



## Key Committee Issue

07/08/2005

### Medicaid and Health Care Reform

Medicaid is the nation's largest health care program, providing health and long-term care services to 53 million low-income pregnant women, children, individuals with disabilities, and seniors. It is a vital health care safety net and provides important services to those who cannot obtain care from any other source. Medicaid coverage is also critical for reducing the number of the uninsured, currently estimated at 45 million nationwide.

Authorized under Title XIX of the Social Security Act, Medicaid is a means-tested entitlement program financed by state and federal governments and administered by the states. Within national guidelines established by the federal government, each state establishes its own eligibility standards; determines the type, amount, duration, and scope of services; and administers its own program.

#### More on this topic:

- NGA Paper *Dual Eligibles: Making the Case for Federalization* (February 2005)
- NGA Paper *Medicaid in 2005: Principles & Proposals for Reform* (February 2005)  
Prepared for the NGA by Vernon Smith and Greg Moody
- NGA Paper *A National Health Care Innovations Program* (February 2005)
- NGA-Commissioned Paper *Tax Credits + Medicaid: An Integrated Approach to Health Insurance Coverage* (April 2005)  
by Lynn Etheredge

#### NGA Position

Medicaid spending has increased dramatically over the last five years, driven by a 40 percent increase in caseload and a 4.5 percent per year increase in the health care price index, strengthening the impetus for reform. Comprehensive Medicaid reform must focus both on reforming Medicaid and on strengthening other forms of health insurance and long term-care coverage.

The Governors believe that meaningful Medicaid reform should include both short-term flexibilities that allow states to more efficiently manage the program and subsequently serve all those in need, as well as long-term structural reforms that will make Medicaid sustainable going forward.

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Short-term flexibilities that Governors propose to modernize, streamline, strengthen and make Medicaid a more cost-effective and high quality program include:

- **Prescription drug improvements** will help decrease costs and improve quality and effectiveness of care, including increased rebates from manufacturers, reforms to the Average Wholesale Price, policies that increase the use and benefit of more affordable generic drugs, and tiered, enforceable co-pays for beneficiaries.
- **Asset Policy reforms** including changes that increase the penalties for inappropriate transfers, restrict the types of assets that can be transferred, and encourage reverse mortgages, as well as other policies that encourage individuals and their families to self-finance care rather than rely on Medicaid.
- **Cost sharing provisions** should be modified to make Medicaid look more like the State Children's Health Insurance Program (SCHIP), where states have broad discretion to establish enforceable premiums, deductibles or co-pays. As in SCHIP, there should be financial protection to ensure that beneficiaries would not be required to pay more than 5 percent of total household income as a critical balance to this proposal.
- **Benefit package flexibility** allows for greater efficiencies without compromising quality of care and would allow states to provide more targeted services while managing the program in a way that prevents sweeping cuts in the future.
- **Comprehensive waiver reforms** are needed to reduce costs and inefficiencies, increase the ease with which states obtain current waivers, expand the ability to seek new types of changes, and change the federal statute to eliminate the need for many waivers altogether.
- **Judicial reforms** allowing states to locally manage the optional Medicaid categories is clearly defined in both policy and law, and the federal government should remove legal barriers that impede this fundamental management tool.
- **Medicaid and the U.S. commonwealths and territories partnership review** to help fix the imbalance in which some jurisdictions now pay more than 80 percent of Medicaid costs.

While not representing comprehensive health care reform, the Governors further propose policies focusing on populations that may become Medicaid eligible as well as underlying cost drivers in the overall health care system. Such policies that aim to slow the number of low-income individuals and elderly becoming eligible for Medicaid include:

- **Enhancing quality and reducing costs in the overall health care system;**
- **Strengthening employer-based and other forms of private health care coverage; and**
- **Slowing the growth of Medicaid long-term care.**

The Governors believe that Medicaid will always have an important role as the health care safety net, but other forms of health care coverage must be strengthened to ensure Medicaid's financial sustainability. Enhancing the quality of care and containing costs are also critically important. Governors believe that

Medicaid reform must be driven by good public policy.

**Additional information is available about the NGA Medicaid position (in PDF):**

- [EC-16. Medicaid Reform Policy](#)
- [HHS-27. Medicaid Reform Principles Policy](#)
- [EC-03. Medicaid Drug Rebate Program Policy](#)
- [Medicaid Reform A Preliminary Report \(June 2005\)](#)
- [NGA June 15, 2005 Testimony - Medicaid Reform Before the House Energy & Commerce Committee](#)
- [NGA June 15, 2005 Testimony - Medicaid Reform Before the Senate Finance Committee](#)

**Position Letters:**

- [Letter](#)  
March 20, 2003 letter (from Governor Patton and Governor Kempthorne) to Senate Majority Leader Frist, Senate Democratic Leader Daschle, Speaker Hastert, and House Democratic Leader Pelosi opposing any provision that is intended to restrain or curb the growth of the Medicaid program as part of the FY 2004 budget resolution because of its potential to interfere with Governors' ability to jointly structure long-term changes to this vital state-federal partnership.
- [Letter](#)  
April 2, 2003 letter (from Governor Patton and Governor Kempthorne) to Senator Nickles, Senator Conrad, Chairman Nickles, and Rep. Spratt) urging their consideration of key state concerns in the FY 2004 budget resolution.
- [Letter](#)  
February 13, 2004 letter (from Governor Kempthorne and Governor Warner) to U.S. Department of Health and Human Services Secretary Thompson requesting confirmation that a proposed rule on changing a Medicaid reporting form would be republished with a new 60 day comment period.
- [Letter](#)  
July 31, 2003 letter (from 51 Governors) to conferees on the Medicare prescription drug bill urging them to give special attention to the impact of this legislation on populations "dually eligible" for both Medicare and Medicaid.

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