

Texas Governor Wants Medicaid Reforms, More Private Insurance

State lottery sale would fund program

By Devon Herrick

Texas Gov. Rick Perry (R) is proposing several bold steps to reform the state Medicaid program and help the uninsured purchase health insurance, including subsidies to help people buy private insurance and fund Health Savings Accounts.

Texas's Medicaid program has doubled in cost during the past decade. The program now serves 2.7 million people and consumes about 26 percent of the state's budget—more than \$17 billion in 2005. That included \$6.73 billion in state funds and \$10.54 in federal funds.

Perry's reforms aim to hold down costs and give Medicaid-eligible residents more control over their health care.

Alternative to Medicaid

Perry's plan to assist the uninsured, called Healthier Texas and announced in February of this year, would cover an estimated two million residents. Rather than expand traditional Medicaid, the state would provide subsidies for the purchase of health insurance for families

earning up to 200 percent of the poverty level.

The funds also could be used to subsidize workers with access to employer-sponsored health insurance. Premiums would be charged on a sliding scale based on recipients' income. All participants would be required to pay low deductibles and co-payments for health care services.

Low-income recipients also would be allowed to use the subsidy to fund Health Savings Accounts (HSAs), which they could use to pay deductibles and co-payments.

Medicaid Waiver

Perry also proposes to reform the traditional Medicaid program. The state would request a waiver from the federal government allowing Texas to offer customized benefits packages to meet the different needs of diverse populations.

"Washington's 'one-size-fits-all' approach to Medicaid is bankrupting our state," said a spokesman for Perry. "Innovative reform measures, such as tailored benefit packages and premium assistance, will help Texas meet the needs of our population—without any additional cost burden to the state."

According to the governor's office,

recipients who have access to employer-sponsored health plans could opt out of Medicaid and use the subsidy to purchase private coverage through work. Texas Medicaid also would allow HSAs and consumer-directed health care services.

Three-Share Program

Another part of the governor's proposal is the Texas Three-Share Program, named for a feature that includes cost-sharing among the state, employers, and employees with employer-provided health insurance.

In late 2005 Texas submitted a waiver request to the federal Centers for Medicare and Medicaid Services for a Three-Share Program in Galveston County. The waiver approval is still in process, but it is expected to be approved. Perry would like to expand the program statewide.

The Three-Share plans have less-generous benefit packages than traditional health insurance, focusing coverage on primary care, specialty care, drugs, and limited inpatient services. Three-Share Program participants would include small employers with fewer than 25 or 50 employees.

Health care premiums would be split



Rick Perry
Governor - Texas

among the state, the employer, and the employee, with each paying roughly one-third. State officials estimate the cost of premiums would average \$150 to \$180 per month.

State Lottery Sale

Perry proposes to fund the program by selling the Texas lottery to a private venture. An estimated \$2.7 billion from the sale of the lottery would be used for health insurance for the uninsured, with additional funds for cancer research.

Some health care experts say more needs to be done to improve the Texas Medicaid situation.

For instance, Texas should broaden

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Medicaid

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all nursing home residents in the U.S. are on Medicaid.

Eligibility Expanding

Medicaid is a partnership between the federal government and the states to provide health insurance to low-income children and seniors. But in many states eligibility has been expanded to include persons and families with incomes more than triple the poverty level (\$61,332 for a family of four). Growth in state spending has been linked to the swelling number of Medicaid recipients.

The federal government matches spending by the states, at a rate based on the general income of the individual state. High-income states receive equal matching of federal dollars, while lower-income states may receive as much as \$3 for every \$1 spent.

Overall, the federal government matches approximately 57 percent of state spending on Medicaid, according to the National Association of State Budget Officers. There is no cap on federal spending because Medicaid is considered an entitlement program.

Sustaining Medicaid

Despite the surging Medicaid rolls and spending, future growth in government revenues should be sufficient to sustain Medicaid spending growth, according



to a study released in February by the Kaiser Family Foundation's Commission on Medicaid and the Uninsured (KCMU). The report was written by Richard Kronick of the University of California-San Diego and David Rousseau of KCMU.

