
September 4, 2008

RHODE ISLAND'S MEDICAID PROPOSAL WOULD PUT BENEFICIARIES AT RISK AND UNDERMINE THE FEDERAL-STATE PARTNERSHIP **Could Set Dangerous Precedent for Other States**

By Judith Solomon

On August 8, Rhode Island applied for federal permission to radically transform its Medicaid program in ways that could profoundly affect beneficiaries.¹ If approved, the proposal could also set a national precedent that would affect low-income people in other states who rely on Medicaid to obtain needed health care. The proposal raises three major issues:

- **Ending the federal funding guarantee.** Currently, the federal government matches state Medicaid expenditures at a set rate. If a state's costs go up because of unanticipated increases in health care costs or enrollment, the federal government helps cover those extra costs, enabling the state to continue serving everyone who is eligible for the program. Under Rhode Island's proposal, in contrast, the state would receive an annual block grant of a fixed amount, and would get *no* additional federal funds to help address unanticipated increases in health care costs or enrollment. If such cost or enrollment increases occurred, the state would have to increase its own spending or cut eligibility, benefits, or provider payments.
- **Restricting state funding.** Rhode Island also proposes to limit its own Medicaid spending to a constant share of the state budget. The state acknowledges that the combination of federal and state spending under its proposal would be *well below its own forecast of Medicaid costs for each of the next five years and that this gap would grow each year.*
- **Eliminating federal protections for beneficiaries.** To address the large funding shortfalls that could result, Rhode Island is requesting permission to bypass many of the federal legal limits on states' authority to alter Medicaid eligibility, services, and cost-sharing. Under the proposal, for example, the state could place eligible low-income people with medical conditions on waiting lists for eligibility and services, and give different groups different benefits based on where they live or for other reasons. Many low-income people could lose coverage entirely. Others could get substantially less coverage than they currently have and become underinsured.

¹ The state has submitted its proposal, officially named the Global Consumer Choice Compact Waiver, to the Centers for Medicare and Medicaid Services. The proposal and related materials are on the website of the Rhode Island Executive Office of Health and Human Services, at <http://www.eohhs.ri.gov/>.

Moreover, since the federal block grant would grow faster than the state's Medicaid contribution, the federal government would end up paying a greater share of Rhode Island's Medicaid costs than under the current program. The federal share would rise each year.

What Rhode Island Is Proposing

Medicaid is a federal-state partnership. The federal government sets minimum standards regarding whom states must cover and what health care benefits they must receive. States have flexibility to go above these standards. The federal government provides matching funds amounting to a given percentage (known as the federal matching assistance percentage, or FMAP) of the state's Medicaid expenditures.² Rhode Island's current FMAP is 52.5 percent, which means that for every dollar Rhode Island spends on most Medicaid services, the state receives 52.5 cents from the federal government.³

The Rhode Island waiver proposal would radically change this matching structure. Instead of matching Rhode Island's expenditures, the federal government would give the state a set amount of funds each year. Rhode Island, meanwhile, would restrict its own Medicaid spending each year to a "maintenance of effort" (MOE) requirement equaling 23 percent of the overall state budget, the share it spent on Medicaid in 2007.⁴

The federal block grant, combined with the state's MOE funding, would have to cover the costs of the entire program, including spending on long-term care. To keep program spending within this limit, Rhode Island is seeking unprecedented flexibility to alter — and reduce — benefits and eligibility for some beneficiaries, including authority to put poor beneficiaries on waiting lists.

Proposal Would Fundamentally Change Federal-State Medicaid Partnership

No state has ever received a Medicaid block grant like the one Rhode Island is proposing. Vermont operates its Medicaid program under two separate waivers (one for acute services, the other for long-term care services) that cap federal funds regardless of changes in health costs or enrollment.⁵ Up to the limit imposed by the cap, however, the federal government still provides

² Each state's FMAP is determined according to a formula based on the state's per capita income. See A. Schneider *et al.*, "The Medicaid Resource Book," Kaiser Commission on Medicaid and the Uninsured, July 2002.

³ There are a few exceptions. For example, the federal government matches family planning services at a 90 percent rate in all states.

⁴ According to the waiver proposal, the state's precise method of determining its MOE expenditures each year "will be delineated as review of this waiver proposal moves forward." Thus, it is not clear whether the MOE amount for each year would be set at the beginning of the waiver period (based on long-term state budget projections) or determined each year based on the enacted state budget.

⁵ This kind of cap is often referred to as a "global cap," as distinguished from a "per-capita cap," which allows a state to receive increased federal funds when enrollment goes up (though not when health care costs per enrollee go up). C. Shirk, "Shaping Medicaid and SCHIP Through Waivers: The Fundamentals," National Health Policy Forum, July 22, 2008.

