The Danger to Alaska from a Block Grant and Other Harmful Medicaid Proposals
Background and Talking Points

Background. Governor Dunleavy has targeted Medicaid for deep cuts since he took office last December. While the legislature didn't pass bills he supported to scale back the state's Medicaid expansion and impose a work requirement on beneficiaries, a series of budget cuts enacted this year will reduce the state's Medicaid spending by more than $100 million. It is unclear how the state will achieve savings of this magnitude, although as first steps it cut provider reimbursement rates and eliminated dental benefits for adult beneficiaries.

Parallel to this legislative agenda, in the spring the Dunleavy administration contracted with the Public Consulting Group to analyze the feasibility of using federal waiver authorities to move some beneficiaries into marketplace plans, take coverage away from others who don't meet a punitive work requirement, and convert the financing of the state's federal Medicaid funding to a block grant or per capita cap. The PCG report was released in August. In addition, in a March letter to President Trump, Governor Dunleavy expressed interest in converting Alaska's federal Medicaid financing to a block grant.

Given Governor Dunleavy's established interest in pursuing a Medicaid waiver, it is likely his administration has taken note of a proposal recently introduced in Tennessee to provide federal Medicaid funding for children, low-income parents, and people with disabilities through a capped block grant. Under Tennessee's proposal, if costs exceed the block grant, the state would be responsible for the full excess amount. If costs are less, Tennessee would keep half of the unspent federal funds. Tennessee is also requesting authority to cut services without federal approval, waive federal standards for managed care plans, and spend federal Medicaid dollars on anything the state determines will improve beneficiary health. Unlike Alaska, Tennessee hasn't expanded Medicaid.

Key points on Tennessee's "block grant" proposal

- The proposal would put coverage and services at risk for vulnerable Medicaid beneficiaries.
  - Tennessee's proposal would give the state new authority to cut services for children, low-income parents, and people with disabilities. Under the proposal, the state could:
    - eliminate or restrict services like physical therapy, hospice, and transplant coverage without normal federal oversight – and arbitrarily limit who gets them,
    - cut back on core health care services like hospital care and emergency services without federal approval or public notice,
    - allow Medicaid managed care plans to restrict access to needed care, and
    - exclude coverage of high-cost prescription drugs.
  - The proposal gives Tennessee incentives to cut, by allowing the state to divert Medicaid dollars to other areas of its budget or tax cuts without losing federal funding.
    - That means Tennessee could use federal Medicaid funding to supplant current state spending on, for instance, social services or public health infrastructure. The net result would be less state spending on health care and more state dollars for tax cuts or other areas of the budget.
  - While it includes an adjustment for unexpected enrollment growth, the proposal puts Tennessee on the hook for unexpected increases in *per-person* Medicaid costs, for example, from the opioid crisis or other public health crises.
    - Because it would squeeze federal funding exactly when per-person costs are highest, the waiver could put coverage at risk even for groups excluded from the block grant itself, such as seniors and some children with disabilities.

- Tennessee's proposed funding structure is not approvable under federal law. Any approvable waiver would likely give the state less federal funding and put it at greater financial risk.

- Tennessee is asking to do away with Medicaid's matching structure and to keep much of its federal funding even if enrollment and state spending fall. But Medicaid's matching structure can't be waived: federal law doesn't allow waivers under which Tennessee could spend less without losing any federal funds.

- For a full CBPP analysis of Tennessee's proposal, see "Tennessee Block Grant Proposal Threatens Care for Medicaid Beneficiaries."

Key points on other Medicaid policies examined by the Public Consulting Group

- There's no evidence that providing coverage to Medicaid beneficiaries through Marketplace plans would improve the health of Alaskans, and it would probably increase state costs rather than save money. A study comparing the experiences of Arkansas (which expanded Medicaid through the private option) and Kentucky (which, like Alaska, expanded Medicaid without a waiver) showed huge benefits to low-income individuals in *both* states including increases in the share of people with health coverage, a personal physician, getting regular care for chronic conditions, and those reporting "excellent" health. But the study didn't find any evidence that private option coverage was better than Medicaid, saying "the results imply that coverage expansion is quite important for patients, but the type of coverage obtained is less critical." As the PCG report notes, because Marketplace coverage is typically more expensive than Medicaid, the private option would likely *increase* Alaska's state Medicaid costs. This would also make it difficult for Alaska to prepare a private option waiver that meets federal budget neutrality rules which stipulate that federal Medicaid spending with a waiver can't exceed spending without a waiver.

- The PCG report is wrong when it says, "evidence has yet to emerge showing work requirements result in lowering Medicaid enrollment and reducing cost." Arkansas implemented such a program last year and more than 18,000 people (or a quarter of those subject to the requirement) lost their Medicaid coverage, and most became uninsured. A federal judge vacated the federal government's approval of work requirements waivers in Arkansas, Kentucky, and New Hampshire in large part because it failed to properly consider the likely coverage loss.

A work requirement is likely to increase administrative costs because it forces states and the federal government to spend money on eligibility system changes, notices, and increased staff to track compliance, address questions, and handle appeals. A fiscal note prepared for a work requirements bill considered by the Alaska legislature in 2018 projected it would cost Alaska $78.8 million over six years, including about $14 million per year in annual ongoing costs.

- Alaska has already taken steps to make its Medicaid delivery system more efficient without pursuing harmful policies like a block grant or a work requirement. Senate bill 74, which was passed by the legislature in 2016, instructed the state to pursue a variety of initiatives including reforms to its prescription drug program and other cost containment strategies that produced $140 million in state savings in fiscal year 2018. And CMS recently approved another part of SB 74, a waiver that will allow the state to provide additional services to individuals with substance use disorders.