NEW JERSEY POLICY PERSPECTIVE

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Governor's Medicaid Proposal Would Shift Costs to New Jersey Taxpayers and Health Care Providers

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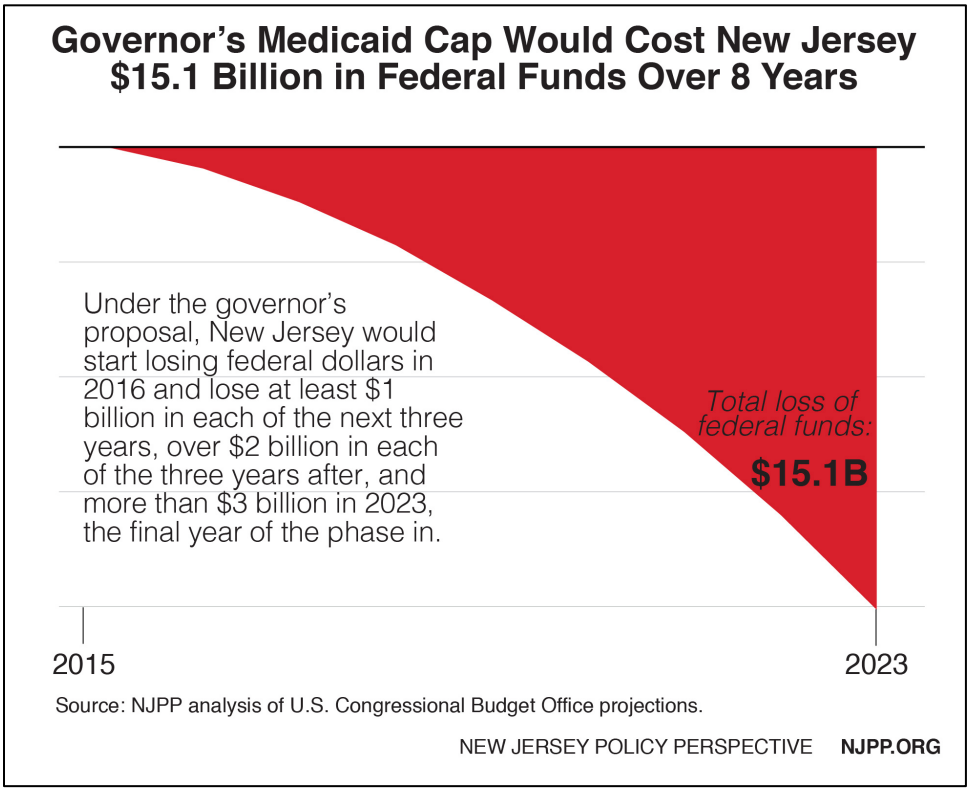
A proposal by Gov. Christie to sharply limit federal health care funding under Medicaid[1] would come at a great price to New Jersey's taxpayers and hit the state's economy hard with the loss of thousands of jobs.

Starting as early as next year,[2] this proposal – known as a Medicaid per capita cap – would result in the loss of about $15 billion in federal funding for New Jersey over eight years, the largest such reduction in the state's history.[3] New Jersey has more to lose than most states because it has many vulnerable residents and thus receives the 10th largest amount of federal Medicaid funding in the nation.[4] New Jersey would be forced to offset the loss of this money by terminating insurance coverage for many, reducing benefits, increasing the co-pays to those still eligible, reducing already low reimbursement rates to providers, cutting other essential state services, raising additional revenue or, probably, some combination.

New Jersey would lose even more federal funding under Gov. Christie's 11 other proposals made on the presidential campaign trail. He says that, along with the cut to Medicaid, these measures would result in over $1 trillion in cuts, nationwide, to key federal programs. These additional cuts to Social Security, Medicare and Medicaid would hit New Jerseyans especially hard since they will in large measure be based on income, and New Jersey has the highest per capita income in the nation.[5] Further, the governor also proposes raising the retirement age for Social Security and Medicare beginning in 2022. This would hit New Jersey harder than any other state, because Garden State retirees receive the highest benefit levels in the nation, and would serve to increase the demand for Medicaid just as its funding would be slashed after a decade of federal cuts.

A Radical Restructuring of Medicaid

The proposal to cap Medicaid would have a severe impact in a state already unable to meet the basic needs of its residents or honor its financial obligations. Many of the 1.5 million[6] aged, disabled, children and adults – almost every fifth resident of New Jersey – who rely on Medicaid would likely lose vital health care services.