Determining State and Federal Medicaid Spending Under the Waiver

On August 5, 2008, the Rhode Island Senate and House Finance Committees held a hearing on the waiver proposal, at which state officials described how they calculated the state and federal shares of Medicaid spending under the waiver:

- The state forecast how much its Medicaid program would cost for each of the next five years by assuming that costs would rise 9.2 percent per year and adding this amount to expenditures for state fiscal year 2007. This 9.2 percent figure has two components: an expected 6.8 percent annual increase in health care costs and an estimated 2.3 percent annual increase in enrollment.
- To determine the size of the federal block grant for each of the next five years, the state applied its FMAP to this cost forecast. For federal fiscal year 2009, the state used its current 52.5 percent FMAP; for future years, the state used a 54 percent FMAP.
- The state estimated its maintenance-of-effort (MOE) payments for each of the next five years by multiplying its general fund budget projections by 23 percent, the percentage of the state budget it spent on Medicaid in 2007.

The table below is based on the state’s presentation at the hearing.^a As it shows, total Medicaid expenditures under the waiver (i.e., the sum of the block grant and the state’s MOE) would be *substantially less* than the state’s forecast of Medicaid costs each year. This shortfall would grow over time, from \$231 million in 2009 to \$467 million — or 16 percent of the program’s projected costs — in 2013. The federal share of total Medicaid expenditures would grow each year, reaching 64 percent by 2013.

Rhode Island Waiver Projections (in millions of dollars)						
	FFY 09	FFY10	FFY11	FFY12	FFY13	5-year total
Medicaid expenditure forecast	\$2,074	\$2,257	\$2,454	\$2,677	\$2,924	\$12,386
Federal block grant	\$1,089	\$1,219	\$1,325	\$1,446	\$1,579	\$6,658
State MOE	\$754	\$799	\$822	\$850	\$878	\$4,103
Total anticipated spending (block grant + MOE)	\$1,843	\$2,018	\$2,147	\$2,296	\$2,457	\$10,761
Difference between total spending and expenditure forecast	\$231	\$239	\$307	\$381	\$467	\$1,625
Federal share of total spending	59%	60%	62%	63%	64%	62%

^a The difference between total spending and the expenditure forecast, as well as the federal share of total expenditures, were calculated by CBPP based on written and oral testimony at the August 5 hearing (<http://www.ohhs.ri.gov/medicaid/pdf/WaiverPresentationHouse8-08.pdf>).

matching funds to Vermont based on the amount the state spends on Medicaid, as the federal government does in all other states.⁶

⁶ J. Guyer, “Vermont’s Global Commitment Waiver: Implications for the Medicaid Program,” Kaiser Commission on Medicaid and the Uninsured, April 2006.

Rhode Island's waiver is different. Under Rhode Island's proposal, federal funding would not be tied to the amount the state spends on Medicaid but instead would be limited to a specified dollar amount.

Limiting federal Medicaid funds in this manner carries significant risks for beneficiaries, health care providers, and the state as a whole. Medicaid's matching funding system is designed to provide each state with flexible federal support to meet the health care needs of its most vulnerable residents. The guarantee that federal funds will match a certain percentage of state spending allows states to cover all low-income people who meet the eligibility criteria the state has established. It also ensures that federal Medicaid funds will help cover unexpected increases in Medicaid costs resulting from an economic downturn, a new disease or epidemic, new drugs or medical technology, or other factors that are beyond the control of a small state like Rhode Island.⁷

Rhode Island's proposed waiver presents risks. Under the waiver, the federal block grant and the state's MOE spending already are less than the state's own projections of what Medicaid expenditures would be without the waiver. To close this gap, the state is assuming that it can generate substantial savings by making numerous changes in the way care is delivered. If these savings do not materialize, however, the federal block grant and state MOE together would not be sufficient to meet the beneficiaries' health care needs.

In addition, if health care costs or enrollment grow more quickly than the state forecasts, it is virtually certain that the combination of the block grant and the MOE spending would fall well short of needs. Rhode Island would either have to allocate additional state funds to the program or cut eligibility, benefits, and/or provider payments. The federal government would *not* match any additional funds the state contributed, so Rhode Island would have less incentive to increase its own spending than it would under Medicaid's current matching structure, and cutbacks hence would be more likely.

State Would Have Unprecedented Power to Reduce Benefits and Limit Eligibility

Rhode Island appears to understand that a federal block grant is risky. In exchange for accepting a block grant, the state is seeking "administrative freedom to manage Medicaid costs within the fixed federal allotment." Specifically, it is asking for permission to make significant changes in eligibility and benefits without federal approval or oversight.

