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Medicaid Forecast: Slower Enrollment Growth and Higher Spending Growth for FY 2017 – 2018

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On October 19, Kaiser Family Foundation and Health Management Associates hosted a joint briefing to release their 17th Annual 50-State Medicaid Budget Survey for state fiscal years (FY) 2017 and 2018. The survey highlights information on a number of topics, including trends in Medicaid enrollment and spending growth, initiatives to address the opioid crisis, provider payment rates and taxes, pending/approved waiver changes pursued by the states, and Medicaid managed care trends.

Key themes from the 50-State Medicaid Budget Survey briefing are outlined below:

Policy Environment: High Uncertainty

State Medicaid programs are operating under high uncertainty in the current policy environment. As states established budgets for state FY 2018, Congress was considering legislative proposals that created significant uncertainty regarding the future of the Affordable Care Act (ACA), financing for the ACA Medicaid expansion, and overall financing for the Medicaid program. At the same time, states were experiencing slowing and volatile revenues, with considerable variation observed across the states. States also experienced uncertainty regarding the Children's Health Insurance Program (CHIP) reauthorization, though nearly all (48 out of 50 states) assumed continuation of CHIP in state budgets with the majority counting on the ACA enhanced CHIP match (+23 percentage points).

Against this backdrop of uncertainty, states have underscored: 1) the critical role and resiliency of the Medicaid program and 2) state initiatives to tackle new challenges and produce improvements.

Trend Watch: Slowing Enrollment Growth and Rising Spending Growth

After peaking in 2015 due to implementation of the ACA, Medicaid enrollment growth slowed to 2.7 percent in FY 2017, down from 3.9 percent in FY 2016. Medicaid spending growth increased slightly to 3.9 percent in FY 2017, from 3.5 percent in FY 2016.

On average, states project Medicaid enrollment growth will continue slowing to 1.5 percent and total spending will increase to 5.2 percent for FY 2018. States attribute slowing enrollment growth to an increasingly stable economy, a tapering of ACA-related enrollment, and the processing of delayed eligibility redeterminations. States cite targeted provider rate increases, rising prescription drug costs, and increasing long term care costs behind the uptick in spending growth.

States are concerned about potential budget challenges that may arise from a number of factors, including reductions to disproportionate share hospital payments in October 2017, if Congress fails to reauthorize CHIP in a timely manner, and if legislative proposals are enacted to restructure Medicaid financing. Many states also reported concerns about volatility in state revenues that affect their ability to finance the state share of Medicaid spending.

Key Priorities and Challenges in FY 2018 and Beyond

Despite the ongoing uncertainty regarding federal legislative changes to Medicaid, states highlighted continued efforts to expand managed care, advance payment and delivery system reforms, increase provider payment rates, and develop community-based long-term services and supports. States are also moving ahead with new initiatives, including Section 1115 waivers to restrict eligibility (e.g., work requirements) and impose premiums, value-based purchasing requirements in managed care contracts, and opioid harm reduction and other substance use disorder treatment efforts. Key trends and initiatives are summarized in the table below:

50-State Medicaid Budget Survey Key Themes for FY 2017 – 2018

Policy Area	Ongoing Trends	What to Watch
Eligibility	• ACA Medicaid expansion • Initiatives to connect criminal justice system individuals to coverage	• Sec. 1115 waivers to impose Medicaid premiums and eligibility restrictions, including new work requirements, limits on retroactive eligibility, and restrictions on expansion coverage
Managed Care (MCOs)	• MCO carve-ins of complex populations and behavioral health services	• MCO contracts focused on social determinants and value-based payment
Long Term Care	• Expansion of beneficiaries in home and community-based care	• Focus on housing supports and direct care workforce shortages
Provider Rates and Taxes	• More provider rate increases than restrictions (except inpatient hospital) • Continued reliance on provider taxes	• States setting MCO rate floors for some or all types of Medicaid providers
Benefits, Pharmacy, and Opioid Strategies	• Expanded or enhanced benefits for mental health, substance abuse, and dental services • Changes to cost sharing and utilization management to address high cost and specialty drugs	• Growing adoption of CDC prescribing guidelines for opioids • Pharmacy benefit management strategies for opioids

Medicaid Moving Ahead in Uncertain Times: Results from a 50-State Medicaid Budget Survey for State Fiscal Years 2017 and 2018." Kaiser Family Foundation, 19 Oct 2017.

As states pursue these initiatives, Medicaid directors remain concerned about potential legislation to end financing for the ACA Medicaid expansion and limit federal Medicaid spending for traditional populations. Most states that have adopted the ACA Medicaid expansion report that coverage would be at substantial risk without the ACA enhanced federal match for this population. Almost all Medicaid directors highlight the potential for budget shortfalls under proposals to limit federal Medicaid spending for traditional populations, contending that the new flexibilities under a per capita or block grant program would not be sufficient to make up for the reduction in federal funds.

These key Medicaid issues will be crucial to watch for implications for states, providers, and beneficiaries in FY 2018 and beyond.