Gov. Christie is not alone in making proposals that would cost New Jerseyans vital health care assistance. Congress is simultaneously pursuing equally damaging cuts to the federal budget. The Congressional budget approved in May directs the committees with jurisdiction over Medicaid to cut about a half trillion dollars from the program over the next 10 years. While Congressional committees have leeway about where to cut, converting Medicaid's federal funding structure to per capita caps or a block grant are the ways most frequently mentioned to generate such large savings for the federal government.[7] While governors of both parties typically oppose such large cuts to their states, New Jersey's governor has gone in the opposite direction.

A Medicaid Per Capita Cap: The Basics

Current Medicaid System:

Medicaid provides comprehensive health coverage for lower-income residents. States administer this program, which is mostly paid for by the federal government. Federal funding for Medicaid is open-ended: as long as the state follows federal Medicaid rules and provides any necessary matching funds, the federal government guarantees it will pay a fixed percentage of all costs (generally known as the federal Medicaid matching rate) to provide coverage to eligible persons. The federal matching rate varies by state per capita income, with New Jersey receiving the lowest match at 50 percent for most services. However, like all states, New Jersey receives a 100 percent federal match for the Medicaid expansion population until 2017, when it begins gradually decreasing to 90 percent.

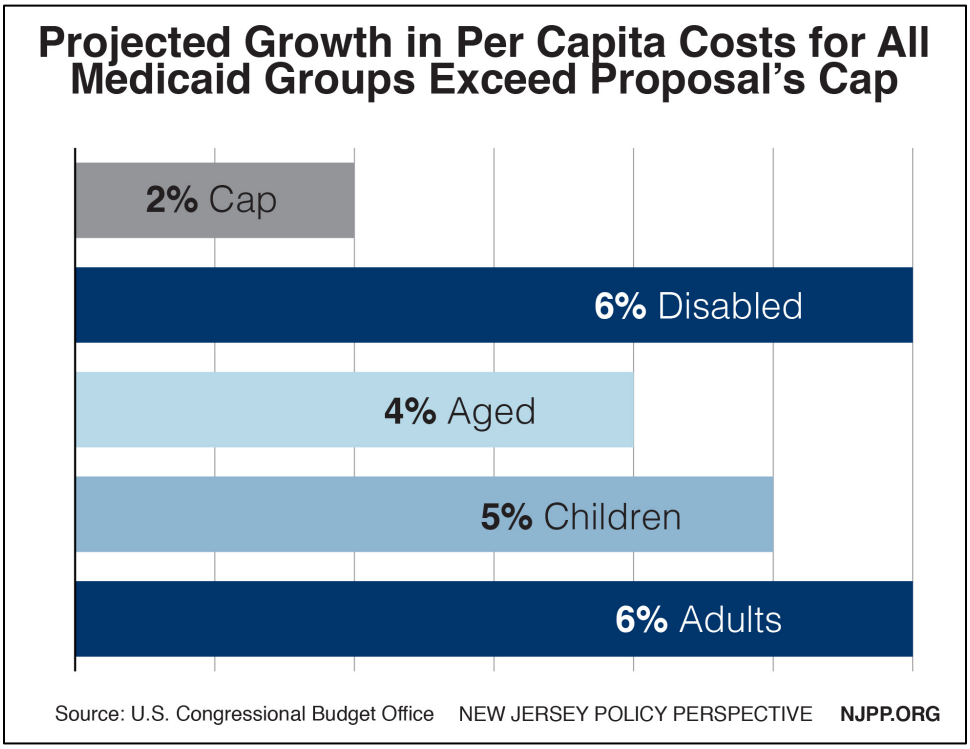
The Governor's Proposal:

Gov. Christie would replace this funding system with one where the federal government sets a specific dollar amount per Medicaid recipient (known as a per capita cap) for each eligibility group. For example, if New Jersey now receives about $10,000 in federal funds per elderly recipient, the per capita cap would initially be set at $10,000 and adjusted each year for inflation. With inflation expected to grow more slowly than health care costs for Medicaid recipients, states will receive much less in federal funding over time than they would under the current structure (with the annual cuts growing larger each year).

