Medicaid Federal Financial Modeling

MAPOC Presentation

March 14, 2025

Medicaid Federal Modeling Background

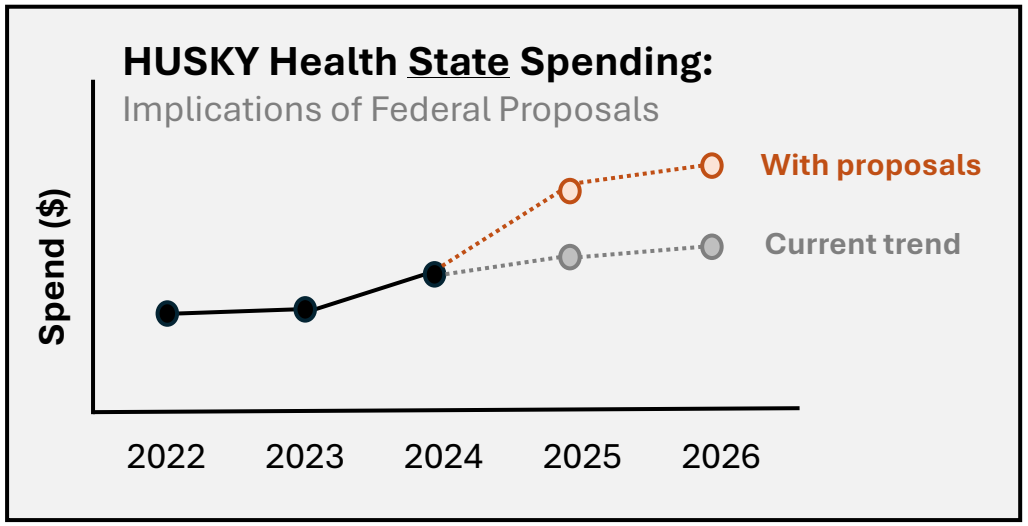
- Congress has been discussing and voting on the federal budget and many of those discussions include Medicaid
- The U.S. House approved a resolution that *might* reduce overall national Medicaid funding by $880 billion over the next ten years
- We don't yet know how Medicaid might be cut, but we do know that in order to meet the targeted $880 billion federal reduction, Medicaid will almost certainly be the primary program impacted
- DSS and the Tobin Center for Economic Policy at Yale University are modeling the financial impact should one or several of the discussed proposals pertaining to Medicaid be enacted

Objective: Modeling Financial Impacts

Context: Proposals to reduce federal Medicaid spending—if enacted—would either increase financial burdens to state budgets and/or result in reductions to the Medicaid program.

Goal: For proposals, create a flexible tool to model financial impacts (Connecticut-specific).

Example of output from financial models



Federal proposals modeled:

1. Reduce federal match for HUSKY D (90% to 50%)
2. Remove (or reduce) federal match minimum of 50%
3. Per capita capped federal spend
4. Reduce provider tax safe harbor limit
5. Penalty for states funding healthcare for non-citizens
6. Sunset enhanced subsidies for Covered CT
7. Reduce admin federal match (62% to 50%)
8. Reduce all non-HUSKY D enhanced program match to 50%

Other proposals, such as **work requirements**, could affect administrative funding and capacity, as well as result in individuals losing Medicaid coverage.

Federal Proposals to Cut Medicaid Spending [1]	**Projected Impact** (SFY 2026) *Updated 3/13/2025*	**Member Equivalency** [2] *For modeling purposes only*
1. Reduce federal match for HUSKY D (90% to 50%)	$ 948 M	118 k
2a. Remove federal match minimum (50% to 25.8%)	$ 2.07 B *+ $115-120M Medicare D clawback*	257 k
2b. Reduce federal match minimum (50% to 40%)	$ 853 M *+ $45-50M Medicare D clawback*	106 k
→ (1) & (2a) Combined	$ 3.5 B *+ $115-120M Medicare D clawback*	466 k
3. Per capita capped federal spend	$ 68 M **→ $1.35 B (7-year cum.)**	9 k *167 k (7-year cum.)*
4. Reduce provider tax safe harbor limit	$ 105 M	13 k
5. Penalty for funding healthcare for non-citizens	$ 682 M *-10% on all FMAP*	85 k
6. Sunset enhanced health insurance exchange subsidies supporting Covered CT	$ 13 M *Half-year impact (Jan '26 onward)*	2 k
7. Reduce admin federal match (62% to 50%)	$ 69 M	9 k
8. Reduce other program (non-HUSKY D) enhanced match to 50%	$ 21 M	3 k
9. Work requirements for Medicaid programs	Analysis Pending	Analysis Pending

[1] Proposals are <u>not</u> mutually exclusive. Projections can include multiple proposals simultaneously, which may impact the total projected impact.

