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New Proposals Pushed by Senator Toomey would Hurt Vulnerable Pennsylvanians in Medicaid

By Patrick Keenan and Marc Stier June 22, 2017

Pennsylvania must brace itself for a substantial decrease in federal Medicaid payments that would devastate our state budget and cause massive losses in Medicaid coverage as the Senate moves to pass a version of the House's American Health Care Act. Under the leadership of Pennsylvania's own junior senator, Pat Toomey, that version of the bill has significantly deeper cuts to Medicaid than the House bill.

Let's start with the substantial decreases in federal Medicaid payments. Our review of preliminary state data and analysis shows that Pennsylvania would lose $20.5 billion in federal Medicaid dollars by 2025 (or an average of $3.4 billion per year) under the House's plan. If Senator Toomey's plan were enacted, those losses would increase to a loss of $29.1 billion (or an average of $4.8 billion per year).

These are big numbers, and it is important to understand that they are artificially created. Neither the House plan nor the Senate plan pushed by Senator Toomey are based in reality. The per capita caps proposed break the partnership and shared responsibility for costs that currently exist between the states and the federal government, and in doing so eliminate the federal oversight of the program, allowing states to cut whatever and whomever they chose, without checks and balances.

Medicaid in Pennsylvania between 2012 and 2014 grew on average at 3.9 percent. Right now, as costs rise and more people enroll in the program, the federal government provides a matching amount on every dollar spent. Under the House proposal, the growth rate would be artificially set to the national rate of medical inflation (CPI-M) that the nonpartisan Congressional Budget Office expects to be 3.7 percent. The House bill adds a one percent adjustment for seniors and people with disabilities. The gap between what we actually spend and the lowered growth rate generates a loss of federal funds by 2025 in Pennsylvania equivalent to $20.5 billion (or $3.4 billion on average per year). Senator Toomey and the Senate proposal picks an even lower rate, the national rate of inflation in urban areas (CPI-U), which would be 2.4 percent. This 1.5 percent difference between our actual costs and new lower reimbursement would increase the loss to $29.1 billion (or a $4.8 billion on average per year).

It is important to note that while our program currently grows at 3.9 percent in Pennsylvania, any changes that increase that growth would go entirely uncompensated. For example, if there is a new natural disaster, such as Zikka, or a worsening public health crises, like the opioid epidemic, a natural disaster that increases health care spending, or even an economic downturn or recession, Pennsylvania would be left holding the bag and would not get any additional dollars to address these unexpected events. Pennsylvania also has a rapidly aging population, not just with large increases of those over 65, but with large increases in those over 85. These population shifts

are likely to affect our natural growth rate, making the unnatural cap even more extreme. Lastly, advances in medicine, like life-saving medical procedures or new pharmaceuticals, would not be reimbursed and might be underutilized because the state would not have additional funds to pay for the higher costs of these more expensive advances.

The House and Senate claim they are pursing per capita caps to control costs, but this falls flat in Pennsylvania. Pennsylvania has aggressively controlled costs by taking advantage of the flexibility currently allowed the states. Our current growth rate in the Pennsylvania is 3.9 percent. The national growth rate in Medicaid is 4.4 percent, while the national growth rate for private insurance is 5.3 percent[i]. Pennsylvania has successfully controlled costs through managed care and payments that incentivize value not volume. This has slowed the growth of costs in the commonwealth. It is also important to note that, across the board, Medicaid has historically grown at a slower rate than Medicare, employer-sponsored insurance, and private health insurance.

Pennsylvania lacks the resources to replace these lost federal funds. Losing $3.1 billion (or $4.8 billion) per year would effectively double our current budget deficit (or more), with Pennsylvania taxpayers left holding the bag. Pennsylvania would have no other choice but to reduce enrollment and cut benefits, even to vulnerable populations and the medically needy. There is no clear path for how those cuts would be made. Estimates vary, but show that our Medicaid program would no longer cover between 419,000 and 612,700 people if proposals similar to the House and Senate bills become law. Currently, 75 percent of enrollees in Pennsylvania's Medicaid program are children, seniors, and people with disabilities. The state would have the difficult choice of either cutting some people from every category, including seniors, children, and people with disabilities, to preserve care for those that need it the most, or totally eliminating the popular Medicaid Expansion that covers many medically-needy, low income, and older adults. But because funding would decline with enrollment, the magnitude of this reduction in enrollment involved in eliminating the Medicaid Expansion would simultaneously require the state to also cut certain kinds of care from children, seniors, and people with disabilities. Going down the first path shows us that 125,100 children, 52,600 people with disabilities, and 48,000 seniors could lose. coverage.[ii] If Senator Toomey's proposal is enacted, the cuts would be so deep that it is likely Pennsylvania would need to pursue both paths: reducing enrollment from every group and ending the Medicaid Expansion while also reducing benefits across the board.

