

Revisiting the Federal-State Partnership in Health Care

New Directions in American Health Care
Hofstra University

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Federalism in Health Policy

- Every Level of Government is Involved
- Medicaid is the Poster Child
 - Shared fiscal responsibility
 - 57% of costs paid for by federal government
 - Ranges from 50% to 75%
 - Shared programmatic responsibility
 - Overarching federal rules on coverage, benefits, and payment policies
 - Significant state discretion on operations

Medicaid Plays a Central Role in the Nation's Health Care System

- Covers 65 million people
 - Adults and children in low-income families
 - Frail elderly and people with disabilities, including low-income/disabled Medicare beneficiaries
- Costs over \$345 billion
- 15% of national health expenditure
- 72% of state health spending
- Pays for 1 in 5 health care dollars and 1 in 2 nursing home dollars
 - Over 40% of OB, neonatal and pediatric admissions
 - 30% of adult and 44% of pediatric mental health admissions

Strengths and Weaknesses of Medicaid Partnership

- On the plus side
 - Responsive to local economic and social conditions
 - Encourages experimentation
- On the minus side
 - Wide variation in coverage
 - Inefficient
 - Reinventing the wheel
 - Distrust and micro-management
 - Insufficient federal financial support
 - Balance budget requirements in states
 - Limited fiscal resources
 - No counter cyclical provisions

Increasing Focus on Medicaid Partnership

- Recession
 - Enrollment at historic levels
 - Costs unsustainable for states
- Federal Health Reform
 - Medicaid is the foundation
 - 25% of the population would be covered
 - FMAP increasing
 - Potential driver of delivery system reform

Affordable Health Care is a National Problem

- Demands a national solution
- States cannot lead health reform
- Health reform demands greater Federal role in Medicaid
 - Eligibility rules
 - Payment policies
 - Financing

Medicaid Coverage Policies Vary Widely

- Federal law sets minimum
 - Pregnant women and children to 133% of the FPL
 - Parents at 1996 welfare levels
 - No coverage for childless adults
- State laws
 - 44 states cover children up to 200% of FPL or higher
 - 34 states limit eligibility for parents to less than 100% of the FPL; 17 states below 50% of FPL
 - Only 5 states provide Medicaid coverage to childless adults
- Result: low-income adults (below 200% of FPL) account for 55% of uninsured

Medicaid Payment Policies Vary Widely *Comparison With Medicare Instructive*

- Prior to 1983, Medicare paid hospitals based on their reported costs plus a profit margin
- After 1983, Medicare paid a fixed price based on each patient's clinical condition or diagnosis related group (DRG)
- DRGs proved enormously successful
- DRGs further refined in 2004 to better reflect patient differences

States Given Wide Latitude in Setting Medicaid Payment Policies

- Federal law requires states to pay rates consistent with economy, efficiency and quality and sufficient to assure equal access
- State are reinventing the wheel
 - 6 states use cost based rates
 - 9 states use per diems
 - 15 states use system Medicare abandoned in 2007
- Payment levels vary widely
 - Courts are intervening
- Reform slow and difficult

The Federal Medical Assistance Percentage (FMAP) Varies Widely

- Based on per capita income
- Ranges from 50% (NY, Conn, Calif, Mass, Ill) to 75% (Mississippi)
- Under ARRA ranges from 61% to 81%
- States cannot sustain their Medicaid expenditures

Rethinking the Medicaid Partnership

- National minimum eligibility levels
- Federal financial support that is fair to all states
- Federal leadership on payment policies
- Streamline administration