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State Medicaid Reform After Obamacare

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States should not remain silent or complacent about the Patient Protection and Affordable Care Act (PPACA), especially the law's new Medicaid provisions. States should push back and forge ahead with transformative reforms that would fix the broken Medicaid program.

Opportunity to Push Back. PPACA imposes a massive federal overhaul of the health care system with major implications for the states. The mandated Medicaid expansion alone is a budgetary and policy disaster for the states.

The new law requires states to expand Medicaid eligibility up to 138 percent of the federal poverty level (FPL) in 2014.¹ The additional federal funds are temporary and only delay the impact on the states. Some states have conducted preliminary assessments of this expansion and have found staggering results. As states continue to review the costs to them, it is not surprising that some have considered opting out of Medicaid altogether.²

However, there remains great uncertainty with regard to the new law. Momentum for full repeal appears strong in the new Congress, and the capacity of the Department of Health and Human Services (HHS) to implement the new law in a timely and proper fashion is also unclear.³

If the new law is repealed, states that take up real Medicaid reform will be farther along in fixing the program. If not, then it forces the HHS Secretary to override common-sense reforms enacted at the state level, yet again pre-empting state authority.

Get Your Homework Done. State officials should get a complete assessment of their Medicaid programs. States should begin by securing a baseline of

the program on enrollment and per capita spending by category and income. Then states should conduct a thorough cost assessment of the expansion, including administrative costs not included in the temporary federal funding.

These estimates should also take into consideration projected enrollment as a result of "crowd out" and "woodwork" effects.⁴ These results should be used to challenge federal officials and lawmakers on the estimates and impact of the new law on a state-by-state basis. State officials should be the leaders in delivering an effective case against the mandatory Medicaid expansion.

Develop a Medicaid Reform Plan Based on Specific State Needs. A major flaw in the new law is that it imposes a one-size-fits-all blanket expansion on states without considering the states' underlying Medicaid issues.

After gathering the critical information on their Medicaid programs, states should develop and pursue a reform proposal that meets their unique needs. Every state and every state Medicaid program is different. Developing a Medicaid reform proposal that is state-specific would expose the failures of PPACA in addressing the Medicaid crisis while giving states the opportunity to communicate a sound approach for real reform.

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Maximize Existing Authority to Pursue Market-Based Reforms in Medicaid. While the new law clearly undermines states' authority to decide how best to administer their Medicaid programs, states should not concede; instead, they should use existing statutory authority—including state plan amendments and waivers—to pursue fundamental reforms that transform the program from the bottom up.

Specifically, states should increase the use of premium assistance—where individuals are moved from Medicaid into private health insurance—and expand patient-centered health care models, such as cash and counseling options, for the aged and disabled who are dependent on the program for more than medical needs.⁵

Demand New Flexibility from Federal Officials. The new law handcuffs states' ability to make decisions that are best suited for their citizens. Policies such as imposing maintenance of efforts restrictions further limit states' ability to solve their problems in a fiscally prudent manner, resulting in new state requests for federal Medicaid bailout funds.⁶

States should demand not only an elimination of the maintenance of effort requirements but also

additional flexibility in eligibility, benefits, cost sharing, and overall administration and management.

Keep the Pressure on for Full Repeal of PPACA. The Medicaid expansion is just one of the many disasters in the new health care law. The entire bill is bad policy that will damage the health care system and create an assortment of new problems for state officials.

Therefore, in addition to pushing against the new federal law with alternative policy solutions in Medicaid and insurance markets, states should continue to put pressure on the new Congress to fully repeal the new health care law.

Forge Ahead on Medicaid Reform. PPACA ignores the fundamental problems of Medicaid and adds new burdens on the already unstable program. If kept in place, PPACA would have lasting, damaging effects on the health care system—and especially the states.

It is important that states remain engaged, fight back against the Medicaid mandates, and push forward with reforms that fix Medicaid for the long term.

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1. PPACA sets an income threshold for the expansion at 133 percent FPL but also requires a 5 percent income disregard, taking the true expansion to 138 FPL.
2. Emily Ramshaw, "Texas Considers Medicaid Withdrawal," *The New York Times*, November 6, 2010, at http://www.nytimes.com/2010/11/07/us/politics/07ttmedicaid.html?_r=1 (November 8, 2010).
3. Jonathan Strong, "White House Misses Early Deadlines in ObamaCare Implementation," *The Daily Caller*, June 6, 2010, at <http://dailycaller.com/2010/06/02/white-house-misses-early-deadlines-in-implementing-obamacare/print> (November 16, 2010). On capacity issues, see U.S. Department of the Treasury, Internal Revenue Service, "National Taxpayer Advocate Submits Mid-Year Report to Congress; Identifies Priority Challenges and Issues for Upcoming Year," July 7, 2010, at <http://www.irs.gov/newsroom/article/0,,id=225270,00.html> (November 16, 2010).
4. The "crowd out" effect refers to individuals who currently have private health insurance (either employer-based or individually purchased) and will either drop or lose that coverage now that their incomes qualify them for Medicaid. This will most likely occur among individuals working for small firms. See Edmund F Haislmaier and Brian Blase, "Obamacare: Impact on the States," Heritage Foundation *Backgrounder* No. 2433, July 1, 2010, at <http://heritage.org/Research/Reports/2010/07/Obamacare-Impact-on-States>. The "woodwork" effect refers to individuals who are currently eligible for Medicaid but have yet to enroll. With the addition of the individual mandate, many will likely use Medicaid enrollment to avoid the penalty. See Haislmaier and Blase, "Obamacare: Impact on the States."
5. See Dennis Smith, "State Health Reform: How States Can Control Costs and Expand Coverage," Heritage Foundation *Backgrounder* No. 2183, September 22, 2008, at <http://heritage.org/Research/Reports/2008/09/ReportState-Health-Reform-How-States-Can-Control-Costs-and-Expand-Coverage>. See also Nina Owcharenko, "A Road Map for Medicaid Reform," Heritage Foundation *Backgrounder* No. 1863, June 21, 2005, at <http://www.heritage.org/Research/Reports/2005/06/A-Road-Map-for-Medicaid-Reform>.
6. See Brian Blase, "Further Medicaid Bailout: Unfair and Irresponsible," Heritage Foundation *WebMemo* No. 2955, July 13, 2010, at <http://www.heritage.org/Research/Reports/2010/07/Further-Medicaid-Bailout-Unfair-and-Irresponsible>.