four groups are: adults; children; aged; and disabled. Calculating the limit by group allows it to adapt to changes in the type of beneficiaries enrolled in a state;
2. **Multiplying the base year spending per beneficiary by an “index”**, which would be set in the legislation. The index is a factor that is based on some measure of inflation such as the CPI or nominal gross domestic product growth per person. This is used to allow the future year spending per person to keep up with inflation.
3. **Multiplying the indexed spending per beneficiary by the number of beneficiaries in that year.** The limit is the total spending amount that the Federal government will match. By multiplying the indexed spending per beneficiary by the number of beneficiaries in each group, the limit increases or decreases depending on total enrollment and enrollment mix in that year. These group-specific limits would then be summed for the state; and
4. **Multiplying the cap by the Federal matching rate (FMAP).** Once the limit is determined, it is multiplied by the FMAP to determine the maximum Federal spending.

2. FINANCING: Formula: Example of How the Formula Adjusts to Changes in Enrollment

- To give an example of how the formula works, say that a state spends the following amount per person in the base year:

Aged	\$9,000
Disabled	\$8,000
Adults	\$2,000
Children	\$1,000

- If today we predict that enrollment in a state is 12,000 the year 2000, then:

	Enrollment		Base Spending/ Person		Cumulative Index (5 years of 6.5%)	Per Capita Limit	Total Limit
Aged	1,000	x	\$9,000	x	1.37 =	\$12,330	\$12.3 million
Disabled	2,000	x	\$8,000	x	1.37 =	\$10,960	\$21.9 million
Adults	3,000	x	\$2,000	x	1.37 =	\$2,740	\$8.2 million
Children	6,000	x	\$1,000	x	1.37 =	\$1,370	\$8.2 million
Total	12,000				1.37		\$50.6 million

Assuming an FMAP of 50%, the state may receive up to \$25.3 million in Federal funds.

- However, if state's actual aged population grows faster than expected:

	Enrollment		Base Spending/ Person		Cumulative Index (5 years of 6.5%)	Per Capita Limit	Total Limit
Aged	1,500	x	\$9,000	x	1.37 =	\$12,330	\$18.5 million
Disabled	2,000	x	\$8,000	x	1.37 =	\$10,960	\$21.9 million
Adults	3,000	x	\$2,000	x	1.37 =	\$2,740	\$8.2 million
Children	6,000	x	\$1,000	x	1.37 =	\$1,370	\$8.2 million
Total	12,500						\$56.8 million

Now, the state may receive up to \$28.4 million -- \$3 million more than it would have received with the original assumptions.

2. FINANCING: Formula: Example of How States Can Expand Enrollment

- Using the same example, assume that the state managed spending per person below the cap. The state could, at its option, use the extra room under the limit to expand coverage.

	Enrollment	Actual Spending/Person	Per Capita Limit	Per Capita Savings	Total Difference
Aged	1,500	\$10,995	\$12,330	-\$1,335	-\$2 million
Disabled	2,000	\$9,960	\$10,960	-\$1,000	-\$2 million
Adults	3,000	\$2,740	\$2,740	0	0
Children	6,000	\$1,370	\$1,370	0	0
<i>Subtotal</i>					<i>-\$4 million</i>
 New eligibles	 2,000	 \$2,000			 +\$4 million

- Alternatively, the state could simply keep the savings.