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Federalization of Medicaid: Health Reform Bill Would Reduce State Authority

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Medicaid is designed to be a partnership between the states and the federal government. In the Balanced Budget Act of 1997 and again in the Deficit Reduction Act of 2005, states won additional flexibility to run Medicaid and its companion program, the State Children's Health Insurance Program (SCHIP).

But under H.R. 3962, the health bill introduced last week by Speaker Pelosi, the ability of states to run their programs to reflect state variations and preferences would be substantially diminished. Policy decisions would be removed from the elected representatives at the state level and placed in the hands of the federal bureaucracy.

Consolidation of Power. Under H.R. 3962, state authority will be reduced through a number of provisions, including:

- The loss of a state's ability to serve children under SCHIP rather than through Medicaid. SCHIP provides numerous flexibilities that do not exist in Medicaid.
- Section 1701 includes a provision that inserts the Secretary of Health and Human Services (HHS) into the review of managed care networks and allows an individual to appeal to the secretary. Under this provision, the secretary could prevent a state from requiring the use of managed care for certain individuals.
- Section 1702 gives power to the new Health Choices Commissioner to make Medicaid eligibility determinations that the state must accept.
- Section 1703 includes a provision to prohibit states from applying an assets test to certain individuals to determine Medicaid eligibility.
- Section 1703 also includes a provision to set new standards for benchmark packages for Medicaid.
- Section 1711 requires coverage of preventive services (currently offered for adults at the state's option).
- Section 1714 includes a provision to prohibit states from adopting benchmark packages unless the state provides coverage of family planning services (currently a state option).
- Section 1726 requires coverage of podiatric services (currently a state option).
- Section 1726A requires coverage of the services of optometrists. (This provider group is currently a state option.)
- Section 1728 expands the role for the federal government to review reimbursement to providers and may restore the Boren Amendment, which was repealed in 1997 because it forced states to increase payments to providers.
- Section 1729 preserves Medicaid coverage for juvenile criminals when they are released from

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prison. (How states handle eligibility is currently a state option.)

- Section 1733 requires 12-month continuous coverage under certain CHIP programs (States currently have the option of requiring re-enrollment at shorter intervals.)
- Section 1734 prevents waiting periods for children applying for SCHIP coverage (currently a state option).
- Section 1737 requires Medicaid coverage of non-emergency transportation to medically necessary services (currently a state option).
- Section 1755 mandates a specific medical loss ratio for managed care organizations as defined by the HHS Secretary (currently state authority).
- Section 1781 limits state authority under Section 1115 Demonstration Projects to treat demonstrations differently than state plan amendments.

State Rebellion Looming. At some point, states will rebel against the reduced role outlined by H.R. 3962. It is unlikely that state officials will simply write checks for a program that consumes 20–25 percent of a state's budget but is run remotely by the federal government. There is much more at stake than adding 15 million people to Medicaid. The balance of power in our federalist system is at risk as well.

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