



What Is a Block Grant and How Would It Impact Medicaid?

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A block grant is a financing mechanism to dramatically cut Medicaid funding.

Currently, states receive Federal Medicaid funding based on the actual costs of providing services to enrollees including older adults, persons with disabilities, pregnant people and children in poverty. Under a block grant, the Federal government makes a set payment to the state, and the state does not receive funding based on actual costs.

Here's how it works. Under Medicaid today, for every \$1 a state actually spends on Medicaid services, it gets \$1 to \$3 of Federal "matching" funds (*i.e.*, federal payments between \$1 to \$3 – richer states get \$1, poorer states get \$3). States are guaranteed continued support for actual costs, even if those costs go up. Because of this open-ended funding, Medicaid is cannot run out of money even if expenses are higher than predicted.

Current Medicaid Funding. Let's play this out with an example: imagine a state has 1,000 Medicaid enrollees, but then something happens — a hurricane, an economic downturn, a public health emergency, an aging population — and enrollment unexpectedly goes up to 1,100. Under the current funding structure, the state would keep getting federal payments for all services provided to the new enrollees. Similarly, when current enrollees' demands for health services increase — maybe a new prescription drug or new medical technology is approved, a new epidemic emerges (*e.g.*, COVID, Mpox, obesity, substance use disorder), or the state's Medicaid population is aging and needs more services, the state Medicaid agency would keep getting federal matching funds for all its additional costs (*i.e.*, costs of providing health care, paying providers and increased enrollment) the state spends on all of its enrollees (whether 1,000 or 1,100).

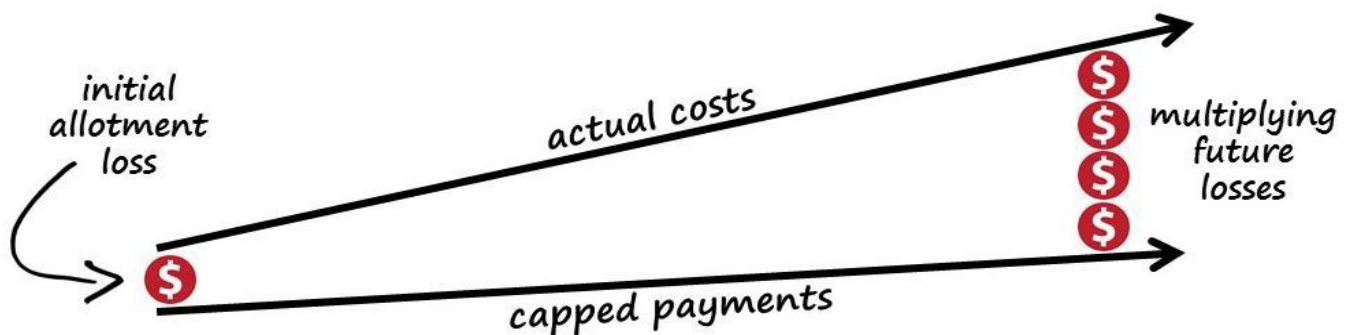
Block Grant Funding. With a block grant, the Federal government makes a limited payment to the state based on a preset formula. In the example above, the state would not get additional payments for the extra 100 enrollees. And it would not get additional payments for the increased costs of paying for a new prescription or technology, fighting a new condition, addressing a new health trend or reimbursing providers. A block grant does not increase

based on the actual costs of providing healthcare.

If you just think about rising health care costs caused by any of a range of issues, states would be significantly harmed if Congress imposes a block grant on Medicaid. Republicans' goal is to slash billions of dollars from Medicaid and shift the burden to states to make tough decisions about eligibility, services, and provider payments. But states won't be able to continue providing comprehensive coverage to currently eligible individuals if they don't have the federal matching funds to do it.

Block grants have two components which both cause problems.

1. In the first year of a block grant, Congress would set an **initial allotment** which is supposed to be based on the expected actual costs. However, many past block grant proposals intentionally underestimate this amount to cut Medicaid spending, so federal funds are usually less starting the first year.
2. More importantly, in prior block grant proposals considered by Congress, the initial allotment was increased every year by a preset **growth index**, such as the consumer price index. The problem is that a block grant based on such a growth index increase much slower than actual health care costs. And they don't adjust based on the factors discussed above. This means that every year the state's actual costs grow much faster than the federal support.



CONCLUSION. Under a block grant, the pre-determined payment to states fails to account for increased enrollment or increased health care costs. Historically, block grant proposals have included an annual increase that is much less than actual costs, leading to large and multiplied losses in federal funding for state Medicaid programs. Over time, states will lose billions of dollars. Block grants are a huge federal cost-shift onto states, which will force states to cut Medicaid services for older adults, persons with disabilities, pregnant people and children in poverty, and other vulnerable populations.