What Is a Per Capita Cap and How Would It Impact Medicaid?

Mara Youdelman

A per capita cap 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, people with disabilities, pregnant people, and children from families with low incomes. Under a per capita cap, the Federal government's payment to the state is capped "per capita" (or per "head"/enrollee) 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 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 enrollment or costs go up. Because of this open-ended funding, Medicaid 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 currently has 1,000 Medicaid enrollees and then something — a hurricane, an economic downturn, a public health emergency, an aging population — causes enrollment goes up to 1,100 Medicaid enrollees. Under the current funding structure, the state would keep getting federal matching funds 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 could start paying for the needed services because the state would keep getting federal matching funds for all costs (*e.g.*, the costs of providing health care, paying providers, increased enrollment) expended on delivering health coverage.

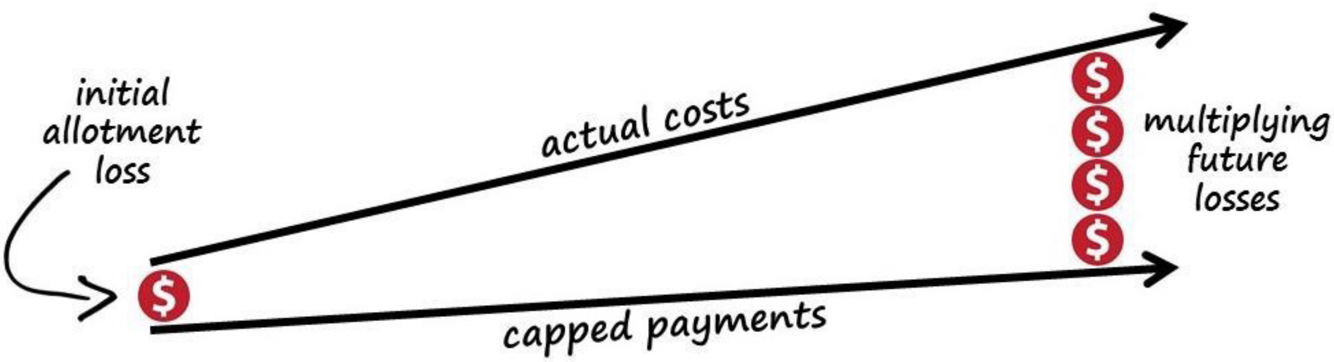
Per Capita Cap Funding. With a per capita cap, the Federal government makes a flat payment to the state for each enrollee based on a preset formula. In the example above, the state would receive additional preset payments for the extra 100 enrollees. But it would not get additional payments for the increased costs of meeting complex or acute health needs, responding to epidemics, or addressing other factors that could increase the cost of serving those enrollees. A per capita cap does not increase based on actual state spending.

If you just think about rising health care costs caused by any range of issues, states would be significantly harmed if Congress imposes a per capita cap 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.

Per capita caps have two components which both cause problems.

1. In the first year of a per capita cap, Congress would set an **initial allotment** which is supposed to be based on the expected actual costs. It's hard to pick a formula that works for all states because of the significant differences between states. Many per capita cap proposals underestimate this amount, so the state usually gets a cut in funding starting the first year that then worsens over time.

2. More importantly, in prior per capita cap proposals, the initial allotment was increased every year only by a preset **growth index**, such as the consumer price index. The problem is, capped payments based on such a growth index increase [much slower]() than actual health care costs. This means that every year the state's actual costs grow much faster than the federal support.



CONCLUSION: Under a per capita cap, the capped payments to states fails to account for increased health care costs. It is designed to increase much slower than actual state spending on coverage, leading to large and growing losses for states. Over time, states will lose billions of dollars. Per capita caps are a huge federal cost-shift onto states, which will force states to cut Medicaid services for older adults, people with disabilities, pregnant people and children from low-income families, and other underserved populations.