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Fact Sheet: Per Capita Caps in the Medicaid Program

The Issue

Policymakers are considering alternative approaches to financing the Medicaid program, including one that would establish a limit on how much the federal government would contribute to a state's Medicaid program. While such a limit can be designed in various ways, one option under discussion would set a fixed amount for each beneficiary and adjust that amount annually based on a pre-set inflationary rate. States would be wholly responsible for any costs per beneficiary that exceed this cap. This is known as a "per capita cap," and some analysts estimate such an approach would reduce the federal spending on the program by nearly $1 trillion over a 10-year budget window.[1]

AHA Position

A per capita cap to federal financing of the Medicaid program would be a fundamental change to how the program is financed. It would put untenable fiscal pressures on state governments, leading to Medicaid coverage, enrollment and provider reimbursement cuts. The impacts would be felt well beyond the Medicaid program. Whole communities, not just individuals enrolled in Medicaid, would lose access to providers and services because of the financial losses to hospitals. **As a result, the AHA strongly cautions against transitioning federal Medicaid financing to a per capita cap model.**

Why?

- **Per capita caps will create financing gaps that will worsen over time.** Most, if not all, states would be unable to close the financing gap created by a per capita cap approach, which will have a fixed, pre-set growth per enrollee set in statute. This is particularly true as health care spending than overall inflation and can be unpredictable, such as when a state needs to respond to a public health emergency like the recent hurricanes in Florida and North Carolina. As this gap grows, states would need to make significant cuts to both Medicaid enrollment and optional benefits to balance their budgets.
- **Some elderly and disabled and other "optional" but highly vulnerable populations would lose Medicaid coverage.** While states would likely try to address most of the financial losses by reducing benefits for adults, such as the expansion population, it is unlikely they would save sufficient funding as those Medicaid beneficiaries tend to be the lowest-cost population for the program. Therefore, states likely will need to look to reduce enrollment and services for other non-mandatory populations, such as certain disabled individuals and those living in nursing facilities. In many cases, these individuals will not have alternative sources of coverage, increasing the financial burden on families and other caretakers, as well as the providers who will in many cases continue caring for them.

1 cbo.gov/budget-options/60896

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- **Loss of health care services would be widespread across communities.** Health care providers finance care delivery through payments from various payers. Medicaid, despite paying below the cost of care, is an important source of funding for our nation's core health care infrastructure. Loss of federal Medicaid funds not only would stress providers' ability to care for the low-income and uninsured, but also would pull resources away from essential and expensive health care, including emergency, trauma, maternal and behavioral health services. Under per capita caps, hospitals, health systems and other providers would unlikely be able to continue offering the full range of these services, which would impact care for everyone in a community.
- **States already face budget pressures to control Medicaid costs.** Medicaid was the largest state expenditure in 2024, followed by education and transportation. Most states are required to balance their budget, often by law or state constitutions. There are also financial implications related to state budgeting — for example, states manage Medicaid cost growth to maintain better credit ratings and keep the cost of borrowing low. The threat of reduced federal support for Medicaid notwithstanding, states already face significant pressures to make Medicaid policy decisions to limit cost and spending growth.