Placing a per capita cap on federal Medicaid spending would also jeopardize the many advances the governor has helped New Jersey achieve through his agreement to accept Medicaid expansion. Medicaid enrollment has increased by nearly a half million people via the expansion, playing a large role in reducing the number of residents lacking health insurance.[8] The Medicaid expansion also saves the state $400 million a year, since New Jersey now receives 100 percent federal funding for cases that were previously matched at only 50 to 65 percent – and that doesn't even include the savings of $74 million a year from not having to reimburse hospitals for caring for people who lack insurance.

The governor's plan is the most radical of several proposals to achieve federal savings by cutting vital health assistance.[9] These savings would be generated by placing a per-person funding cap on each group of Medicaid recipients – the aged, disabled, adults and children – and would mostly be shifted to state budgets to cover. All told, a per capita cap would reduce federal Medicaid spending by 23 percent through 2023.

In addition, the governor's proposal is based on an insufficient criterion to adjust the cap for inflation. While total federal Medicaid costs are expected to increase by about 8 percent a year over the next decade, the governor's proposal is based on the Consumer Price Index, which is projected to grow by just 2 percent.[10] While this saves the federal government much more money, it places *all* eligible Medicaid groups at risk for further cuts, since experts project that per capita Medicaid costs will grow by much more than 2 percent for all eligibility groups.

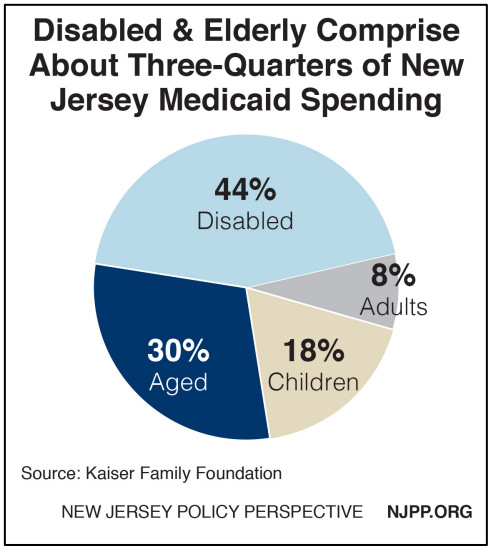


A per capita cap provides greater cost certainty to the federal government by transferring all the risk to states, since the growth of health care costs defies reliable predicting. While the growth rate has slowed in the past several years, there is evidence it is quickening again as the economy improves. But no one knows for sure, or by how much. Even a slightly inaccurate forecast would force states to pick up the entire tab for increases in the cost of providing care under Medicaid, to cut coverage even more, or both. Per capita caps also do not account for expensive but life-saving breakthrough treatments or significant demographic changes.

Harm Would Be Deep and Widespread

The aged and disabled would be especially vulnerable under the governor's proposal since, in order to find the largest savings, states would most likely make cuts in services to the populations whose care is the most expensive.

In New Jersey, services to people 65 and over account for 30 percent of all Medicaid spending, mainly for nursing home care. Services for the disabled account for 44 percent, while spending on children (18 percent) and adults (8 percent) makes up the rest. Over the next 10 years, federal Medicaid spending is scheduled to



increase by about 6 percent for each of these groups – except for adults, which will grow more quickly (by 11 percent) due to Medicaid expansion.[11] But even with higher growth for adults, most future Medicaid spending in New Jersey will still be for the aged and disabled.

Losing $15 billion in federal funds over eight years would harm the state's economy and is likely to result in the loss of tens of thousands of jobs in New Jersey.[12] Those jobs would be mainly in the health care industry, which is already suffering from other funding cuts and low Medicaid reimbursement rates (which would likely get even lower under this proposal). Hospitals and other health care providers would also have to absorb much of the cost of uncompensated care as a result of Medicaid cuts or, if allowed (as physicians are), they may choose to stop treating Medicaid recipients altogether (already 54 percent of New Jersey physicians do not accept Medicaid patients, the highest rate in the nation).[13]

New Jersey's dramatic success in expanding Medicaid also makes the state more vulnerable to bigger cuts in federal funds under the governor's proposal. Because the federal government is paying the entire cost of the expansion through 2016 and not less than 90 percent in later years, and more people have signed up for Medicaid coverage than expected, New Jersey is receiving an additional $2 billion in federal aid a year.[14] These additional dollars would be subject to the per capita cap, increasing the total amount that New Jersey would lose.

The same problem applies to the $400 million in savings to the state budget achieved as a result of the governor's decision to expand Medicaid.[15] These savings have helped New Jersey balance its budget; if the savings are reduced, the state would face an even larger shortfall. In other words, at the same time the state would have to replace lost federal funds for Medicaid services, it would also have less money available for other state needs.

