



Forum Session Meeting Announcement

Tuesday, May 16, 2006
11:45am — Lunch
12:15pm–2:30pm — Discussion

Medicaid in 2006: A Trip Down the Yellow Brick Road?

A Discussion Featuring:

Thomas W. Arnold

Deputy Secretary
Agency for Health Care Administration
State of Florida

Barbara Edwards

Principal
Health Management Associates, Inc.

Cindy Mann

Executive Director
Center for Children and Families
Georgetown University Health Policy Institute

Beth Waldman

Medicaid Director
Executive Office of Health and Human Services
State of Massachusetts

With Comments From:

Kathryn G. Allen

Director
Medicaid and Private Health Insurance Issues
Government Accountability Office

Location

Holiday Inn on the Hill
425 New Jersey Avenue, NW
Federal South Ballroom

Registration Required

Space is limited. Please respond as soon as possible.

Send your contact information by e-mail to: nhpfmeet@gwu.edu

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Medicaid in 2006: A Trip Down the Yellow Brick Road?

OVERVIEW

This National Health Policy Forum session will explore the continuing evolution of the Medicaid program. Speakers will discuss recent trends in Medicaid section 1115 waiver development and consider the use of waivers as a vehicle for restructuring Medicaid financing systems and for testing new approaches to health care delivery. The speakers will also provide state-specific examples of recently designed Medicaid waivers and offer insights into the goals and objectives of these innovative approaches. Finally, the panel will discuss the role of section 1115 waivers as a mechanism for continued state innovation in the context of the Medicaid policy changes included in the Deficit Reduction Act of 2005.

For additional information – See Jennifer Ryan, “Medicaid in 2006: A Trip Down the Yellow Brick Road?” *National Health Policy Forum, Issue Brief 810, March 29, 2006; available at www.nhpf.org/pdfs_ib/IB810_Medicaid2006_03-29-06.pdf. ■*

SESSION

Section 1115 waivers have long served as a vehicle for testing policy changes to public programs. Waivers were used extensively by states interested in pursuing welfare reform in the late 1980s and early 1990s, and many elements of state demonstrations were adopted in the design of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), the federal welfare reform legislation. With respect to the Medicaid program, section 1115 waivers have provided a laboratory for state innovation over nearly three decades. The “research and demonstration projects” designed jointly by federal and state governments tested new managed care service delivery and financing mechanisms and enabled federal Medicaid funds to be used to cover expanded populations of low-income individuals who would otherwise be uninsured.

The use of the section 1115 authority has continued to evolve and has changed direction in recent years. Since its announcement of the new Health Insurance Flexibility and Accountability (HIFA) initiative in August 2001, the Bush administration has proactively used the Medicaid section 1115 waiver authority to work with states interested in pursuing new and different approaches to Medicaid service delivery and financing than had been approved in the past.

The Centers for Medicare & Medicaid Services (CMS) has approved 25 section 1115 waivers over the past five years, 13 of which are technically

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considered to be HIFA demonstrations.¹ Although some of the most recent approvals, which are not technically HIFA waivers, are more consistent with the original “demonstration” nature of the section 1115 authority (testing completely new strategies for health care delivery and financing), some analysts have raised concerns that some of the approaches are not appropriate for low-income and medically fragile populations.

While it is too early in the implementation process to know the long-term implications of the most recent group of waiver approvals, it seems clear that the federal government has taken a new level of interest in capitalizing on states’ desire and need to contain Medicaid program costs. This has raised concerns about the possible effect on beneficiaries and their access to medical care. The administration has signaled that it will permit states to offer reduced benefit packages to certain populations and to require them to pay higher levels of cost sharing than were previously permitted under the Medicaid statute.² Technically, the benefits and cost-sharing changes were agreed to in exchange for coverage expansions. However, a recent study has found that even though the majority of states with HIFA waivers originally pursued them with the goal of expanding coverage, as of December 2005, only 300,000 of the estimated 820,000 individuals that states had expected to cover had actually been enrolled in Medicaid.³

Another key theme in several of the recently approved waivers is a renegotiation of the Medicaid payment structure, with a primary focus on states’ hospital financing systems. These waivers were, in some cases, initiated by CMS as a vehicle for requiring states to phase-out questionable financing practices, such as inappropriate intergovernmental transfers and the manipulation of hospital upper payment limits, that have been used over the years to generate the state share of Medicaid matching funds and maximize federal funding. While less controversial from a beneficiary perspective, these waiver approvals solidify the administration’s commitment to more closely scrutinize states’ claiming practices.