[2] Alternatives can be pursued **before** reducing enrollment, such as service reductions. For demonstration only, we show how the financial impact corresponds with enrollment in existing programs. This assumes $670 per member per month (PMPM) and state share proportion remains constant.

Modeling Assumptions

Financial impacts use DSS Fiscal projections as much as possible … **but** requires reconciling across multiple sources.

Impact on program coverage assumes:
(1) state share proportion remains constant, &
(2) average across all programs is $670 PMPM.

Medicaid Segment	**Current Enrollment** (Feb 2025)
HUSKY A	526,294
HUSKY B	23,755
HUSKY C	79,667
HUSKY D	315,185
Total	**944,901**

Expenditure Category *Reconciled across multiple sources*	**SFY 24** *Example year*	**Source for Projections**
Medicaid *Medical, pharmacy, dental, DSS waivers, GME, DSH*	$ 8.264 B	DSS Fiscal
Medicare Savings Program	$ 416 M	DSS Fiscal
Hospital Supplemental	$ 568 M	Assume fixed
Non-DSS Medicaid Spend *DCF, DMHAS, DDS, DVA, SBCH*	$ 1.684 B	Assumes same growth rate as Medicaid costs
HUSKY B	$ 42 M	DSS Fiscal
Admin *Personal Services, Other Expenses*	$ 444 M	Assumes 10% growth rate (via CMS-64 data)
TOTAL MEDICAL COSTS	**$ 11.418 B**	

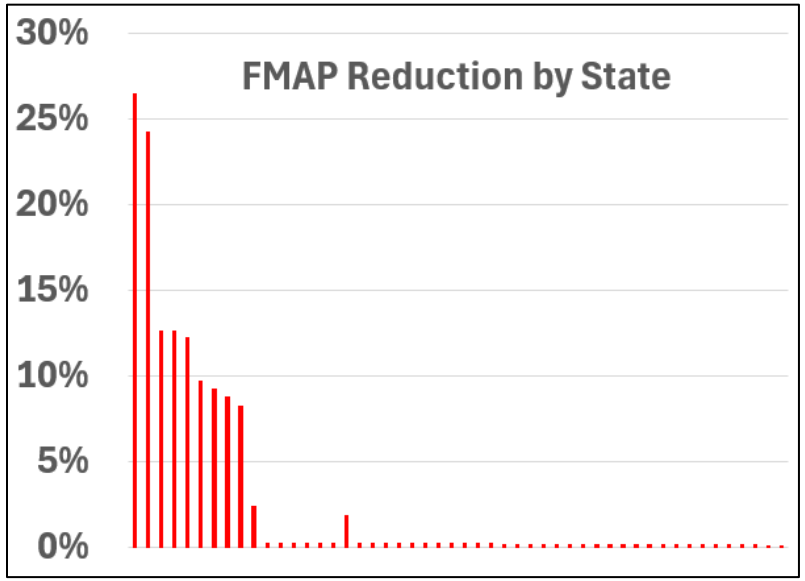
Remove federal match floor

If floor is removed, revert to FMAP general formula

$$\text{General FMAP} = 1 - 0.45 \times \left[\frac{(\text{State per capita income})^2}{(\text{US per capita income})^2}\right]$$

$$\text{Connecticut FMAP} = 1 - 0.45 \times \left[\frac{(\$85{,}566)^2}{(\$66{,}632)^2}\right] = 25.8\%$$

Several other states will be impacted by an FMAP floor removal.



