Revisiting the Federal-State Partnership in Health Care

New Directions in American Health Care

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Federalism in Health Policy

• Every Level of Government is Involved
• Medicaid is the Poster Child
  o Shared fiscal responsibility
    ▪ 57% of costs paid for by federal government
    ▪ Ranges from 50% to 75%
  o 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

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Strengths and Weaknesses of Medicaid Partnership

• On the plus side
  o Responsive to local economic and social conditions
  o Encourages experimentation

• On the minus side
  o Wide variation in coverage
  o Inefficient
    ▪ Reinventing the wheel
    ▪ Distrust and micro-management
  o Insufficient federal financial support
    ▪ Balance budget requirements in states
    ▪ Limited fiscal resources
    ▪ No counter cyclical provisions
Increasing Focus on Medicaid Partnership

• Recession
  o Enrollment at historic levels
  o Costs unsustainable for states

• Federal Health Reform
  o Medicaid is the foundation
  o 25% of the population would be covered
  o FMAP increasing
  o 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
  o Eligibility rules
  o Payment policies
  o Financing
Medicaid Coverage Policies Vary Widely

• Federal law sets minimum
  o Pregnant women and children to 133% of the FPL
  o Parents at 1996 welfare levels
  o No coverage for childless adults

• State laws
  o 44 states cover children up to 200% of FPL or higher
  o 34 states limit eligibility for parents to less than 100% of the FPL; 17 states below 50% of FPL
  o 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
  o 6 states use cost based rates
  o 9 states use per diems
  o 15 states use system Medicare abandoned in 2007
• Payment levels vary widely
  o 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