

# ISSUE BRIEF

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## Medicaid Reform: More than a Block Grant Is Needed

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The House of Representatives recently passed a budget resolution that recommends a Medicaid block grant, which puts Medicaid spending on a budget like other government programs and gives states greater flexibility to manage the program. These are both important changes, but clear policy goals must accompany them to reform Medicaid in a fundamental way.

**The Goal.** The ultimate goal of Medicaid reform must be to mainstream families out of the failing program and into more popular private health insurance options. By allowing Medicaid dollars to follow the individual, beneficiaries would have the same choices of coverage and be able to participate in the private market just like the rest of their fellow citizens. At the same time, Congress needs to restructure the remaining safety net into a patient-centered

model that gives families more control over their care and allows them to secure services tailored to their personal needs. The Heritage Foundation has outlined such a reform in its *Saving the American Dream* fiscal plan.<sup>1</sup>

Without change, Medicaid will only worsen, with unsustainable spending that crowds out other national and state priorities and poorer access to care for those in need.

**Major Obstacle.** Obamacare exacerbates the situation. Instead of addressing these serious challenges, the Administration is poised to dump nearly 20 million more people onto the struggling program. Half of the reduction of uninsured under the health care law depends on Medicaid as the single source of coverage for the poor.

A government program that is unable to deliver on its current promises is in no way capable of serving the needs of the estimated 95 million people who are expected to be dependent on the program by 2022. For this reason and many others, Congress must begin by repealing Obamacare.

**Lessons from Welfare, Education, and Medicare Reforms.** Policymakers can learn a

great deal from other reform efforts. Reform efforts in welfare, education, and Medicare offer parallels for Medicaid reform.

**Welfare reform required work, not just block grants.** As Heritage welfare expert Robert Rector has noted, welfare reform was not solely a block grant, but “a block grant with moral principles.”<sup>2</sup> Welfare reform did convert Aid to Families with Dependent Children (AFDC) from an entitlement to a discretionary spending program, but that was secondary to explicit policy objectives: work and marriage. The same should be true in Medicaid. In addition to converting Medicaid to a budgeted program with greater flexibility for states, there should be explicit policy objectives aimed at mainstreaming families into private health insurance and turning the safety net toward more patient-centered care.

**School choice empowers families, not bureaucrats.** In education reform, school choice is based on the idea that parents should be able to move their children out of poorly performing and unsafe schools and into schools that best meet their children’s learning needs. Dollars should follow children to an educational option of their choice—including private, charter, and home schooling.

This paper, in its entirety, can be found at <http://report.heritage.org/ib3590>

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The decision should be in the hands of the parents, not federal or state bureaucrats. The same principle should apply in Medicaid. Families should be able to get out of a failing health care program and instead apply those resources to secure high-quality private health insurance options.

**Premium support in Medicare allows seniors great choices.** Under Medicare premium support, seniors would receive a government contribution to be applied to the health care plan of their choice.<sup>3</sup> This puts Medicare on a more fiscally sustainable path while allowing seniors greater choice in health plans. The same should apply to low-income families and individuals on Medicaid. Converting the current reimbursement model into a premium support model creates budget certainty and gives low-income families greater control over the allocation of those resources, including buying a health plan that best fits their needs.

### Three Steps to Medicaid Reform:

**1. Repeal Obamacare.** A critical step toward fundamental Medicaid reform is to repeal Obamacare. As noted, the health care law significantly expands Medicaid without offering any solid reforms to address its sustainability. Without repeal, the problems facing Medicaid and the rest of the health care system are extraordinary.

**2. Put Medicaid on a budget.** Another key step in fundamental Medicaid reform is to put Medicaid spending on a budget. Although states must balance their budgets, federal Medicaid spending has no limit. The more a state spends, the more federal taxpayers must pay out. Therefore, it is critical that federal Medicaid spending is put on a dependable and sustainable path.

There are various ways to put Medicaid spending on a budget. For instance, The Heritage Foundation's *Saving the American Dream* fiscal plan sets an aggregate federal spending cap on Medicaid and other welfare programs. From there, the Heritage plan separates spending by non-disabled and disabled/elderly. The non-disabled spending is then converted into a per capita premium support subsidy. The disabled and elderly spending is then converted into a block grant to the states and adjusted on a per capita basis for medical inflation.

**3. Set core policy objectives.** In conjunction with budgetary recommendations, policy objectives must be clear. These policies should reflect the broader goals of establishing patient-centered, market-based solutions that reduce dependence on government health care and improve care for the most vulnerable.

Just as budgeting affords different options, there are a variety of ways to achieve these policy objectives. The Heritage Foundation's *Saving the American Dream* plan starts by mainstreaming the non-disabled out of government-run Medicaid and into premium support, where individuals have the same private health care options as others. Second, the plan transitions low-income elderly out of the current dueling Medicare and Medicaid structure and into a coordinated care model like Medicare Advantage, allowing Medicaid to provide additional assistance as necessary. Finally, the plan restores traditional Medicaid to a true safety net—intended to assist those with disabilities while providing greater flexibility to the states to address the complex needs of these populations.

**A Better Way to Help Those in Need.** Medicaid, the joint federal-state health care program for the poor, is in need of major structural reform. Not only is it stretching limited financial resources at the federal and state levels, but it also falls far short in delivering quality care and services for those in need. Obamacare only makes matters worse by adding millions of people to this already strained and unreformed program.

The House Republican budget took important steps with regard to

1. Stuart M. Butler, Alison Acosta Fraser, and William W. Beach, eds., *Saving the American Dream: The Heritage Plan to Fix the Debt, Cut Spending, and Restore Prosperity*, The Heritage Foundation, 2011, <http://www.savingthedream.org/about-the-plan/plan-details/SavAmerDream.pdf>.

2. Robert Rector, Presentation at "Block Grants: Past, Present, and Prospects," Brookings Institution, October 15, 2003, [http://www.brookings.edu/comm/events/20031015\\_panel2.pdf](http://www.brookings.edu/comm/events/20031015_panel2.pdf) (accessed May 2, 2012).

3. Robert Moffit, "The Second Stage of Medicare Reform," Heritage Foundation *Backgrounder* No. 2626, November 28, 2011, <http://www.heritage.org/research/reports/2011/11/the-second-stage-of-medicare-reform-moving-to-a-premium-support-program>.

Medicaid by calling for the repeal of Obamacare and putting Medicaid on a budget. However, this is just a down payment on what needs to be done. The next—and equally as important—step is to put policies in place that restructure the Medicaid program so that low-income individuals and families are mainstreamed out of Medicaid and into the private health insurance market. In this way, Congress can expand the private insurance market, ensure more robust competition, and secure the kind of care that the vast majority of working Americans have today. At the same time, Congress needs to restore Medicaid to a true safety net program for the most vulnerable in society.

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