

## SUMMARY OF POTENTIAL AHCCCS IMPACTS GRAHAM-CASSIDY LEGISLATION

Recent legislation introduced by Senators Graham and Cassidy includes a variety of changes to the programs established by the Affordable Care Act (ACA). Graham-Cassidy establishes a new block grant for states, which replaces the ACA Medicaid expansion, as well as the Advance Premium Tax Credits (APTCs) and Cost Sharing Reductions (CSRs) offered through the Federally Facilitated Marketplace (FFM). Currently, 600,000 individuals receive coverage through these existing programs; this represents about 9% of the state's population.

This analysis is on the legislation posted on September 25, 2017: <https://www.cassidy.senate.gov/imo/media/doc/LYN17752.pdf>.

### **High-Level Summary of Fiscal Implications<sup>1</sup>**

The legislation establishes a complex set of formulas that allocate the block grant funding to states beginning January 1, 2020 through December 31, 2026. There is no state match requirement for this funding and states have broad flexibility in how this funding can be used to facilitate coverage including: 1) funding coverage for high-risk individuals; 2) providing funding to health insurers to stabilize premiums and promote coverage; 3) paying providers directly for services; 4) funding out-of-pocket costs for individuals enrolled in coverage through the individual market; 5) reducing premium costs for individuals enrolled in plans on the individual market who do not have access to employer-based coverage; 6) providing coverage through Medicaid; 7) purchasing coverage through managed care organizations.

**AHCCCS estimates the legislation will result in reduced federal spending of \$(1.3 billion) over the period of Calendar Years (CY) 2018 through 2026.** This includes: reductions in federal spending associated with funding provided for the new block grant; two provisions which increase federal funding for Medicaid coverage of the American Indian population; and changes to the federal matching funds for Arizona's "early expansion" coverage of childless adults with incomes between 0 and 100% of the Federal Poverty Level (FPL). It also assumes the state continues to provide state funding in the same amounts that would occur under current law.

This legislation has numerous components, each of which contributes to the overall net fiscal impact to the state. Regarding the American Indian provisions, there is a range of potential impacts that depend upon how the Secretary of Health and Human Services accounts for

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<sup>1</sup> The legislation also builds on the Senate BCRA provisions that were part of the Repeal and Replace efforts back in July, which modified the federal financing of the Medicaid program to a per capita allotment. The fiscal impact of these provisions is not included in this analysis. For more detail on the impacts of these provisions, please see the BCRA analysis: <https://www.azahcccs.gov/Shared/Downloads/News/BRCAAHCASummary.pdf>

continued Medicaid coverage for American Indians in the calculation of the new block grant. Please see the *Fiscal Impact – Key Provisions* section for more detail. For the purpose of this analysis, AHCCCS has estimated that Arizona achieves 50% of the savings that would accrue if an average per-member formula was used to reduce the block grant and all American Indians in this population remained enrolled in Medicaid.

**The Governor’s Office and AHCCCS have been in contact with the bill sponsors and the Secretary regarding the formula.** If the Secretary uses the formula Arizona is proposing, and Arizona is able to maintain Medicaid coverage for almost all American Indian members covered under current law, there is the potential to generate an additional \$1 billion in positive fiscal impact (savings) over the period between CY 2020 and 2026 beyond what is included in the current estimate. If the Secretary employs a formula that employs a dollar-for-dollar reduction to the block grant based on Medicaid spending, that would result in an additional negative net financial impact to the State of \$(1.2) billion over that same period beyond what is incorporated into the current estimates.

Due to significant uncertainty in how the block grant will be administered and funding allocations will be calculated, any estimates should be viewed with caution. Many inputs to the complex formulas contained in the legislation are unknown or not quantifiable, and the actual fiscal impact of the legislation could be different. In addition, there will be substantial operational challenges, costs and risks associated with the January 1, 2020 effective date required by the proposed legislation, the fiscal impacts of which are not included in this estimate.

### **Fiscal Impact – Key Provisions**

The below summary and the attached table provides an overview of key provisions that result in a fiscal impact to Arizona.

#### *Block Grant Funding*

Graham-Cassidy appropriates national block grant funding of \$146 billion in 2020 and 2021, \$157 billion in 2022, \$168 billion in 2023, \$179 billion in 2024, and \$190 billion in 2025 and 2026. It establishes a complex formula for the allocation of these funds to states. The formula includes the calculation of base funding needs using the combined federal amount each state spent on Medicaid coverage for ACA expansion adults (or a proxy, for non-expansion states) as well as APTCs and CSRs for individuals enrolled on the FFM.