Finally, CMS has approved states’ proposals to test out completely new and innovative approaches to Medicaid service delivery and financing. For example, Florida will test a defined contribution model, providing each beneficiary with a specific risk-adjusted premium amount to be used for the purchase of health coverage in the market. Massachusetts and other states have received approval to use redefined funding sources, typically via the “safety net care pools” that have been a key element in several waivers, to develop initiatives designed to reach out to the uninsured. Some analysts have noted that waivers such as these are serving as a vehicle for more fundamental change in the structure and dynamics of the Medicaid program.

The long-term policy goals of the HIFA initiative have been subject to a significant amount of speculation, partly because CMS has not provided a great deal of uniform public guidance to the states since its initial announcement of HIFA in the fall of 2001. As a result Congress and the Government Accountability Office, as well as the policy community, have

raised concerns, citing a lack of transparency in the section 1115 waiver application, review, and approval process.

Given the new flexibilities included in the Medicaid portions of the Deficit Reduction Act of 2005, the role of waivers will continue to evolve. But the overall magnitude of change remains to be seen. Although the DRA provides states with new options for program modification and cost containment, it does not address some of the larger financing issues that have been addressed in recent waiver approvals. Consequently, several states may delay or set aside plans for submitting certain types of waiver proposals, now that they have the option to make some changes without a waiver. However, it seems probable that the larger scale and financing-related waivers will continue to be developed and approved by CMS.

Although it is always difficult to predict programmatic and policy trends, it appears that the coming year could represent the beginning of a trip down the “yellow brick road”—a long and winding path of innovative ideas and unexpected turns—that, in the end, may or may not reveal any clear answers behind the curtain.

KEY QUESTIONS

- What have been the common trends in section 1115 waiver development over the past five years?
- How have these trends and the corresponding responses from CMS provided an indication of the federal government’s priorities with respect to Medicaid?
- How have the recent HIFA waivers changed the nature of the program, if at all?
- What might be some of the positive and potentially negative implications of these new, innovative approaches for beneficiaries?
- In the absence of broader Medicaid reforms, are section 1115 waivers the best vehicle for states to rely on in pursuing program improvements?
- What aspects of the waiver review and approval process need the most improvement? Should some or all aspects of the process be subject to more consistency and transparency?

SPEAKERS

Thomas Arnold is the deputy secretary of Florida’s Agency for Health Care Administration. He will provide an overview of the key elements of Florida’s recently approved Medicaid reform waiver and describe the goals and objectives of the new program. He will also offer his insights into the implementation successes and challenges the state has experienced thus far.

Barbara Edwards is a principal at Health Management Associates, Inc., and a former state Medicaid director in Ohio. She will offer her insights

into the evolution of section 1115 waivers over time and the increasing need for state innovation given rapidly rising Medicaid expenditures and the changing health needs of beneficiaries. Ms. Edwards will also consider the potential implications of the Deficit Reduction Act for states and for the future of the Medicaid program.

Cindy Mann will discuss the changing role of section 1115 waivers in Medicaid and highlight some of the key issues for consideration when designing alternate benefit packages and delivery systems and when modifying cost-sharing policies. Ms. Mann is currently the executive director of the Center for Children and Families at the Georgetown University Health Policy Institute, where, among other things, she assists states in designing and implementing policies affecting families and children. Previously, she served in the federal government as director of the Medicaid program's Family and Children's Health Programs Group, where she oversaw the review of section 1115 waivers in the late 1990s.

Beth Waldman is the Medicaid director for the state of Massachusetts, serving in the Executive Office of Health and Human Services. Ms. Waldman will provide an overview of the recently approved extension of Massachusetts' section 1115 waiver in the context of the highly publicized health coverage expansion efforts that are currently taking place in the state. She will offer her insights into the policy and political dynamics that will continue to play out over the coming year as the Massachusetts plan for universal coverage is implemented.

Kathryn Allen, director for Medicaid and private health insurance issues at the Government Accountability Office (GAO), will offer brief comments outlining GAO's work over the past several years studying the changing role of Medicaid section 1115 waivers. She will also present the GAO's findings in response to several congressional requests regarding the waiver review and approval process.

ENDNOTES

1. Centers for Medicare & Medicaid Services, "Medicaid Waivers and Demonstration List," updated April 27, 2006; available at www.cms.hhs.gov/MedicaidStWaivProgDemoPGI/MWDL/list.asp.
2. The Deficit Reduction Act of 2005 includes some of the same benefits and cost sharing flexibilities that have been approved in section 1115 waivers over the past decade.
3. Teresa A. Coughlin *et al.*, "An Early Look at Ten State HIFA Medicaid Waivers," *Health Affairs Web Exclusive* (April 25, 2006): W204–W216; available at <http://content.healthaffairs.org/cgi/reprint/hlthaff.25.w204v1>.



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