Per Capita Caps and Block Grants
(Definitions provided with input from Kaiser Family Foundation and Grants.gov)

What Does Per Capita Cap Mean?

Under a Medicaid per capita cap, the federal government would set a limit on how much to reimburse states per enrollee. Payments to states would reflect changes in enrollment. A per capita cap model would not account for changes in the costs per enrollee beyond the growth limit. To achieve federal savings, the per capita growth amounts would be set below the projected rates of growth under current law.

Key challenges in designing a per capita cap proposal include determining the base per enrollee amounts, setting the annual growth rates, and making decisions about new state flexibility versus maintaining federal core requirements and state accountability.

A per capita cap could control federal outlays while giving states additional flexibility and budget predictability. Implementing a per capita cap could be administratively difficult and could maintain current inequities in per enrollee costs across states. Pre-set growth rates cannot easily account for changes in costs of medical services, patient acuity or epidemics. If costs are above per enrollee amounts, costs could be shifted to states, providers and beneficiaries. States may have incentives to reduce Medicaid payment rates and restrict benefits; with changes in federal law, states could also restrict eligibility for high-cost enrollees and shift costs to beneficiaries through premiums or cost sharing.

What Is a Block Grant?

The term "block grant" refers to grant programs that provide federal assistance for broadly defined functions, such as community development or social services. Block grants allow the grant recipient more discretion than other grants in determining how to use the funds to meet a broader program goal. Unlike a per capita cap approach, block grants provide a set amount of federal spending regardless of enrollment.

Federal block grants are typically for U.S. state or territory governments and allow these government entities to determine specifically how to allocate and spend the funding. Of course, there are rules and guidelines for implementation that vary with each grant program as defined in the authorizing statute.

The Community Development Block Grant (CDBG) from the Department of Housing and Urban Development (HUD) is a prime example of a block grant. It was established in the 1970s as a consolidation of similar, existing grant programs. Within the current CDBG, there are different program areas for grant recipients to implement the grants. Another example is the Social Services Block Grant (SSBG) from the Department of Health and Human Services. These block grants are made to U.S. states and territories; the states and territories then decide which services to provide and who is eligible for the social services.

Because Medicaid is an entitlement program, everyone who is eligible is guaranteed a spot. The federal government, which pays for nearly 60 percent of the cost, has an open-ended commitment to help states cover costs; in return, it requires them to cover certain groups of people and to provide specific benefits. A block grant would effectively end this open-ended approach and provide states with annual lump sums. States would be freer to run the program as they wanted. But states would also be responsible for covering costs beyond the federal allotment.

Some may recall that block grants were advocated for by President Ronald Reagan in 1981, House Speaker Newt Gingrich in 1995 and President George W. Bush in 2003. Gingrich came the closest to succeeding. Congress passed legislation to turn Medicaid and the welfare system into block grants, but President Bill Clinton ultimately agreed only to block grant welfare, which became the Temporary Assistance for Needy Families (TANF) program.