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The Obama Health Agenda: Impact on the States

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Potentially the most powerful group to influence health care reform, governors have yet to emerge from their day jobs to actively engage Congress and the Obama Administration.

Health plans, drug companies, physicians, and hospitals are at the table through fear and must only look out for their share of the health care pie. Governors, though, have a great deal of clout when it comes to health care, but thus far they have remained on the sidelines. If this situation continues, governors will have only themselves to blame for a bill that would likely transfer much of their health care power to Washington.

Medicaid Expansion. Much of the heavy lifting of health care reform is likely to be left to the states. Congress and the Obama Administration are banking on using Medicaid to provide coverage to millions of uninsured Americans. As many as one-third of those who are uninsured could end up on Medicaid if it is expanded to 150 percent of the federal poverty level ($16,245 for an individual). Even if a comprehensive reform effort falls apart, Congress's fallback plan will be to expand Medicaid at the least.

State opposition could be a tremendous blow to health care reform. Governors can be game-changers if they mobilize before momentum is built behind specific legislation that expands Medicaid.

Governors played a major role in welfare reform in the mid-1990s. This year, in the reauthorization of SCHIP and the stimulus bill, states took a short-term approach and concentrated on money, not policy. But SCHIP spending for states accounts for less than 3 percent of what they spend on Medicaid, and a Medicaid eligibility expansion alone would nearly wipe out the temporary gains from the stimulus bill.

Undermining State Financing. Federal Funds Information for States (FFIS) estimates the state share of expanding Medicaid under several scenarios.[1] As illustrated in Table 1, state costs in just the first year of expansion could range from $23.8 billion to $93.7 billion depending on the upper eligibility level and whether states would be required to increase provider reimbursement to Medicare rates.

Congress created a federal Medicaid and CHIP Payment and Access Commission under Section 506 of the Children's Health Insurance Program Reauthorization Act of 2009. The new 17-member commission is charged with creating "an early-warning system to identify provider shortage areas or any other problems that threaten access to care or the health care status of Medicaid and CHIP beneficiaries."[2] This commission is a likely precursor to federal mandates on provider rates.

FFIS also published state-by-state impacts of these potential expansions. New York, Texas, California, Florida, and New Jersey face the greatest costs of expansion. Because of the Medicaid matching rate formula, New York, California, and New Jersey would

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be required to pay half of the cost of expansion from state funds. Florida would be expected to pick up 45 percent of the cost and Texas 41 percent.[3]

Moreover, states already have authority to expand Medicaid eligibility for parents of Medicaid-eligible children and the majority of states have chosen not to do so. A federal mandate to increase eligibility and payment rates would be a significant blow to federalism.

Threats to State Flexibility .If developments since the beginning of 2009 are any indication, states also are at risk of losing critical flexibilities in the administration of Medicaid and SCHIP under reform. States as diverse as Arkansas, Indiana, Montana, Oregon, Tennessee, Vermont, and Utah could all be threatened by Medicaid being pushed back into a uniform, federal benefit package. States have been losing program flexibility since the inception of the Obama Administration. For example:

- The Obama Administration has interpreted maintenance of effort language in the stimulus bill on eligibility to include cost-sharing. This is a more restrictive interpretation than called for by the statute. A state that increases cost-sharing as allowed under current law would put at risk its entire share of $87 billion in federal funds provided under the stimulus.[4]
- The Obama Administration has delayed final regulations on cost sharing[5] and benefit flexibility.[6] This action leaves states uncertain as to how they can change their Medicaid programs.
- SCHIP reauthorization requires state SCHIP programs to follow more restrictive Medicaid managed care rules.[7]
- Rhode Island is considered by many to have the most successful model for using Medicaid dollars to support premium assistance. SCHIP reauthorization provisions on premium assistance would prevent any other state from using the same rules Rhode Island follows.[8]

Bad Timing for Medicaid Expansion. On the same day the FFIS analysis was released, Ray Scheppach, executive director of the National Governors Association, testified before the U.S. Senate Committee on Homeland Security and Governmental

FY 2009 Estimated Impact of Increase in Medicaid Eligibility and Payment Rates

At Three Percentages of the Federal Poverty Level (FPL)

Eligibility Increase Only			
	100% FPL	133% FPL	150% FPL
Federal Share	$32.6 billion	$45.2 billion	$52.5 billion
State Share	$23.8 billion	$32.9 billion	$38.3 billion
Total Computible	**$56.4 billion**	**$88.1 billion**	**$90.8 billion**

Increase in Eligibility and Rates			
	100% FPL	133% FPL	150% FPL
Federal Share	$93.8 billion	$109.9 billion	$119.4 billion
State Share	$74.5 billion	$86.6 billion	$93.7 billion
Total Computible	**$168.3 billion**	**$196.6 billion**	**$213.1 billion**

Source: Federal Funds Information for States, *Special Analysis State Impact of Medicaid Eligibility Expansion*, April 23, 2009.

Table 1 • WM 2445 heritage.org

1. Federal Funds Information for States, "Special Analysis State Impact of Medicaid Eligibility Expansion," April 23, 2009.
2. Children's Health Insurance Program Reauthorization Act of 2009, Public Law 111–3.
3. See *Federal Register*, Vol. 73, No. 229 (November 26, 2008), p. 72052.
4. Centers for Medicare and Medicaid Services, "American Recovery and Reinvestment Act of 2009, Section 5001: Increased Federal Medical Assistance Percentage (FMAP) Factsheet," March 2009, p. 4.
5. *Federal Register*, Vol. 74, No. 58 (March 27, 2009), p. 13346.
6. *Federal Register*, Vol. 74, No. 63 (April 3, 2009), p. 15221.
7. Children's Health Insurance Program Reauthorization Act of 2009, Section 403.
8. *Ibid.*, Section 301.

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Affairs that "even after the recovery package, states will continue to face a shortfall of more than $200 billion over the next three years, and will therefore continue to reduce spending and consider taxes to balance their budgets."[9] Irrespective of the congressional timeframe for health care reform, states are in no position to expand Medicaid.

Get People Out of Medicaid. Medicaid does not provide high quality health care, and its budget pressures are crowding out other state budgetary priorities. Congress and state policymakers should reverse course and open up opportunities for poor families to get better care, getting them out of Medicaid and into private health insurance of their choice. In that respect, the President's proposal for a Medicaid expansion and a public program expansion would be a step backward.

All Americans should be integrated into private health insurance markets, and those markets should be substantially reformed to guarantee affordable and accessible health insurance to every citizen who wants personal and portable health coverage, including those who today have trouble getting coverage because of pre-existing medical conditions. With the centralization of health care decision-making in Washington, choice, competition, and state innovation and experimentation would be put at risk.

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9. Ray Scheppach, "Follow the Money: State and Local Oversight of Stimulus Funding," testimony before the Committee on Homeland Security and Governmental Affairs, U.S. Senate, April 23, 2009, p. 5.