



# Medicaid Reform – Past, Present and Future

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AcademyHealth

# Outline

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- Federal reform or not, changes to Medicaid are happening and will likely continue
- Federal state relationship is a balance between financing and flexibility, states do not have revenue base to sustain on their own
- New era of reforms hold potential, but raise challenges for Medicaid going forward

# Past efforts

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- 1995 Budget Reconciliation Act - Vetoed
  - Medicaid becomes block grant
  - Alternative per capita cap
- 2003 Administration proposal – states could get front end fiscal relief, but capped allotment in out years
- 2003 – Governor Task Force – no agreement

# New optional populations covered

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- Some states reached far
  - TennCare – raised eligibility to 400% of FPL (\$75K for family of 4), financed largely on the assumption of savings of managed care
  - Oregon – never implemented plans to cover adults to 185% of FPL, capped enrolment and charged premiums, eliminated medically needy
- Today 20 states cover parents and 9 cover childless adults up to 100% of FPL

# State innovations in benefit design

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- Pharmacy plus waivers – 5 states
- SCHIP allowed more flexible benefit design
  - Benchmark to state employees or most common product in the market
  - 20 states have separate SCHIP programs that have different benefits than Medicaid
- Utah Primary Care Network



# New approaches to premiums

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- 26 states collect premiums under SCHIP, 9 under Medicaid
- New experience with collecting premiums, few have studied impact
  - Higher income group (>150%) – approx 20% don't take up coverage when asked to pay premium
    - About 1/2 end up with other insurance
  - For very low income groups – impact of premium is much greater
    - About 3/4 remain uninsured
- Administrative process has a big impact on enrollment

# Private sector partnerships

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- Meet a broad set of policy & political goals
- Current models pay the employee's contribution for qualifying employer sponsored insurance when it is cost-effective
  - 14 states, just over 50,000 enrolled out of over 50 million enrolled in Medicaid and SCHIP
- Newer models create a new product, targeting working uninsured
  - Target either employer or employees

# Administration's Proposal on Medicaid

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- Secretary Leavitt identified \$60 billion in cuts over ten years
  - Eliminating Inter-governmental transfers: \$40B
  - Fraud and Abuse: \$5 B
  - Medicaid Drug Rebate Formula: \$15 B
- Medicaid and SCHIP modernization
  - No changes for mandatory populations, leaving open changes for optional groups (Leavitt testimony before Senate Finance Committee, 1/05)

# Reaction to Medicaid Proposals

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- Medicaid growth is unsustainable for states and many Governors share desire for flexibility, but federal financing is critical
- “To balance the budget on the backs of the poorest people in this country is simply unacceptable... You don’t pull the wheelchair out from under the child with muscular dystrophy.” Governor Mike Huckabee (R-AR), *NYT* 12/04)
- Optional populations and services significant part of Medicaid

– 29% of Medicaid beneficiaries qualify as optional group (43% of parents, 56% of elderly, 22% disabled)



# New era of state reforms

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- Managed care for new groups
- Continue to re-examine benefits and cost sharing
- Individual health accounts – consumer directed health care

# Consumer directed care

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- Response to “too much insurance”
- Insurance for income and asset protection for unpredictable expenditures
  - Vs. Prepaying for predictable health care expenditures
- Retain incentives for preventive health care

# Consumer directed care

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- Hopes:
  - Individuals will learn more about health care costs
  - May transform culture of “more is always better”
  - Personalized decision making and personal responsibility
- Concerns:
  - Health spending is highly skewed
  - May shift costs to less healthy, exacerbate adverse selection
  - Lack of comparative price and quality information

