

Fact Sheet

Capped Financing for Medicaid Does Not Account for the Growing Aging Population

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For more than 50 years Medicaid has served as a critical safety net for millions of people who deplete their life savings and turn to Medicaid for assistance as their ability to care for themselves declines. This includes more than 17 million children and adults with disabilities and low-income seniors, many of whom need health care and long-term services and supports (LTSS)—including help with eating, bathing, dressing, or managing finances—to meet their daily needs.¹ Provisions included in the American Health Care Act (AHCA), coupled with the recent release of the administration’s budget proposal, would drastically alter the Medicaid program and how it provides coverage for these important services.²

Under the current system, federal funding increases in response to higher enrollment, service costs, and use; however, the AHCA would implement a cap in the financing structure of Medicaid and tie future payments to historical spending. According to the Congressional Budget Office, this would cut more than \$800 billion in Medicaid funding, and 14 million people could lose coverage by 2026.³ As a result of limited federal funding, the cost to fund Medicaid would shift to states and put at risk vital services to Medicaid enrollees.

New projections from the AARP Public Policy Institute demonstrate that the AHCA’s per capita cap financing proposal will not keep pace with changing demographics, specifically the growing and aging of the 65+ population. Over time, states will lack adequate funding to serve this vulnerable population under the proposed bill.

The American Health Care Act and Capped Financing

If the AHCA becomes law, states will have to choose between receiving an annual fixed amount from the federal government (a “block grant”) for certain populations or a set amount per beneficiary (a “per capita cap”) for their Medicaid programs, in exchange for greater flexibility. States that choose a per capita cap model will receive a fixed payment per person for each of five groups: children, adults (expansion and nonexpansion), people with disabilities, and older adults (ages 65+). Annual caps will be based on the state’s average cost per enrollee in each group in fiscal year (FY) 2016 and would grow annually thereafter at a fixed rate.

All Medicaid funding, therefore, would be tied to the amount spent by states in FY 2016—rather than be responsive to changing state needs and populations.

Older Adults and Medicaid Today

There is wide variation in per-person average costs among older adults in Medicaid, with adults ages 65–74, on average, costing less than half per person than adults ages 85+. According to the latest available data from the Kaiser Family Foundation, Medicaid



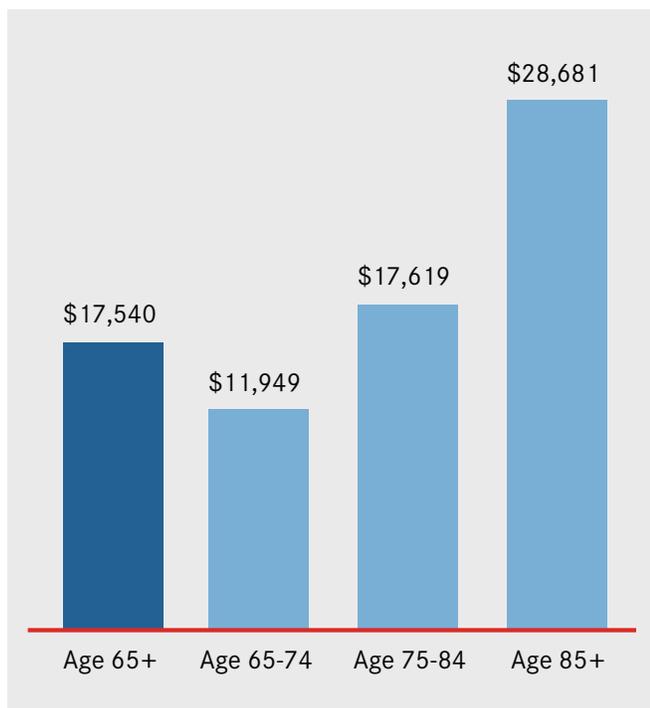
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spent an average of \$11,949 per enrollee age 65–74, and \$28,681 per enrollee age 85+ (see figure 1).⁴

Typically, adults ages 85+ typically experience more chronic conditions, consume more health care, and need more LTSS than do other age groups.⁵ While adults ages 65–74 certainly have health care and LTSS needs too, these are generally less intense and thus less expensive compared with those of adults 85+.

