

# ISSUE BRIEF



## *Medicaid Proposals Represent a Cost-Shift to States*

The American Health Care Association and National Center for Assisted Living (AHCA/NCAL) agree that steps need to be taken to reduce the federal deficit and address the nation's long term debt challenge. AHCA/NCAL cautions that the looming federal budget challenges must be tackled in a careful, deliberate manner that does not exacerbate states' fiscal challenges or undermine our core values and ability to care for our most vulnerable citizens, who require long term care and services. Medicaid is a federal-state partnership, where state funds and matching federal funds in the form of a state's FMAP<sup>1</sup> are used to meet state Medicaid obligations. These obligations include caring for the individuals who require long term care and depend on Medicaid to pay for their care – almost 64 percent of nursing home patients, nearly all those with developmental disabilities as well as approximately 13 percent of those in assisted living today.

While Medicaid is the largest source of coverage for long term care, it already fails to fully cover the cost of nursing home services. According to an independent national study, Medicaid payments were \$5.6 billion short of covering allowable nursing home costs in 2010. For every dollar of allowable costs incurred for a patient in Medicaid nursing home care, the program only paid 91 cents on average. If the federal government were to decrease its share to the states, this shortfall likely would increase, much to the detriment of our citizens who are elderly and disabled.

### **Block Granting Medicaid Will Shift Costs to States, Escalate Underfunding & End Seniors' Nursing Facility Entitlement**

Proposals that convert the Medicaid entitlement into a block grant likely would end the individual entitlement to nursing facility care, which means that frail seniors and individuals with disabilities could be put on waiting lists and have their access to coverage restricted. Additionally, a block grant would eliminate the current formula under which states receive federal dollars through an FMAP rate, which is based on a set percentage of incurred costs; instead, states likely would receive a fixed dollar amount each year set according to an arbitrary baseline that does not account for patient needs. Under some proposals, this fixed federal dollar amount would increase at a substantially slower rate than the rate at which the number of seniors who need long term care services is growing. Over time, such an approach would shift a greater amount of cost to states, which already are struggling under existing budget pressures and would be unable to absorb such additional costs. There would be no new federal funding for a given year should states spend all their federal funds due to rising enrollment, rising costs, increased utilization or new technology. As a result, states would either need to find the dollars to cover costs previously covered by FMAP or underfunding of long term care and other services would increase further; neither option is sustainable over time.

### **Ask Congress...**

- To protect our most vulnerable citizens by preserving the Medicaid safety net, including access to long term care.
- To reject proposals that merely shift costs to state Medicaid budgets.

### **Key Facts**

- 64% of nursing home patients & 13% of assisted living residents rely on Medicaid for each day for their care.
- Medicaid is the largest payor of long term care services.
- Labor comprises close to 70% of a nursing facility's operating costs.
- Long term care directly employs more than 3 million people & contributes to another 2.3 million jobs nationwide.
- A major economic driver, long term care represents 1.3 % of the U.S. GDP.

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<sup>1</sup> Federal Medical Assistance Percentage

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## *Medicaid Proposals – continued*

### **Blended FMAP Rate Would Increase States' Share of Medicaid Costs**

A “blended” FMAP rate would blend the various FMAP rates that a state currently receives into one rate for each state, which then would be reduced by a fixed amount to achieve savings. If a state now receives a 56 percent FMAP for its current Medicaid beneficiaries, a 69 percent FMAP for its Children’s Health Insurance Program (CHIP) population, and would receive a 100 percent FMAP for its newly eligible Medicaid population, instead the state would receive only one set FMAP rate, which represents a blend of the three rates. Given current budget negotiations and new mechanisms focused on generating savings overall, we expect that the new, single blended FMAP rate for the state would be set lower to produce savings. As a result, states’ share of Medicaid costs would increase as the federal share would decrease.

To calculate a blended rate, the government would have to make a number of assumptions about a state’s future Medicaid and CHIP enrollment and expenditures. Clearly, the accuracy of these assumptions would impact the accuracy of the blended rate assigned to each state.

The Administration argues that this new blended FMAP approach would be simpler and save on administrative costs to the Medicaid program. Since administrative costs are comparatively nominal, the only way to generate savings is to provide a lower blended FMAP rate.

### **Provider Tax Reductions Shift Medicaid Costs to States & Threaten Quality Care**

Currently, the maximum allowable provider tax rate is 5.5 percent. In October 2011, the maximum rate will increase to 6 percent. The current proposal to reduce the provider tax threshold first appeared in the President’s FY 2012 proposed budget, which called for a maximum provider tax threshold of 4.5 percent in 2015 and that would further reduce the threshold to 4 percent in 2016 and 3.5 percent in 2017 and beyond.

Thirty-eight states and the District of Columbia<sup>2</sup> have provider tax programs – also called quality fees – that generate additional monies to help fund states’ share of program costs. States use the proceeds and corresponding federal matching funds to increase Medicaid rates to nursing homes and more adequately fund quality long term care services for seniors and people with disabilities.

Given current provider tax rates, 34 states – those states with provider tax rates at or above 3.5 percent – would be negatively impacted by the President’s proposal. The President’s proposal would have the greatest impact on the twenty-three states that have a provider tax rate at or near the 5.5 percent maximum threshold (between 5 and 5.5 percent); another 10 states have rates set between 3.5 and 5 percent, while only five states have provider tax rates between 1 and 3 percent.

### **Working with Congress & Toward a Longer-term Solution**

Over the years, Congress has taken steps to protect our nation’s vulnerable Medicaid population. These safeguards and protections should be maintained in the state-federal partnership. We implore Congress to oppose proposals that would shift costs from the federal government to financially struggling states. Such proposals do little to address the underlying problems of an underfunded and fragmented health care system, and threaten necessary services currently available under Medicaid for poor, elderly Americans and people with disabilities.

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<sup>2</sup> AL, AR, CA, CO, CT, DC, FL, GA, ID, IL, IA, IN, KS, KY, LA, ME, MD, MA, MI, MN, MS, MO, MT, NV, NH, NJ, NY, NC, OH, OK, OR, PA, RI, TN, UT, VT, WA, WV & WI.