These amounts are then adjusted by a number of factors including: a mechanism designed to promote more equitable per capita costs across states and cap annual increases at 25%; a risk-adjustment to reflect the aggregate clinical risks of a state’s population; and an adjustment, at the discretion of the Secretary of Health and Human Services, to account for “legitimate factors that impact health care expenditures.” While these policy decisions may represent appropriate adjustments, it is impossible to model how these factors may alter the overall funding level for Arizona. All adjustments are required to be budget neutral and would result in the

redistribution of funds between states. Finally, the model adjusts to align with the appropriated amounts in the legislation, with a proportional increase or decrease to state allotments depending on how the formula calculations compare to the appropriation.

AHCCCS cannot estimate the fiscal impact of all of the formula adjustments. However, we used the published Graham-Cassidy model, including the model's estimated base period amounts for each state, to estimate the impact of the formulas. This amount is then proportionally adjusted to reflect the legislation's annual appropriated amounts. The AHCCCS estimate of the amount generated for the new block grant is \$30.6 billion over CY 2020-2026. This is comparable to the allotment estimates released by the sponsors of the legislation.

Based on the estimated base funding needs, and the estimated allotment of the funding provided by the legislation, AHCCCS estimates reduced federal funding for Arizona of \$(4.7) billion over the period of CY 2020-2026 for this portion of the legislation. It is important to note that the model used 2016 data for all states. Because Arizona experienced significant increases in its APTC and CSR spending in 2017, it is possible that Arizona would receive a greater share of the appropriated amounts when the program is actually implemented. However, 2017 data from other states was not available to incorporate updates for all states and the model outputs are dependent upon relative data across all states.

The legislation also appropriates an additional \$6 billion in CY 2020 and \$5 billion in CY 2021 for implementation ("Contingency Funding"). This funding is allocated as: 25% to low-density states (less than 30 persons per square mile), 50% for non-Medicaid expansion states, and 25% for Medicaid expansion states. Arizona's estimated share of these increases (\$63.7 million in CY 2020 and \$53.1 million in CY 2021) is incorporated to the fiscal impact estimate.

#### *American Indian Provisions*

Graham-Cassidy also includes two proposals regarding funding for the state's American Indian population that provide a fiscal benefit to Arizona. The first provision, also included in the Better Care Reconciliation Act (BCRA), provides 100% federal match for all Medicaid expenditures for American Indians (which is an expansion of federal funding from current law, under which some expenditures receive the regular federal matching rate). Savings associated with this component is estimated to be \$2.1 billion between 2018 and 2026.

The second provision would allow Arizona to maintain Medicaid coverage for American Indians enrolled in the Medicaid expansion, instead of requiring them to be covered under the new block grant. The potential impact of this is challenging to analyze because it essentially freezes Medicaid enrollment for these individuals as of December 31, 2019 (new individuals with similar incomes/demographics would presumably enroll in the block grant programs). Individuals who are enrolled in other Medicaid categories (e.g., children) as of that date may also be eligible to remain in the Medicaid program under this provision even if they move into the Medicaid expansion category.

The legislation provides no specific adjustment to the new state block grant for those American Indian members who remain enrolled in Medicaid. The financial impact on Arizona is highly dependent on if and how the Secretary adjusts the block grant for those individuals. Arizona is working with the sponsors of the legislation on a reasonable formula for this adjustment. Therefore, for purposes of this estimate, AHCCCS has assumed a per beneficiary reduction to the block grant award equal to the average block grant per member amount, which is less than the anticipated cost to provide care under Title XIX. In addition, the legislation gives states discretion on strategies that would reduce the impact of the Medicaid enrollment freeze for American Indians in the expansion groups.<sup>2</sup>

For the purpose of this analysis, because of the risk of how the Secretary might adjust the block grant, AHCCCS has estimated that Arizona achieves 50% of the savings that would accrue if the average per-member block grant formula was used and all American Indians in this population remained enrolled in Medicaid. This generates net savings to the State of \$1.2 billion between 2018 and 2026. If the Secretary uses the formula Arizona is proposing, and Arizona deployed enrollment freeze mitigation strategies allowed by the legislation and was able to achieve 90% of those savings, that would generate an additional \$1 billion in positive fiscal impact (savings) over the period between CY 2020 and 2026. Alternatively, a dollar-for-dollar reduction to the block grant based on Medicaid spending would have a negative net financial impact on the State of an additional \$(1.2) billion over that same time period (i.e., there would be no savings generated from this particular provision).