This difference in cost is important because among older Medicaid beneficiaries today, nearly half (47 percent) are in the less-expensive category of adults ages 65–74, while just 22 percent are 85 or older.⁶ The average Medicaid spending per person age 65+ in 2011 was \$17,540—almost 50 percent higher than the average cost of adults ages 65–74.⁷

FIGURE 1
Medicaid Per-Enrollee Spending, Older Adults, FY 2011



Source: Gretchen Jacobson, Tricia Neuman, and Mary Beth Musumeci, “What Could a Medicaid Per Capita Cap Mean for Low Income People on Medicare?” Issue Brief, Kaiser Family Foundation, Washington, DC, March 2017, <http://files.kff.org/attachment/Issue-Brief-What-Could-a-Medicaid-Per-Capita-Cap-Mean-for-Low-Income-People-on-Medicare>.

The AHCA’s per capita cap baseline draws from this population mix and does not take into account that the 65+ population itself will age over the next several decades.

The Shifting Population of Older Adults

Between now and 2050, the population of adults 85 and older is projected to triple—making it the fastest-growing age group in the United States over this time period. The population of adults ages 75–84 will more than double though 2050, while younger populations will grow at a slower pace (see figure 2).⁸ In other words, the United States is rapidly aging, and the 65+ population itself is getting older.

Population Aging and Medicaid Enrollment

As the population of adults 85+ significantly increases in the coming years, there will be a similar shift in the Medicaid population among adults 65+. The AARP Public Policy Institute projects, based on current Medicaid enrollment trends and U.S. Census population projections, that by 2050, the percentage of older adults in Medicaid ages 65–74, 75–84, and 85+ will be nearly even. These projections show a much older Medicaid population compared with today’s enrollment mix (see figure 3).

In 2015, nearly half of older adults enrolled in Medicaid were ages 65–74, and less than a quarter were ages 85+. This composition will hold steady through most of the 2020s, because Boomers will continue to turn 65 through 2025 and will not turn 85 until the end of the decade. Starting in the 2030s, however, there will likely be a marked shift towards the 75–84 and 85+ age groups—mostly as a result of the Boomer generation’s continued aging. This growth will continue through 2050, at which point the populations within all three age groups are expected to be fairly even.⁹

Despite this coming shift, however, the AHCA considers only Medicaid enrollment and spending that took place in FY 2016, which included a younger and less-expensive population mix than is likely to need Medicaid in the future.