# Consumer directed care in Medicaid

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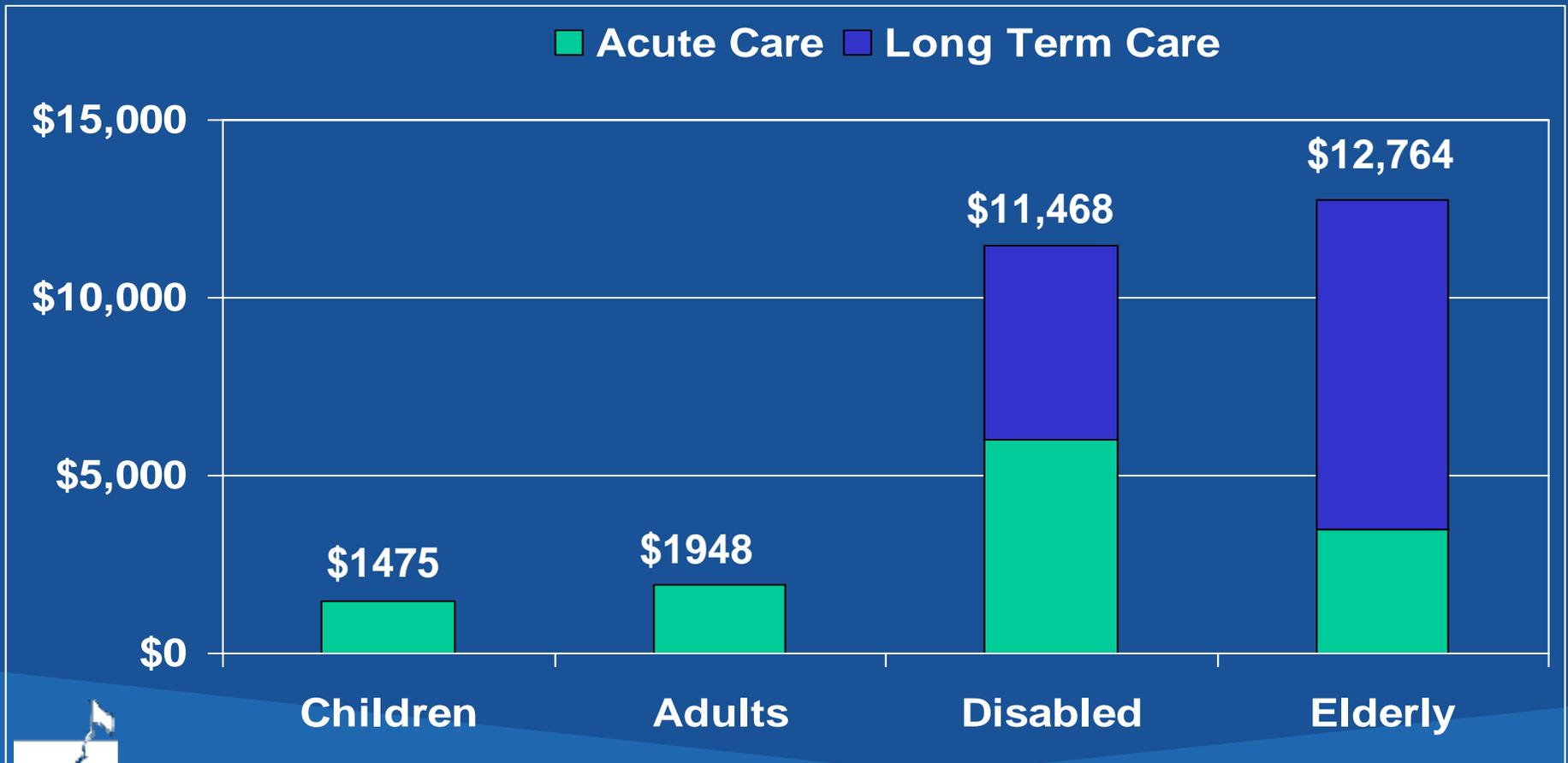
- Some funding for Medicaid services included in a personal account, other services such as prevention and catastrophic services carved out
- Defined benefits vs. defined contribution
- Personal decision making and personal responsibility
- Encouraging lower utilization
- Cap state expenditures

# Consumer directed care in Medicaid: critical questions

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- What services will be provided through account?
- What happens when the account runs out?
- Are incentives sufficient to reduce unnecessary utilization and encourage healthy behaviors?
- Will consumers have information to make market forces work?
- Are current risk adjustment methodologies sufficient to account for variation between individuals?
- Will this save state funds in aggregate?

# Medicaid spending per enrollee, 2002



Source: KCMU Estimate based on CBO March 2003 baseline and Urban Institute Data

# Medicaid and uninsured

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- Growing number of uninsured nationally and in Florida
  - Largest increase in uninsured from middle income working families with incomes between \$15K-\$45K (FHIS, 11/2004)
- Uninsured not a static group
- Many people come on and off Medicaid
- How will Medicaid changes and uninsured strategies fit together?



# State Coverage Initiatives (SCI)

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- An Initiative of The Robert Wood Johnson Foundation
- Direct technical assistance to states
  - Onsite technical assistance
  - Meetings for state officials
  - Web site: <http://statecoverage.net>
  - Publications
- Grant funding