#### *Early Expansion Match Rate Changes*

Finally, the bill modifies the match rate that the federal government provides for individuals with incomes between 0 and 100% FPL. Instead of increasing the match to 93% in 2019, the legislation holds the match rate at 90.71%, resulting in a negative fiscal impact to the state of \$(62.6) million, as compared to current law.

*Table 1 on page 5 illustrates the fiscal impacts of these provisions over Calendar Year 2018 through 2026.* Again, the many uncertainties of the formula could result in fiscal impacts different than this estimate.

In addition, the analysis assumes the state continues to provide state funding in the same amounts that would occur under current law. *Table 2 details these state spending assumptions.* The legislation would trigger the repeal of the hospital assessment, which currently provides more than \$300 million annually in state funding. Therefore, the state would have to make a policy decision regarding whether to reestablish that assessment or identify another source of

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<sup>2</sup> States may allow reenrollment of American Indians who were enrolled as of December 31, 2019, but who have a break in eligibility for such a period of time specified by the state. The legislation sets a minimum allowable gap (6 months) but no maximum allowable gap. If a state chooses a long allowable gap period, this would reduce the impact of the freeze.

state funding.<sup>3</sup> Any changes to state spending would have a fiscal impact beyond any net fiscal impacts detailed in Table 1.

Finally, this analysis is limited to the programmatic fiscal impact. It does not attempt to estimate the administrative funding required to implement the changes included in the legislation. The bill does not provide direct funding for states for implementation, although it does provide resources to the Centers for Medicare and Medicaid Services (CMS) specifically for federal administrative implementation expenses. Funding for infrastructure and operational changes would be a policy decision for CMS and the State. There will be substantial operational challenges, costs and risks associated with the January 1, 2020 effective date required by the proposed legislation.

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<sup>3</sup> The hospital assessment provides not only the Medicaid costs being transferred to the new block grant program, but also costs for Medicaid coverage for Proposition 204 Parents not covered by other fund sources.

**GRAHAM-CASSIDY SUMMARY FISCAL IMPACTS CY 2018-2026<sup>4</sup>**  
(\$ in Millions)

**Table 1**

|  | CY 2018      | CY 2019      | CY 2020        | CY 2021          | CY 2022        | CY 2023        | CY 2024        | CY 2025        | CY 2026        | Cumulative<br>2018-2026 |
|--|--------------|--------------|----------------|------------------|----------------|----------------|----------------|----------------|----------------|-------------------------|
| <b>Base Funding Calculations</b>                                 |              |              |                |                  |                |                |                |                |                |                         |
| Medicaid Expansion Funding                                       | -            | -            | 3,369.7        | 3,539.5          | 3,717.7        | 3,905.0        | 4,101.8        | 4,308.4        | 4,525.5        | 27,467.6                |
| APT/CSR Funding  | -            | -            | 957.6          | 1,005.5          | 1,055.8        | 1,108.6        | 1,164.0        | 1,222.2        | 1,283.3        | 7,797.0                 |
| <i>Total Baseline Calculation</i>                                | -            | -            | <i>4,327.3</i> | <i>4,545.0</i>   | <i>4,773.5</i> | <i>5,013.6</i> | <i>5,265.8</i> | <i>5,530.6</i> | <i>5,808.8</i> | <i>35,264.6</i>         |
| AZ Share of Appropriation <sup>5</sup>                           | -            | -            | 3,477.5        | 3,510.7          | 3,995.7        | 4,470.3        | 4,875.2        | 5,174.7        | 5,066.0        | 30,570.1                |
| <i>Difference Between Baseline Calculation and Appropriation</i> | -            | -            | <i>(849.8)</i> | <i>(1,034.3)</i> | <i>(777.8)</i> | <i>(543.3)</i> | <i>(390.6)</i> | <i>(355.9)</i> | <i>(742.8)</i> | <i>(4,694.5)</i>        |
| <b>Other Fiscal Impacts</b>                                      |              |              |                |                  |                |                |                |                |                |                         |
| Contingency Funding  | -            | -            | 63.7           | 53.1             | -              | -              | -              | -              | -              | 116.8                   |
| AI Maintain Coverage through Medicaid Net Savings <sup>6</sup>   | -            | -            | 172.4          | 179.0            | 176.8          | 175.0          | 174.8          | 176.9          | 187.6          | 1,242.5                 |
| AI @ 100% FMAP   | 208.0        | 215.2        | 211.0          | 221.6            | 232.9          | 244.6          | 257.0          | 270.0          | 283.7          | 2,144.0                 |
| Early Exp. Change in FMAP  | -            | (62.6)       | -              | -                | -              | -              | -              | -              | -              | (62.6)                  |
| <b>Net Fiscal Impact Surplus/(Shortfall)<sup>7</sup></b>         | <b>208.0</b> | <b>152.6</b> | <b>(402.7)</b> | <b>(580.6)</b>   | <b>(368.1)</b> | <b>(123.7)</b> | <b>41.2</b>    | <b>91.0</b>    | <b>(271.5)</b> | <b>(1,253.8)</b>        |