FIGURE 2
Projected Population by Age Group, Percentage Increase since 2015

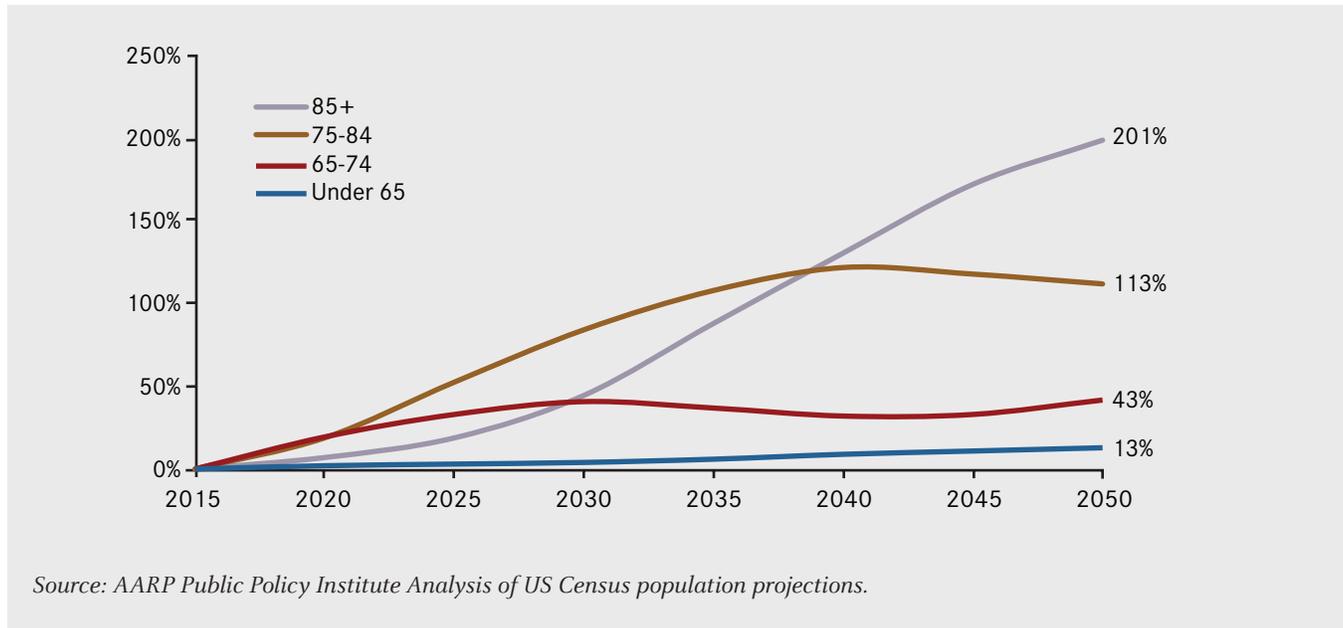
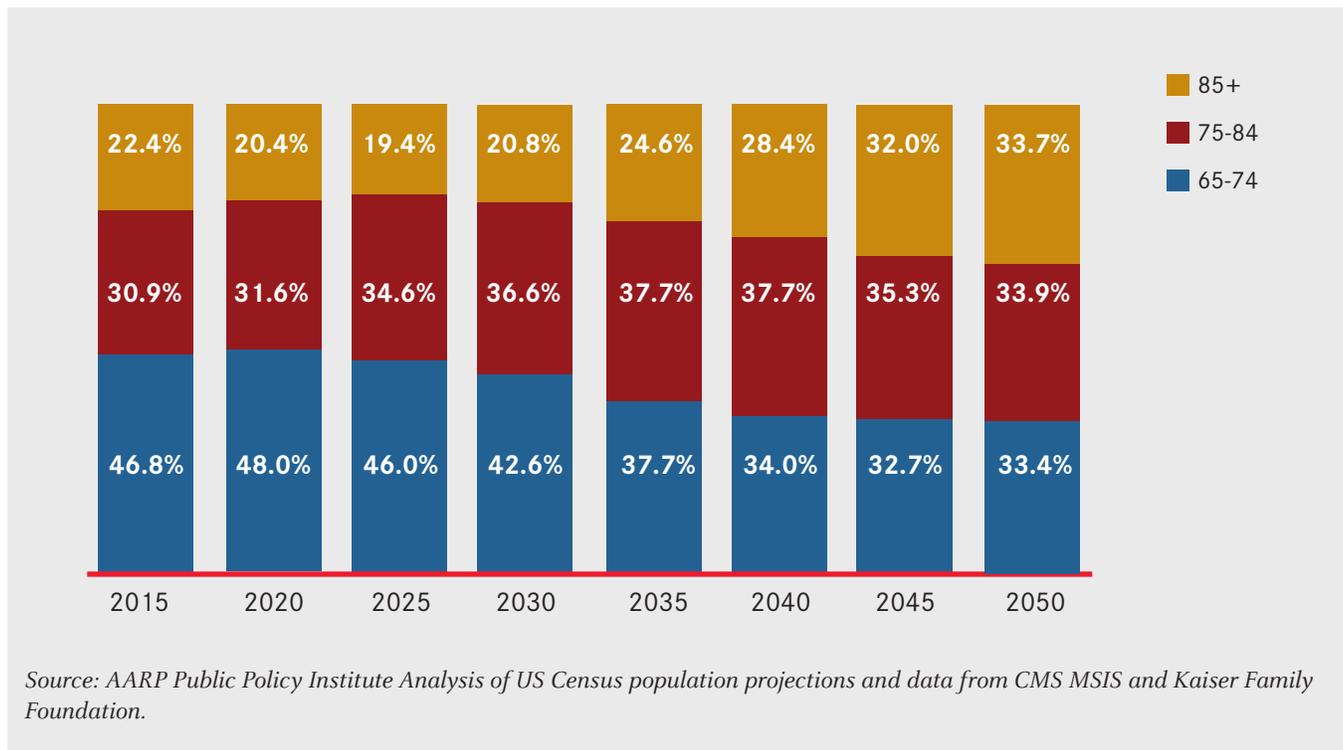