If Pennsylvania needed to cut benefits, it would likely end services that help people live independent lives. Those include home and community-based services that keep people out of institutions, support that helps individuals with complex health needs, certain therapies for children with disabilities, school-based health services, oral health benefits, and transportation that gets home-bound individuals to the doctor. Pennsylvania would have to cut these things to keep the most critical benefits. The loss of these supports, however, means people will be sicker, less independent, and have poorer health outcomes in the future. These cuts are penny wise and pound foolish, as they would create greater health care costs in the future.

Other options to save money such as creating waiting lists and time-limiting benefits would have to be considered. Reimbursement rates to doctors and hospitals, which are already low, will have to be cut, leading providers to drop out of the program.

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[i] Park, Edwin. "Toomey-Lee Proposal Would Significantly Expand House Bill's Already Deep Medicaid Cuts" (May 18, 2017). Center on Budget and Policy Priorities. Accessed at: http://www.cbpp.org/research/health/toomey-lee-proposal-would-significantly-expand-house-bills-already-deep-medicaid.

[ii] Gee, Emily. "CBO-Derived Coverage Losses by State and Congressional District" (May 25, 2017). Center for American Progress. Accessed at: https://www.americanprogress.org/issues/healthcare/news/2017/05/25/433017/cbo-derived-coverage-losses-state-congressional-district/. We adjust the CAP projections in one critical way: We assume that the state will not continue the Medicaid expansion after the federal reimbursement rate drops from 90% to the reimbursement rate for traditional Medicaid of about 50.1%. We base that projection on the state of budgetary politics in Pennsylvania, in which we are now about to enter the seventh year in which the General Assembly will not raise taxes to balance the budget but instead will rely on various gimmicks to adopt a budget that is balanced in name only. Under these circumstances we do not expect any state funding will be available to continue the Medicaid expansion for potential new enrollees after 2020.

Lastly, this dramatic, radical shift in Medicaid opens the door to deeper cuts in the future. In the future, lawmakers looking to secure additional funds in the federal budget could "dial down" the per capita caps to get more money for federal priorities, but this would further choke our state budget and the Medicaid program. In fact, we already saw this when the president presented his budget. He called for an additional $600 billion in cuts to Medicaid on top of the $834 billion already proposed by Congress.

If either the House or Senate bills become law, they will usher in a harsh reality in Harrisburg: Those who are in the most need of medical care — the children, seniors, and people with disabilities Medicaid was designed to protect — will see lasting cuts to enrollment and benefits when they need it the most. Even if the Senate abandons Senator Toomey's extreme position and goes with the House version, Pennsylvania cannot magically find $3.4 billion additional dollars each year. The commonwealth has used the flexibility it currently has to be more efficient and innovative in controlling costs; the only path forward is eliminating people and necessary benefits.

Key Points:

- Limits on Medicaid funding imposed by per capita caps are harsh, unrealistic, and not aligned with the natural growth rate of health care costs.
- Pennsylvania cannot afford to lose the $3.4 billion a year under the House health care bill without ending expanded Medicaid and cutting enrollment access and ending life-saving benefits in traditional Medicaid. Roughly 790,000 people will lose insurance due to the cuts to Medicaid.
- The majority of the pain felt in the Medicaid program (53.8 percent of the cuts) would be felt by seniors, children, and people with disabilities.
- The Senate health care bill appears to include a proposal championed by Senator Toomey that would reduce federal funding even more – $4.8 billion a year from Medicaid. Hundreds of thousands more Pennsylvanians will lose their insurance or see their benefits and provider options radically curtailed.

Data Notes:

To calculate the $20.5 billion in Medicaid cuts by 2025 with the average of $3.4 billion in cuts per year, PHAN reviewed available data and preliminary calculations made by the Pennsylvania Department of Human Services. It followed the formula used in the AHCA by using expenditures and enrollment in 2016 as a base year, and trending it forward to 2020 when the cuts would begin. We assumed actual growth in program spending to be at 3.9 percent, which is the overall growth per year between 2012 and 2014. We applied this to the total spending in 2016 and trended it forward. We acknowledge that various market forces could sway this significantly, and decided to rely upon the most recent information we have about Medicaid growth in Pennsylvania. We assumed that the growth in each enrollment category would follow the AHCA outline (CPI Medical + 1% for seniors and people with disabilities and CPI Medical for the remaining categories). We looked at total yearly covered lives in each category and increased enrollment by one percent each year to account for population growth. We acknowledge that certain categories may grow at different rates and, as noted above, did not take into account Pennsylvania's quickly aging old-old population. We used a one percent growth rate across the board to be conservative in our estimates. We adjusted for the decreased Federal Medical Assistance Percentage in 2020 for the Medicaid Expansion populations. We used the average per enrollee spending, which we created with data on total spending and total covered lives in a year) to adjust for variations among spending within a Medicaid enrollee category. This approach is also conservative in that it does not take into account the possibility of abnormal spending growth in particular enrollees.

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