Proponents of per capita caps argue that such proposals give states more flexibility to make Medicaid more efficient. But New Jersey already operates a more streamlined Medicaid, due to five-year waivers of many federal rules granted in 2012 to improve the administration and effectiveness of the program. The Christie administration estimates these waivers will save about $4 billion in federal and state funds over five years, demonstrating that the federal government already grants a great deal of flexibility for states to administer Medicaid.[16]

In addition, the federal government approved New Jersey's request to transfer more Medicaid beneficiaries into Health Maintenance Organizations (HMOs) several years ago to reduce costs and better manage their care. As a result, these organizations now serve 93 percent of all Medicaid recipients, generating additional savings.

The bottom line for New Jersey is that there is little room left for additional Medicaid savings. Moreover, it is unlikely that the state could reduce its administrative costs much further as they are already only about 6.5 percent[17] of total Medicaid costs, about one-third the administrative costs in the private insurance sector.

Social Security & Medicare Cuts Would Hit New Jerseyans Hard

The governor's proposal to increase the eligibility age for Social Security and Medicare to 69 from 65 would deprive New Jersey of *even more* federal funds.

New Jersey's relatively high incomes mean that retirees in the state receive the largest average annual benefits from Social Security ($15,912)[18] and because of its highest-in-the-nation medical costs, the largest average Medicare ($11,903)[19] payments. In all, New Jersey retirees receive $18 billion in Social Security benefits a year – 10th highest in the nation[20] – while the $16 billion in Medicare benefits ranks ninth.[21]

New Jerseyans Have the Most to Lose from Social Security & Medicare Cuts

The Garden State has the highest average annual benefit in each program

State	Avg. Annual Social Security Benefit
New Jersey	$15,911
Connecticut	$15,804
Delaware	$15,431
Michigan	$15,088
Maryland	$14,964

State	Avg. Annual Medicare Benefit
New Jersey	$11,903
Florida	$11,893
Louisiana	$11,700
New York	$11,604
Texas	$11,479

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About one of every three elderly New Jerseyans avoids poverty because of the Social Security benefits they receive.[22] If their benefits were delayed and they were no longer eligible for Medicare, many of New Jersey's aged would likely become eligible for Medicaid. This would shift even more costs to the state, because it chips in for Medicaid – but not Social Security or Medicare – costs.

While this eligibility change would be phased in starting in 2022, by then New Jersey would already be losing about $3 billion a year in federal Medicaid funds due to the per capita cap – making more state Medicaid spending an even tougher, if not impossible, financial proposition.

New Jersey Policy Perspective

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Endnotes

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[2] Congressional Budget Office, *Options for Reducing the Deficit: 2014 to 2023,* November 2013. https://www.cbo.gov/content/options-reducing-deficit-2014-2023
[3] The above CBO report estimates national savings of $606 billion from 2017 to 2023 under the per capita cap option, which appears to have been selected by the governor from the report since he refers to a CBO estimate of over one half trillion dollars in his speech. Based on fiscal year 2014 federal Medicaid funding data provided in the National Association of State Budget Officers' *State Expenditure Report, 2012-2014* (https://www.nasbo.org/publications-data/state-expenditure-report/state-expenditure-report-fiscal-2012-2014-data), NJPP calculated that federal Medicaid expenditures in New Jersey accounted for 2.49 percent of national federal expenditures. This percent was applied toward the $606 billion estimate for the per capita cap option. It is likely that share has increased, and will continue to do so, because enrollment has been increasing at a faster than average rate due to the Medicaid expansion in New Jersey – therefore the $15 billion estimate for New Jersey is conservative.
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[14] Ibid 12
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[16] New Jersey Office of Legislative Services, *Department of Human Services Responses to 2016 Budget Questions*, 2015. http://www.njleg.state.nj.us/legislativepub/budget_2016/DHS_response.pdf
[17] NJPP analysis of administrative data in Center for Medicaid Services' *Medicaid Financial Management Report for 2012*. http://medicaid.gov/medicaid-chip-program-information/by-topics/financing-and-reimbursement/expenditure-reports-mbes-cbes.html

[18] NJPP analysis of U.S. Social Security Administration's *Annual Statistical Supplement to the Social Security Bulletin,* 2014. http://www.socialsecurity.gov/policy/docs/statcomps/supplement/2014/
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