#	State	2021-2023 Average Per Capita Personal Income [1]	FMAP - Derived	Traditional FMAP (FY2026) [2]	FMAP Reduction
1	Massachusetts	$ 86,867	23.5%	50.0%	26.5%
2	**Connecticut**	**$ 85,566**	**25.8%**	**50.0%**	**24.2%**
3	New Jersey	$ 78,633	37.3%	50.0%	12.7%
4	New York	$ 78,614	37.4%	50.0%	12.6%
5	California	$ 78,359	37.8%	50.0%	12.2%
6	Washington	$ 76,751	40.3%	50.0%	9.7%
7	Wyoming	$ 76,491	40.7%	50.0%	9.3%
8	Colorado	$ 76,149	41.2%	50.0%	8.8%
9	New Hampshire	$ 75,818	41.7%	50.0%	8.3%
10	Maryland	$ 71,937	47.6%	50.0%	2.4%
-	District of Columbia	$ 101,876	0% (-5.2%)	70.0%	70.0%

[1] Data sourced from the U.S. Bureau of Economic Analysis (state estimates; U.S. estimates). The average per capita personal income for the U.S. from 2021-2023 was $66,632 ($64,419 in 2021; $66,061 in 2022; $69,415 in 2023).

[2] Federal Medical Assistance Percentage (FMAP) for Medicaid and Multiplier. KFF State Health Facts. Link.

3. Per capita or block grant

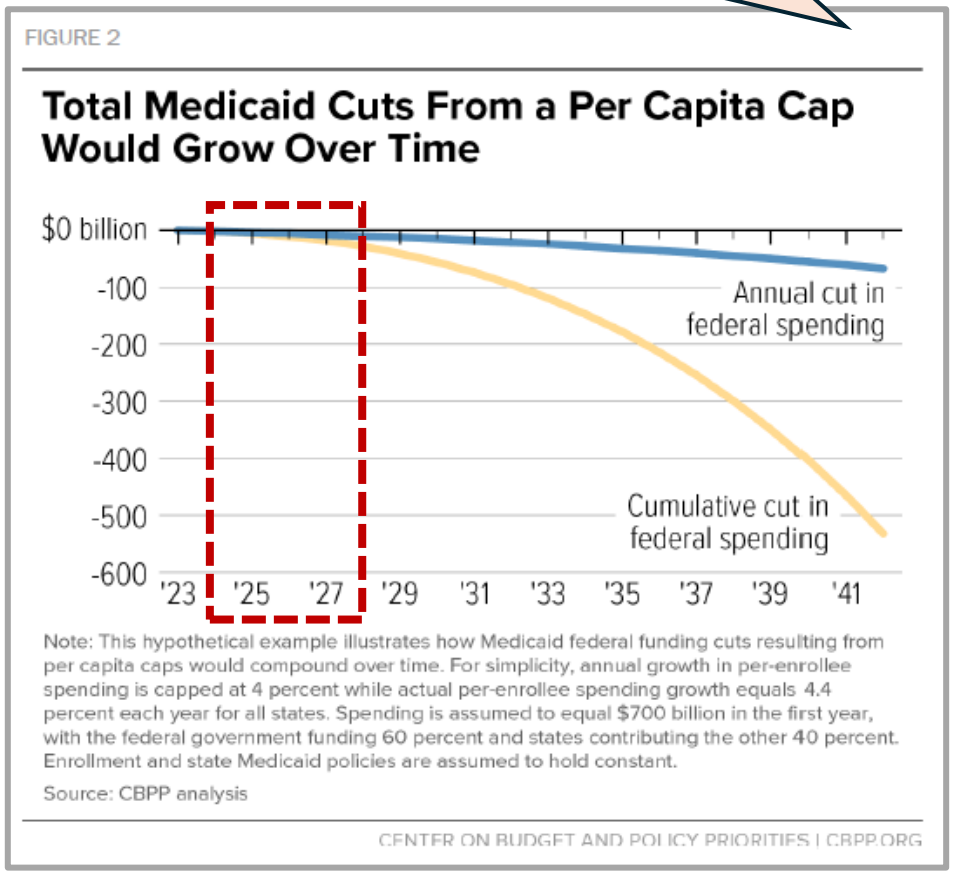
How do we model the financial impact of capped federal funding?

