

May 2, 2005

MEMORANDUM

To: Senator Charles Grassley (R-IA), Chair, Senate Finance Committee

From: Brad Wright, Health Policy Analyst

Re: How can Medicaid costs be reduced through reform?

Background

Medicaid, the joint federal-state, means-tested entitlement program enacted in 1965, covers certain low-income groups. In 1998, 65% of Medicaid spending was for optional services, more than half of which paid for long-term care,¹ while 62% of uninsured adults were ineligible for Medicaid without the use of a waiver.² Already spending over \$300 billion,³ Medicaid is estimated to grow by 9% annually for the next decade.⁴ The President's budget proposal, Congress' budget resolution, and the states' budgets all suggest that this growth is unsustainable. Current reform proposals include block grants, premium assistance, and eliminating wasteful practices from the system.

Proposed unsuccessfully in 1981, 1995, and 2003, block grants (wherein the federal government budgets a "block" of money to each state) are again on the table.⁵ They "aim to provide greater federal budget certainty and a stronger state incentive to contain program costs."⁶ However, one analysis shows that had block grants been implemented, real costs would have far exceeded budgeted amounts, and the absence of the federal match is an incentive for states to cut optional benefits or enrollment.⁷

Premium assistance vouchers "for the purchase of private health insurance coverage"⁸ are an option under both Health Insurance Flexibility and Accountability

(HIFA) waivers and the Health Insurance Premium Payment (HIPP) program.^a HIFA waivers must be budget neutral to the federal government and approved by the Department of Health and Human Services (HHS). They aim “to increase the number of low-income Americans with health insurance” by cutting benefits for optional populations and using the savings and cost-sharing to expand coverage to the uninsured up to 200% FPL.⁹ Conversely, HIPP prohibits cost-sharing, must be cost-effective and provide wrap-around coverage to guarantee intact benefits.¹⁰ Iowa’s HIPP program, seen as a way to reduce costs, increase coverage and access, reduce crowd-out and avoid the stigma of Medicaid, saves the state \$3 million annually.¹¹

In targeting wasteful practices that “game” the system, HHS has focused on intergovernmental transfers (IGTs), wherein states move money back and forth to providers to draw down the additional federal match,¹² and asset transfers, wherein wealthy elderly use estate planning to qualify for Medicaid without spending down their assets. Iowa proposed a waiver in April that eliminates IGTs but avoids the expected \$65 million loss to the state,¹³ by covering 30,000 new adults ages 21 to 64 who earn under 200% FPL at no additional cost, to receive \$65 million in federal matching funds.¹⁴

Landscape

President Bush’s FY 2006 budget proposes a net \$45 billion cut to Medicaid over 10 years by targeting IGTs and asset transfers and encouraging “flexibility” in a “budget neutral” way, which some interpret as supporting a Medicaid block grant, although HHS Secretary Leavitt denies that such a proposal is on the agenda.¹⁵

The Congressional budget resolution calls for \$10 billion in Medicaid savings over five years and creates a bipartisan Medicaid commission to eliminate wasteful

^a Section 1906 of the Social Security Act mandates HIPP in every state.

practices.¹⁶ Both Republicans and Democrats hope to minimize cuts to current benefits. Senator Grassley supports changing asset transfer rules¹⁷ and finding ways to “sav[e], with enough flexibility for the states...[to] absorb the changes,”¹⁸ but he is skeptical of Medicaid waivers circumventing the Congressional legislative process, and believes in keeping the “federal government transparent, accountable, and effective.”¹⁹

Governors feel that Medicaid consumes too much of their state budgets and reduces funding of other programs.²⁰ They oppose Medicaid cuts, encourage reforms that increase state flexibility,²¹ believe that state waivers “should become permanent after five years...and that any state should be able to adopt another state’s waiver without any review,”²² and foresee premium assistance reducing Medicaid costs.²³

In a letter to Senator Grassley, “100 health and consumer grassroots organizations,”²⁴ expressed concern that states may use waivers to limit benefits and eligibility, adversely affecting the bottom lines of safety net providers who depend on Medicaid reimbursement to finance up to 41% of operating expenses.²⁵

Current Medicaid beneficiaries have largely been left out of the reform debate, though they stand to gain or lose the most from the outcome. It is imperative that their feedback be sought and incorporated into the decision, or that their benefits stay intact.

The private insurance market may be hesitant to cover the uninsured or optional Medicaid populations because they are often more costly. However, premium assistance initiatives rely on private insurance, so providing market incentives for them is essential.

Options

The following options are assessed by predictability of federal expenditures, costs, benefits and population covered, and political feasibility.

Three Options for Reforming Medicaid in the Future

	Medicaid Block Grant	Premium Assistance Vouchers via HIFA Waivers	“Iowa Option”
Description	Federal government budgets fixed amount to states. States pay for any additional benefits for eligibles when all funds are exhausted.	Encourages states to use HIFA waivers to provide vouchers for a fixed amount to purchase private health insurance.	Encourages premium assistance via HIPP and eliminates IGTs and asset transfers by legislating Iowa’s waiver nationally.
Philosophy	Federalism; Limits the Federal government’s risk; Shifts burden to states.	Reduce benefits to expand eligibility; Shifts risk burden to individuals and private industry.	Reduce costs and support private market; eliminate wasteful practices.
Delivery	Medicaid provider.	Up to the individual.	Up to the individual.
Federal Budget	Highly predictable.	Moderately predictable.	Least predictable.
Federal Cost/Savings	High savings	Moderate savings	Moderate savings
State Cost/Savings	High cost	Moderate savings	Moderate savings
Benefits	Benefits limited by available funding.	Based on plan choice.	Unchanged.
Eligible Population	Affects mandatory and optional populations.	Affects optional populations only.	Affects optional populations only.
Political Feasibility	Low	High	High

While a Medicaid block grant would undoubtedly make the federal budget more predictable and reduce federal costs, it would do so at great expense to the states, which would then pass that burden on to optional populations that would have their benefits reduced or their eligibility revoked altogether. With Congress focused on eliminating wasteful practices rather than cutting benefits, and states opposing the loss of entitlement funding, block grants are politically infeasible.