"Even under pessimistic assumptions, the study provides a new perspective on Medicaid's future financing," said Kronick in a press statement accompanying the report. "While a substantial component of state government spending, Medicaid is not likely to be the financial burden squeezing out other public priorities that some policymakers fear."

However, Merrill Matthews, a resident scholar for the Institute for Policy Inno-

vation, said the aging of the U.S. population will bring tremendous challenges to future health care projections.

Reaching Frightening Levels

In contrast to the Kaiser Family Foundation study, the United States Government Accountability Office (GAO) warns in "Fiscal Stewardship: A Critical Challenge Facing Our Nation," issued January 31, 2007, "[O]verall federal spending on entitlement programs will reach frightening financial levels if spending is not curbed."

According to the GAO, "[O]ne would need approximately \$39 trillion invested today to deliver on the currently promised benefits for the next 75 years." The

report notes the sum of all government income was only \$2.44 trillion this year. "Based on various measures," the GAO concludes, "the federal government's current fiscal policy is unsustainable."

According to "Health Care Spending: What the Future Will Look Like," issued in June 2006 by the NCPA, "by 2025 government spending on health care will have risen to 13.8 percent of GDP—growing to 32.7 percent by 2050."

According to NCPA Senior Fellow Devon Herrick, government spending on health care in 2002 was 6 percent of U.S. GDP.

"Clearly both Medicaid and Medicare are unsustainable at current rates of growth," Herrick said.

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INTERNET INFO

"Fiscal Stewardship: A Critical Challenge Facing Our Nation," January 31, 2007, Government Accountability Office, <http://www.gao.gov/fiscal-stewardship.html>

"Health Care Spending: What the Future Will Look Like," Study No. 286, June 28, 2006, National Center for Policy Analysis, <http://www.ncpa.org/pub/st/st286/>

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its asset recovery program, according to Stephen Moses, president of the Center for Long-Term Care Reform in Seattle, Washington and author of a recent study on reforming the Texas long-term care (LTC) program.

Texas was slow to start an asset recovery program, doing so in 2005.

"Texas's important, though belated implementation of a Medicaid estate recovery program will help recoup some of the wealth sheltered by Medicaid from LTC costs in the past, but structured as it currently is, it will likely bring in only a fraction of the non-tax revenue that it should," according to Moses's report.

"Texas Gov. Rick Perry (R) is proposing several bold steps to reform the state Medicaid program and help the uninsured purchase health insurance ..."

Market-Oriented Reforms

Michael Bond, a senior fellow with the National Center for Policy Analysis and advisor to several state reform efforts, said, "Texas should empower the poor of its state to buy their health care from competing providers. By offering enrollees Medicaid credits based on their health status, they will become valued customers to the providers. Providers, seeking to enroll beneficiaries, will compete vigorously for their business.

"This real marketplace will produce better quality care and lower Medicaid's long run inflation rate," Bond continued.

Mary Katherine Stout, vice president of policy for the Texas Public Policy Foundation, said Texas really needs to ask the federal government to block-grant all federal funds. "The Texas legislature is right to be looking for program reforms, but unfortunately the real problem here is the financing," she said.

"The matching arrangement without any limitation on federal funds simply rewards big-spending states with big federal money," Stout continued. "Instead, Texas should make a trade with Washington, getting program flexibility for the state in exchange for budget certainty in Washington."

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INTERNET INFO

"Don't Mess With Texans' Long-Term Care-Fix It," by Stephen Moses and Mary Katherine Stout, Texas Public Policy Foundation, February 2007, <http://www.texaspolicy.com>

Experts Discuss Medicaid Reform

The need for Medicaid reform was the subject of a session in March at the 23rd Annual Washington Economic Policy Conference sponsored by the National Association for Business Economics. Panelists included senior fellows Devon Herrick of the National Center for Policy Analysis and Judy Solomon of the Center for Budget and Policy Priorities. Session moderator was Robert Graboyes, senior fellow at the National Center for Policy Analysis and University of Richmond visiting lecturer.

"This was a great event where various sides of the Medicaid debate were considered," said Herrick.

