What is a Per Capita Cap?

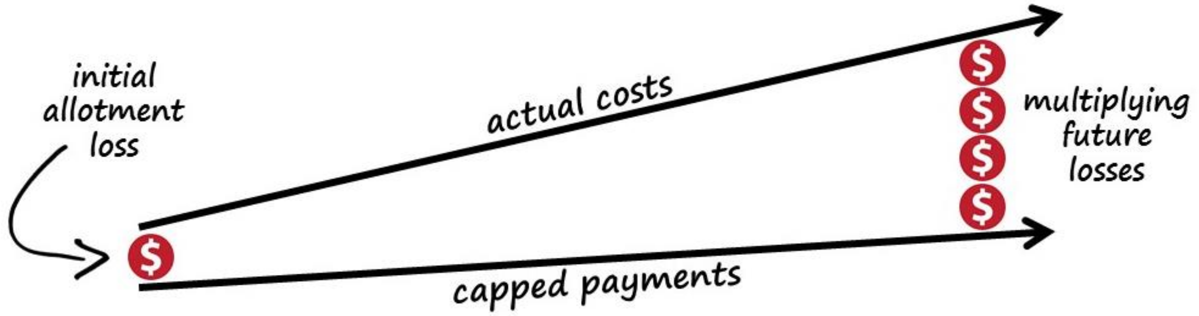
A per capita cap is a financing tool that is being proposed to dramatically cut Medicaid funding.

Today, states receive Federal Medicaid funding based on the actual costs of providing services to older adults, persons with disabilities, pregnant women and children in poverty, and others. Under a per capita cap, the Federal government makes a capped payment to the state, and the state does *not* receive money based on actual costs.

Here's how it works. Under Medicaid today, for every dollar a state actually spends on Medicaid services, it gets $1 to $3 of Federal support (richer states get $1, poorer states get $3). States are guaranteed continued support for actual costs, even if those costs go up. With a per capita cap, the Federal government makes a limited payment to the state based on a preset formula, which does *not* increase based on actual costs. 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. Many per capita cap proposals underestimate this amount, so the state already gets a cut in the first year.

2. More importantly, the initial allotment is increased every year 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 increase much slower than actual costs, leading to large and multiplying 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, persons with disabilities, pregnant women and children in poverty, and other vulnerable populations.

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