<sup>4</sup> The legislation also builds on the Senate BCRA provisions that were part of the Repeal and Replace efforts back in July, which modified the federal financing of the Medicaid program to a per capita allotment. For more detail on the impacts of these provisions, please see the BCRA analysis:

<https://www.azahcccs.gov/Shared/Downloads/News/BRCAAHCASummary.pdf>.

<sup>5</sup> The legislation makes an additional \$10 billion in 2019 and \$15 billion in 2020 available to the CMS administrator, but it appears that funding is specifically targeted to insurers. An estimated \$256.9 million in CY 2019 and \$385.3 million in CY 2020 would flow to insurers in the state, but this funding is not included in the AHCCCS estimate.

<sup>6</sup> As discussed above, the fiscal impact of these provisions is dependent upon how the Secretary adjusts the block grant for continued Medicaid coverage of American Indians. This estimate assumes savings equal to 50% of what would accrue if the block grant was reduced by the average per member block grant amount. If Arizona was able to achieve 90% of such savings, the fiscal impact to the state would positively increase by \$1 billion (for a cumulative CY 2020-2026 net fiscal impact of \$(260) million for all the provisions). Alternatively, if the block grant were reduced dollar for dollar, this could decrease the savings to the state by \$(1.2) billion (for a net fiscal impact of \$(2.4) billion over that same time for all the provisions).

<sup>7</sup> (Net Fiscal Impact) = (Difference Between Baseline Calculation and Appropriation) + (Other Fiscal Impacts)

**Table 2. Baseline State Match**

|                              | CY 2018 | CY 2019 | CY 2020 | CY 2021 | CY 2022 | CY 2023 | CY 2024 | CY 2025 | CY 2026 | Cumulative<br>2018-2026 |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-------------------------|
| Baseline State Match Assumed | 255.5   | 292.8   | 345.4   | 362.8   | 381.0   | 400.2   | 420.4   | 441.6   | 463.8   | 3,363.5                 |

Notes:

1. Model Base Period is based on published AZ amount for CY 2020, with pro rata adjustments to match national allotment amounts in bill.
2. Cassidy-Graham Amendment (GCA) allotments are Calendar Year (CY) from draft bill.
3. Annual national allotment amounts assume \$10B available in CY 2020 is fully utilized proportionally by all states and is not available in CY 2026.
4. American Indian (AI) Title XIX ESA & NEA assumes static member enrollment as of 12/31/19. Assumes adults exiting program are offset by previously enrolled children aging into program.
5. AI Title XIX net savings includes cost of reducing block grant award amount by PMPY amount under GCA, generating an increase to federal funds attributable to the variance between Baseline PMPY and GCA PMPY. Assumes 50% of potential savings is realized.
6. American Indian (AI) Savings estimate based on SFY 2016 AI Report to JLBC and assumes 90% of potential savings is realized. This may overstate capitation due to self-reported data. Excludes ESA & NEA 2020-2026.
7. Early Expansion Penalty assumes Transition FMAP percentage is fixed at 90%, effective 1/1/19.
8. Analysis does not include potential impacts of coverage or policy changes, repeal of hospital assessment, or Medicaid per capita caps.
9. Baseline State Match Assumed is amount required for ESA and NEA under current law and includes General Fund and Hospital Assessment Fund. It is a State policy decision to determine the source(s) of State Match.
10. Baseline State Match in CY 2019 includes \$62.6M cost of Early Expansion Penalty.