Providing fixed-value vouchers for premium assistance under a HIFA waiver would reduce costs for both the federal and state governments, while encouraging private market forces and patient autonomy, but it also assumes a private market that may not

exist, and which might offer only limited benefits. Still, HIFA waivers are politically feasible given that the program is already in use by eight states, and endorsed by the administration as a way to make the federal budget more predictable. However, Senator Grassley would prefer a legislative approach to reforming Medicaid if possible.

Providing premium assistance under HIPP would also reduce costs for both the federal and state governments, but would do so without cutting benefits. One drawback to this option is that it lacks much federal budget predictability, meaning savings might not be as great. However, eliminating wasteful practices would add to the savings for both the federal and state governments. HIPP is politically feasible for the same reasons as HIFA, but has the advantage of being legislated by Congress.

Recommendation

The Iowa Option is the best means of achieving Medicaid savings with the least impact on currently eligible populations. Utilizing the existing HIPP statute to encourage cost reduction through premium assistance programs is easily implemented politically, offers Medicaid savings for both the federal and state governments, and encourages patient autonomy. HIPP will not reduce benefits for currently eligible populations, because wrap-around coverage is mandated. While this alone may mean less savings, Iowa's example, proves that it is possible to eliminate costly practices like IGTs and asset transfers while simultaneously expanding optional coverage to realize additional savings without undue pressure on the states. While legislating these changes rather than using a waiver will reduce state flexibility somewhat, states should appreciate the savings to their bottom lines. Given the need to curtail Medicaid spending growth, the Iowa Option is the most politically feasible way to reconcile the law with the budget.

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- ¹ Andy Schneider, Risa Elias, and Rachel Garfield. Chapter 1: Medicaid Eligibility, *The Medicaid Resource Book*, Kaiser Commission on Medicaid and the Uninsured.
- ² Alan Weil. There's Something About Medicaid. *Health Affairs*, 22 (1):13-30.
- ³ Medicaid, Health Care Reform at Center Stage in Governors' Meeting. National Governors Association. Available: http://www.nga.org/nga/legislativeUpdate/1,1169,C_ISSUE_BRIEF^D_8254,00.html
- ⁴ Alan Weil.
- ⁵ Jeanne Lambrew. Making Medicaid a Block Grant Program: An Analysis of the Implications of Past Proposals. *The Milbank Quarterly* 83 (1):41-63.
- ⁶ Jeanne Lambrew.
- ⁷ Jeanne Lambrew.
- ⁸ Schneider, Elias, and Garfield.
- ⁹ Theresa Sachs. HIFA at Age Two: Opportunities and Limitations for States. *Academy Health, Issue Brief* Vol. 4, No. 6, Nov. 2003. Available:
- ¹⁰ Ed Neuschler and Rick Curtis. Premium Assistance: What Works? What Doesn't? Institute for Health Policy Solutions, April 2003. Available:
- ¹¹ <http://www.ncsl.org/programs/health/buyin03.htm>
- ¹² Jennifer Combs. Medicaid Proves Key Sticking Point in Initial Negotiations on FY 2006 Budget. *Health Care Daily Report* 10 (70). Available: <http://healthcenter.bna.com>
- ¹³ http://staffweb.legis.state.ia.us/lfb/medicaid/waiver_docs/waiver_docs1/medicaid_waiver1.htm
- ¹⁴ Draft: Proposed Agreement between Iowa and CMS Regarding Intergovernmental Transfers and Related Items.
- ¹⁵ ACCSES Medicaid Update 2-17-05. Available: http://www.accses.org/medicaid_accses-update_05-02.html
- ¹⁶ Kaiser Daily Health Policy Report. April 29, 2005. Congress Approves FY 2006 Budget Resolution, Including \$10B in Medicaid Cuts; Plan Creates Medicaid Commission.
- ¹⁷ Personal communication with Rodney Whitlock, Health Policy Advisor to Senate Finance Committee, April 29, 2005.
- ¹⁸ ACCSES Medicaid Update 2-17-05.
- ¹⁹ U.S. Senator Chuck Grassley, Biography. Available:
- ²⁰ Alan Weil.
- ²¹ HHS-27. Medicaid Reform Principles Policy. National Governors Association. Available: http://www.nga.org/nga/legislativeUpdate/1,1169,C_POLICY_POSITION^D_5113,00.html
- ²² Alan Weil.
- ²³ Premium Assistance: The Privatization of Medicaid. Families USA. Available:
- ²⁴ National Association of Community Health Centers, Press Release June 25, 2004. Available: <http://www.nachc.com/press/medicaidcaps.asp>
- ²⁵ Alan Weil.