By Steve Stanek

There was little dispute among panelists at the 23rd Annual Washington Economic Policy Conference over the following statements regarding Medicaid:

- Some 50 million people are enrolled in Medicaid or the State Children's Health Insurance Program (CHIP), which, like Medicaid, uses federal and state funds to provide eligible persons health care services.
- More than one-quarter of all children in the United States receive coverage through Medicaid or CHIP.
- The cost of delivering half of all babies in the United States is paid for by Medicaid. In addition, about half of all nursing home residents receive Medicaid benefits.
- The proportion of state budgets spent on Medicaid is about equal to state spending on K-12 education. In addition, annual Medicaid spending (\$329 billion in 2005) is nearly as much as the \$389 billion spent on Medicare.

"The need for Medicaid reform was the subject of a session in March at the 13th Annual Washington Economic Policy Conference sponsored by the National Association for Business Economics."

Disagree on Remedies

How to respond, though, drew decidedly different answers from the panelists and moderator.

Devon Herrick said Medicaid experiences fundamental delivery problems, including a limited choice of doctors, excess waiting and rationing of services, and a phenomenon known as crowd-out.

He cited research by MIT economist Jonathan Gruber showing 50 to 75 cents of every dollar of new Medicaid spending actually goes for people who have dropped private coverage, crowding out private insurance. Thus, he observed, it is entirely possible to expand public health coverage without a corresponding drop in the uninsured.

Medicaid Incentives Criticized

Moderator Robert Graboyes said in some ways Medicaid combines the worst features of both American and Canadian health care.

"Americans have incentives to bounce

between public and private insurance, and some get caught with neither," Graboyes said. "Canadians endure limited choice, rationing, and long waits. Medicaid delivers both problems in one package."

Because two-thirds of Medicaid spending falls into the category of optional spending, conventional Medicaid reform proposals often recommend reducing optional services and services to optional populations. Yet cutting optional services is not feasible, according to Graboyes, because "much optional spending is on populations, such as the disabled and the elderly, who have nowhere else to turn."

Though Herrick argued for dramatic reform while Judy Solomon was more disposed to accept smaller changes, they largely agreed on a variety of reforms designed to discourage waste.

'Cost Plus' Waste Identified

One wasteful practice the panelists identified is "Cost Plus" reimbursement. Under Cost Plus, the government agrees to reimburse a health care provider's service costs plus a small profit. This not only guarantees a profit to poorly run operations, but it also means some providers receive more payment than others for the same service.

As a result, no matter how mismanaged a hospital or other Medicaid service provider is, it makes as much profit as a well-run operation ... and sometimes more.

One proposed solution is selective contracting, in which business is steered only to efficient providers (ones that will perform the service for a lower cost), panelists said. They also said another solution is for states to substitute low-cost services (such as office visits) for high-cost services (such as hospital emergency room visits) whenever they can.

However, Herrick and Solomon said such improvements would have only a small impact on Medicaid costs.

Waivers Draw Debate

Herrick supported and Solomon opposed a proposal for all states to request waivers from the federal government to block-grant all Medicaid funds. A block grant would allow greater state flexibility in designing Medicaid plans, such as using federal funds to subsidize employer coverage and tailoring benefits to meet the diverse needs of Medicaid enrollees.

Florida has already received federal permission to offer tailored benefits in several counties. South Carolina is preparing a similar waiver application. Massachusetts has received permission to subsidize private coverage using federal funds that had been subsidizing indigent



(from top) Devon Herrick, Judy Solomon, and Robert Graboyes participated in the NABE Medicaid reform panel.

care hospitals.

Solomon said many Medicaid advocates do not support tailored Medicaid plans because most of them reduce traditional benefit packages offered to vulnerable populations. According to Solomon, "poor adults on Medicaid already spend more of their income on out-of-pocket medical expenses than higher-income, privately insured people."

She said many Medicaid enrollees have greater health care needs than average and suffer from chronic conditions and therefore need access to the full range of Medicaid benefits.

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INTERNET INFO

Presentation from the Medicaid Reform session at the NABE's 23rd Washington Economic Policy Conference, <http://www.nabe.com/pc07/session12.html>