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Capretta, Wohlgemuth: Federal grant funding is key to Medicaid reform in Texas

By James C. Capretta, and Arlene Wohlgemuth | April 6, 2013 | Updated: April 6, 2013 2:43pm

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For all the debate over whether Texas should expand Medicaid as Obamacare envisions, there has been little debate over a more important question: How should Texas reform its current Medicaid program?

Make no mistake - the current program, even without expansion, is on an unsustainable trajectory and in dire need of reform. As it stands, Medicaid enrollees all too often get inadequate health care even as the program continues to consume an ever larger share of state revenues. Currently, Medicaid accounts for 25 percent of Texas' state budget and is already forcing cuts in other areas.

The path to reform is through a block grant of federal Medicaid funds to Texas. Under the current federal funding structure, states are encouraged to spend more, not less, in order to pull down a greater share of federal dollars. For every dollar Texas spends on Medicaid, the federal government pays about 60 cents and the state pays the rest. Under such a scheme, Texas lawmakers have to cut \$2.50 out of the program to save \$1 in the state budget, making cost control politically impossible and fiscally undesirable.

The time has come to disentangle state and federal finances. With a block grant, the federal government would get budgetary stability, and Texas would be given the freedom to redesign its Medicaid program within the limits of a predetermined level of federal support.

Recently, we published a report outlining how Texas could reform its Medicaid program if it received a block grant of funds from Washington that allowed the state broad flexibility to implement measures not currently allowed under federal law.

On both the acute and long-term care side of Medicaid, the program suffers from the same problems as the broader health system. Third-party insurance - in this case public insurance, poorly managed by the federal and state governments - creates distance between those providing care and those receiving it.

With the freedom that a block grant would afford, the state could use Medicaid funds to offer a version of "premium support," and subsidize the purchase of private insurance for non-disabled, non-elderly enrollees, who could choose an insurance plan from a competitive field. It is through this kind of competition that costs can be held in check.

Instead of the state guaranteeing a defined set of coverage benefits and then underpaying providers who treat Medicaid patients, the state would simply provide a defined contribution of funds and let enrollees choose their own health plan. To ensure that a range of competing private plans was available to Medicaid enrollees, the state could offer reinsurance to qualifying insurance providers. This would bring more entrants to the market, foster competition and give the Medicaid population real choices in choosing coverage plans, which would provide far better care than what Medicaid currently gives.

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For long-term care, the state could enlist the support of enrollees and applicants in a cost-discipline effort. The first step would be to determine the amount of assistance for long-term care services relative to the level of an applicant's disability and financial needs. The most severely disabled applicants with the lowest level of resources should get enough assistance to cover the services they need. Applicants with less severe levels of disability or with more personal financial resources would get assistance commensurate with their circumstances.

Whatever the amount of the monthly allotment, the enrollee would retain full control of it. The state would certify and oversee the service providers eligible to receive payments from the patient allotments, but Medicaid patients themselves would make the decisions about which service providers to employ.

By making program enrollees cost-conscious participants in their care, and by transitioning from a "defined benefits" model to a "defined contribution model," Texas can ensure the long-term sustainability of its Medicaid program and improve health outcomes for those who currently rely on it for coverage. Fundamental Medicaid reform is the right path forward for Texas.

Capretta is a fellow at the Ethics and Public Policy Center and a visiting fellow at the American Enterprise Institute. Wohlgemuth is executive director and director for the nonprofit Texas Public Policy Foundation's Center for Health Care Policy.

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