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HEALTH POLICY prescriptions

In the Nick of Time: Rhode Island's Medicaid Waiver Shows How States Can Save Their Budgets from Obamacare's Assault

By John R. Graham

Medicaid is the joint federal-state program that funds health care for low-income Americans. Since its creation four-and-a-half decades ago, Medicaid spending has accelerated out of control, largely because of the formula for transfers: the federal government must pay *at least* 50 percent of a state's Medicaid costs. This creates an extraordinarily perverse incentive for politicians. For the governor or state legislator who gets federal funds, Medicaid offers "free" money. We have previously argued that the short-term solution to this is to convert the funding formula, known as FMAP (Federal Medical Assistance Percentages), to a per-head block grant to the states.[1]

Unfortunately, things have been moving in the wrong direction. The "stimulus" bill, signed in February 2009, *increased* federal funding to each state by 5.5 to 11.5 percent until the end of 2010. The Congressional Budget Office figured that the stimulus would drive up federal spending on Medicaid by $90 billion.[2] In the same month, the president blew the doors off the State Children's Health Insurance Program (SCHIP) by increasing the income-eligibility cut-offs, thereby roping in 4.1 million more children by 2013. This is on top of the seven million already captured by SCHIP. As discussed in a previous briefing, SCHIP has significant negative consequences, especially "crowding out" kids from family-based coverage.[3]

As with all things "stimulus," the first round of the Medicaid bailout was not enough. On August 10, 2010, President Obama signed P.L. 111-226, which extends a leveraged FMAP through the end of June 2011, and will cost future taxpayers another $16 billion.[4] Obamacare dramatically

Key Points:

- **On the last day of the Bush Administration, Rhode Island won a federal waiver to reduce federal control and increase patient choice in the state's Medicaid program.**
- **In 18 months following the waiver, Rhode Island's Medicaid spending was almost one-third less than budgeted: $2.7 billion versus $3.8 billion.**
- **Rhode Island's successful reforms include the ability to incentivize higher quality care, rebalancing long-term care, and giving beneficiaries more direct control of their health spending.**
- **Because Obamacare will impose a catastrophically expensive expansion of Medicaid dependency on states, governors and state legislators should invest significant effort in crafting and lobbying for waivers similar to Rhode Island's.**

increases eligibility for Medicaid, making anyone who earns less than 133 percent of the Federal Poverty Level (FPL) eligible, as of 2014. The federal government will fully subsidize newly eligible enrollees from 2014 to 2016, and then gradually reduce the subsidies to 90 percent of costs for 2020 and beyond. Similarly, Obamacare dramatically increases funding for SCHIP. The chief actuary of the Centers for Medicare and Medicaid Services estimates that this will increase the number of people in Medicaid and SCHIP by 20.4 million people in 2019.[5]

Remarkably, this expansion of Medicaid comes amidst increasing reports of inadequate care received by Medicaid beneficiaries, as discussed in a recent *Health Policy Prescription*.[6] This increased welfare dependency will also prove costly to states. A recent review of some states' analyses of the impact of Obamacare's Medicaid expansion concluded that the cost to Texas would be up to $27 billion in a decade, that the cost to Florida would be $5.2 billion between 2013 and 2019, and the cost to California will run into the billions annually.[7] An independent analysis came to an even more pessimistic conclusion than Texas' own research: An additional $31.2 billion of state spending over a decade.[8] Nationally, administrative costs alone are estimated to cost states almost $12 billion between 2014 and 2020.[9]

Fortunately, even before the nation had heard the term "Obamacare," leaders in one state succeeded in crafting a mechanism to restrain out- of- control Medicaid growth. In August 2008, Rhode Island's governor tasked his Secretary of Health and Human Services to apply for a "Global Consumer Choice Compact Waiver" from the federal government.

Fortunately, even before the nation had heard the term "Obamacare," leaders in one state succeeded in crafting a mechanism to restrain out-of-control Medicaid growth. In August 2008, Rhode Island's governor tasked his Secretary of Health and Human Services to apply for a "Global Consumer Choice Compact Waiver" from the federal government. This was a monumental effort. States have always had the ability to apply for waivers that allowed them to escape undue federal interference in their Medicaid programs. A waiver gives a state more freedom in exchange for a guarantee to limit the federal government's financial risk. However, previous waivers had been for bits and pieces of a state's Medicaid program – perhaps limited to one service, or even one county. So prevalent was this approach that my *U.S. Index of Health Ownership* scored states higher for having won lots of waivers.[10]

Rhode Island's success has made this approach obsolete. It applied for a global cap on all Medicaid spending, in return for overall flexibility. The challenge was huge: the federal government did not approve the waiver until January 19, 2009—*the last full day of the Bush Administration!* Previously, Rhode Island had navigated 11 different waivers.[11] This meant that state bureaucrats faced off against a number of different factions within the federal Centers for Medicare and Medicaid Services (CMS), inhibiting the state's ability to increase co-ordination and quality of care.

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Rhode Island's waiver is *not* a block grant. It preserves the FMAP, but caps aggregate spending through 2013 at $12.075 billion. Nevertheless, it appears to have had the results one would expect from a block grant: Spending has plummeted from what was anticipated. Remarkably, through the first

six quarters of the waiver (January 1, 2009 through June 30, 2010) actual spending was $2.7 billion versus $3.8 billion budgeted - *savings of almost one-third*.[12]

Research has not yet identified exactly how much each reform contributed to the savings, but one expects that many of the changes Rhode Island introduced would be significant contributors. For instance, the state was exempted from Any-Willing-Provider (AWP) rules, which meant that it had more power to incentivize quality from medical providers. It also "rebalanced" Medicaid Long-Term Care (LTC), reducing abuse of this program along the lines recommended in a report recently published by PRI.[13] Critically, it empowered Medicaid beneficiaries to make better choices about their care by giving them more direct control of the dollars spent on their health care.

The waiver imposes light reporting requirements on Rhode Island: The state submits quarterly reports to CMS. The three quarterly reports issued so far (to March 2010) average 57 pages each—a welcome contrast to the hundreds of pages emitted each month by Obamacrats' attempt to execute the federal takeover of insurance regulation.[14]

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Of course, the Obama Administration's priorities have led to changes in the waiver, amended in December 2009. Further, the American Recovery and Reinvestment Act, signed in February 2009, will have caused Rhode Island to spend $74 million more of its own funds on Medicaid by the end of this year than if there had been no "stimulus," according to the state's former Secretary of Health and Human Services.[15]

In a time of busted state budgets, can Rhode Island's success be replicated? No doubt, it won't be easy for other states to get similar waivers. Even Rhode Island won its waiver by the skin of its teeth. The perverse incentives erected by the Obama Administration will be hard for states to resist. Indeed, Obamacare threatens Rhode Island's continued success. On January 13, the newly inaugurated governor, Lincoln D. Chafee, signed an executive order to establish a commission to bring the state into submission to Obamacare's expensive and arbitrary regulations.[16]

Nevertheless, governors and state legislators who wish to reform Medicaid in the best interests of taxpayers and beneficiaries should look to Rhode Island's success as they craft ways to push back against federal overreach in the delivery of medical care.

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Endnotes

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