FIGURE 3
Projected Medicaid Age 65+ Enrollment by Age Group, 2015-2050



Implications for Medicaid Costs

As a result of the demographic shift within the 65+ population, the cost per older adult to Medicaid is likely to increase as the Boomer generation ages. This cost increase will likely occur faster than the per capita cap growth rate proposed by the AHCA will allow. In 2015, the cost per Medicaid beneficiary age 65+ was about 1.46 times the cost per beneficiary age 65–74. The AARP Public Policy Institute projects, based on current Medicaid enrollment trends and U.S. Census population projections, that by 2050, the cost per Medicaid beneficiary age 65+ will be about 1.63 times the cost per beneficiary age 65–74. This represents a 12 percent increase in per-person spending due to the aging of the population.¹⁰

Given these data, it is very unlikely that the per capita cap allotment set under the AHCA will be able to keep pace with the needs of low-income adults as they age into their eighties and beyond. Over time,

states will not have adequate funding to serve an increase in—and an aging of—the 65+ population.

Conclusion

Shifting to capped financing in Medicaid, as proposed under the AHCA, could constrain the Medicaid program in its ability to adequately serve consumers, including millions of older adults and people with disabilities currently enrolled in the program today. Looking into the future, the aging of the 65+ population, which is not accounted for in AHCA's Medicaid financing structure, will hit states hard, potentially jeopardizing access to health care and LTSS for future generations, especially Boomers.

For information about our methodology, please visit: <http://www.aarp.org/ppi/info-2017/ahca-capped-financing-for-medicaid.html>

- 1 "Program Enrollment and Spending: Medicaid Overall," Medicaid and CHIP Payment Advisory Commission, December 2016, <https://www.macpac.gov/macstats/program-enrollment-and-spending/>
- 2 David Frank, "Trump Calls for a Massive Cut in Medicaid," AARP Blog, May 2017, <http://www.aarp.org/politics-society/advocacy/info-2017/aarp-reacts-president-trump-budget-fd.html>
- 3 "H.R. 1628, American Health Care Act of 2017," Congressional Budget Office, May 2017, <https://www.cbo.gov/publication/52752>
- 4 Gretchen Jacobson, Tricia Neuman, and Mary Beth Musumeci, "What Could a Medicaid Per Capita Cap Mean for Low Income People on Medicare?," Issue Brief, Kaiser Family Foundation, Washington, DC, March 2017, <http://files.kff.org/attachment/Issue-Brief-What-Could-a-Medicaid-Per-Capita-Cap-Mean-for-Low-Income-People-on-Medicare>
- 5 "Selected Long-Term Care Statistics," Family Caregiver Alliance, January 2015, <https://www.caregiver.org/selected-long-term-care-statistics>
- 6 *AARP Public Policy Institute Analysis of US Census population projections and data from CMS MSIS and Kaiser Family Foundation.*
- 7 Gretchen Jacobson, Tricia Neuman, and Mary Beth Musumeci, "What Could a Medicaid Per Capita Cap Mean for Low Income People on Medicare?," Issue Brief, Kaiser Family Foundation, Washington, DC, March 2017, <http://files.kff.org/attachment/Issue-Brief-What-Could-a-Medicaid-Per-Capita-Cap-Mean-for-Low-Income-People-on-Medicare>
- 8 Wendy Fox-Grage, "The Skyrocketing of the Age 85+: AARP Data Explorer Provides Long-Term Services and Supports Data for Policy Solutions," AARP Public Policy Institute Blog, March 2016, <http://blog.aarp.org/2016/03/11/the-skyrocketing-of-the-age-85-aarp-data-explorer-provides-long-term-services-and-supports-data-for-policy-solutions/>
- 9 *AARP Public Policy Institute Analysis of US Census population projections and data from CMS MSIS.*
- 10 *AARP Public Policy Institute Analysis of US Census population projections and data from CMS MSIS and Kaiser Family Foundation.*

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