

Issue: Why Per Capita Caps Applied to Groups Differs from Per Capita Caps Applied to All Medicaid Recipients

The average per capita Medicaid spending and number of recipients mask significant variations that occur across the program. These trends can be summarized as:

Group	Level (FY 1995)		Growth (FY 96-02)	
	Per Capita Costs (Federal Non-DSH)	Enrollment	Per Capita Costs (Federal Non-DSH)	Enrollment
Aged & Disabled	High: \$4,910	Low: 10.4 million	Low: 4.6%	High: 4.7%
Adults & Kids	Low: \$885	High: 25.1 million	High: 6.5%	Low: 3.4%
Total	Avg.: \$2,055	Total: 36.1 million	Avg: 5.6%	Avg.: 3.8%

As can be seen in this table, the average per capita cost is quite different than the group-specific averages. Additionally, there are large differences in the distribution of recipients and the projected growth rates. Thus, when average growth rates applied to this distribution, the total cost will be different than that calculated using the group-specific growth rates. As a consequence, when per capita spending caps are combined with the average recipient growth (3.8%), the resulting cost differs than if they were applied to groups, using the group-specific recipient growth rates (4.7% and 3.4%).

This difference can be seen if two equations are compared. The first set of equations below show the per capita cap applied to the total expenditures and the total recipient growth rate. The second equation shows the per capita cap applied to the two different subgroups.

Per Capita Cap Applied to Totals

$$\begin{aligned}
 E_{T2} &= (E_{T1}) (\text{Cap}) (\text{GR}_T) \text{ or} \\
 E_{T2} &= (E_{D1} + E_{K1}) (\text{Cap}) [\text{GR}_D (R_D/R_T) + \text{GR}_K (R_K/R_T)], \text{ or} \\
 E_{T2} &= E_{D1} (\text{Cap}) [\text{GR}_D (R_D/R_T) + \text{GR}_K (R_K/R_T)] + E_{K1} (\text{Cap}) [\text{GR}_D (R_D/R_T) + \text{GR}_K (R_K/R_T)]
 \end{aligned}$$

Per Capita Cap Applied to Groups

$$E_{T2} = E_{D1} (\text{Cap}) (\text{GR}_D) + E_{K1} (\text{Cap}) (\text{GR}_K)$$

Where:

E = Expenditures	T = Total
Cap = Per capita expenditure growth cap	D = Aged and disabled
GR = Growth rate of recipients	K = Adults and children
R = Number of recipients	

"E_{T2}" in these two equations are not equal because different recipient growth rates are used. This is demonstrated below when averages are plugged into the equation. For this example, it is assumed that the per capita growth cap is 4.7%. Base year expenditures are \$80.6 billion total (excluding DSH and administration); \$50.8 billion for the aged and disabled, and \$22.2 billion for the adults and children.

Per Capita Cap Applied to Totals

$$80.6 = 74.2 (1.047)(1.038)$$

Per Capita Cap Applied to Groups

$$79.7 = 50.8 (1.047)(1.047) + 22.2 (1.047)(1.034)$$