Connecticut Model Estimates

SFY	Financial Impact Federal dollars at-risk	Member Equivalency Assuming $670 PMPM for entire program
2026	$ 68,435,356	8,512
2027	$ 105,886,813	13,170
2028	$ 145,630,233	18,113
2029	$ 187,773,085	23,355
2030	$ 232,427,345	28,909
2031	$ 279,709,679	34,790
2032	$ 329,741,627	41,013
TOTAL *7-year cumulative*	**$ 1.35 B** cumulative	**167,861** cumulative

Projections assume difference between the capped growth rate (used for federal per capita share) and **actual** inflation of medical spend (highly uncertain).

Figure 2 (CBPP analysis[1]) emphasizes that impacts to state budgets may be small in the first few years but **exponentially increases** due to compounding differences.



[1] Orris and Lukens. Medicaid Threats in the Upcoming Congress. Center on Budget and Policy Priorities. December 3, 2024. Link.

4. Reduce provider tax safe harbor limit

How to model the financial impact of reducing taxes for Medicaid services?

States financing Medicaid through provider taxes must comply with federal standards, e.g., safe harbor capping taxes at 6% of patient revenues. Congressional proposals could reduce safe harbor tax to 3% by 2028.

Note: Modelling does **not** include Outpatient Hospital impacts, since outpatient taxes comply with the indirect hold harmless test (assuming no changes to safe harbor rule).

Projected Impact* *Updated 2/13/2025*	**SFY 2026** Tax cap 4%	**SFY 2027** Tax cap 3%
Financial Impact State revenue and federal dollars at-risk	$ 105 M	$ 370 M
Member Equivalency Assuming $670 PMPM for entire program	13,100 members	46,039 members

	Estimated Taxes Assessed		Effective Tax Rates		Change Modeled	Federal $ Impact
Facility Type	**SFY26 Est. Tax Assessed**	**(Original) User Fee Tax Rate**	**2023 Est. Revenue**	**Current Tax Rate**	**SFY26 Effective Tax Rate**	**Assume All Tax Revenue is Matched**
OP Hospital	$ 514.5 M	10.4858% Tax based in 2016	$ 7.4 B	6.97%	n/a	n/a
IP Hospital	$ 305.5 M	6% Tax based in 2016	$ 7.0 B	4.37%	4% - 0.37%	66%
Nursing Home	$ 122.1 M	6% Tax based in 2012	$ 2.7 B	4.57%	4% - 0.57%	50%
ICFs/IID Intermediate Care Facilities for Individuals w/ Intellectual Disabilities	$ 10.9 M	6% Tax based in 2012	$ 0.3 B	3.76%	4% + 0.24%	50%

8. Reduce other program enhanced match to 50%

How do we model reducing other program (non-HUSKY D) enhanced match to 50%?

Congressional proposals may broadly reduce enhanced federal match to the state's standard match (currently 50%).

To isolate the impacts to enhanced match beyond HUSKY D (proposal #1), we identify other services categories that could be affected.

Projected Impact *Updated 3/13/2025*	SFY 2026	SFY 2027
Financial Impact Federal dollars at-risk	$ 21 M	$ 48 M
Member Equivalency Assuming $670 PMPM for entire program	2,628 members	6,060 members

Modeled Changes to Enhanced FMAP		
Category	**Curr. FMAP**	**Change**
Community First Choice	56%	-6%
HUSKY B (CHIP) [1]	65%	-15%
Breast & Cervical Cancer [1]	65%	-15%
Money Follows the Person [2]	75%	-25%
Family Planning	90%	-40%
HUSKY D Newly Eligible	90%	*No change*

[1] Federal matches for CHIP and Breast & Cervical Cancer are determined as Standard FMAP + 30% of the difference between standard FMAP and 100%, not to exceed 85%. Therefore, the updated match is (25.8% + 30%*(100% - 25.8%)) = 48.1%.

[2] Federal match for MFP determined as Standard FMAP + 50% of the difference between standard FMAP and 100%, not to exceed 90%. Therefore, the updated match is (25.8% + 50%*(100% - 25.8%)) = 62.9%.