This would be especially perilous for Medicaid's so-called "optional beneficiaries" — people whose incomes are modestly above those of the "mandatory beneficiaries" whom federal law requires states to cover.⁸ In Rhode Island, optional beneficiaries include children with incomes of 100-250 percent of the poverty line (133-250 percent of the poverty line for children under age 6), many parents, and seniors and people with disabilities with incomes between 74 and 100 percent of

⁷ The state is asking the federal government for protection through additional funding in case of a catastrophic event or prolonged economic downturn. This kind of protection has generally not been part of the terms and conditions the federal government has agreed to in granting state Medicaid waivers.

⁸ Nationally, about 39 percent of Medicaid spending is on mandatory services for mandatory eligibility groups. All other spending is on optional beneficiaries and/or optional benefits. "Medicaid: An Overview of Spending on 'Mandatory' vs. 'Optional' Populations and Services," Kaiser Commission on Medicaid and the Uninsured, June 2005.

Maximum Annual Income Eligibility Levels for “Mandatory” and “Optional” Beneficiaries in Rhode Island*		
	Mandatory	Optional
Children under six years old	At or below 133 percent of the poverty line (\$23,408)	Between 133 and 250 percent of the poverty line (\$44,000)
Children from six to 19	Below the poverty line (\$17,600)	Between 100 and 250 percent of the poverty line (\$44,000)
Parents	Below 38 percent of the poverty line (\$6,648)	Between 38 and 175 percent of the poverty line (\$30,800)
Seniors and people with disabilities	Below 74 percent of the poverty line (\$7,696)	Between 74 and 100 percent of the poverty line (\$10,400)

* Amounts based on poverty guidelines for a family of 3 for children and parents and for a single individual for seniors and people with disabilities.

the poverty line. Rhode Island wants the authority to put these beneficiaries on waiting lists for eligibility and services and to limit their benefits in ways that current law does not allow.

Such authority would also allow the state to vary benefits for different groups of beneficiaries based on where they live or other factors. Without the protections in current law, Rhode Island could pick and choose what benefits to provide to different groups of beneficiaries. For example, it could provide physical therapy to seniors but not to people with disabilities. It could restrict the number of visits allowed for mental health treatment even if that would limit the treatment’s effectiveness.

Rhode Island is also seeking authority to impose larger cost-sharing charges on beneficiaries than federal law allows. These cost-sharing charges could apply even to children with incomes below the poverty line, who currently cannot be charged co-payments. A substantial body of research shows that even modest cost-sharing causes low-income people to forgo needed care.⁹

Finally, the state wants to change the way long-term care is provided. The state seeks to shift its spending on long-term services from institutional care to home- and community-based services, which is a commendable goal. However, the state would establish three categories of need for long-term services, and only individuals who are at the highest level of need would have a guarantee of *any* form of long-term care (whether institutional or home- or community-based). Everyone else, including some people who can get care in a nursing home under Rhode Island’s current program, could be put on a waiting list.

⁹ The research on cost-sharing and premiums is summarized in Leighton Ku and Victoria Wachino, “The Effect of Increased Cost-Sharing in Medicaid: A Summary of Research Findings,” Center on Budget and Policy Priorities, July 7, 2005.

Senate and House Committee Chairs Express Serious Concerns About Rhode Island's Waiver Proposal

On August 21, the chairs of the Senate and House committees with jurisdiction over Medicaid, along with Rhode Island members of the House of Representatives, sent letters to HHS Secretary Michael Leavitt, warning of the risks to beneficiaries from the unfettered flexibility that Rhode Island is seeking, as well as the risk to the federal budget from the shift of Medicaid costs to the federal government. The Senate letter, from Senate Finance Committee Chairman Max Baucus and Health Subcommittee Chairman Jay Rockefeller, stated:

A funding structure like the one in the waiver proposal, including the cap on federal funds, puts beneficiaries, providers, and the entire state at risk should health costs or enrollment rise faster than expected. If this happens, the state would be forced to cut enrollment, benefits, provider payments, or meet the shortfall with state funds. No block grant like this has ever been allowed under Medicaid; indeed we are not certain there is authority in the Medicaid statute to permit such a block grant even under a waiver. . . .

Under Rhode Island's proposal, many children and parents could have to wait for a spot to open up before becoming eligible to receive health care, even when they have serious illnesses and need timely access to care. The state also wants to create waiting lists for long-term care services, which could affect many seniors and people with disabilities.

The House letter from Energy and Commerce Committee Chairman John Dingell, Health Subcommittee Chairman Frank Pallone, and Rhode Island Representatives Patrick Kennedy and James Langevin echoed these concerns, stating that under the waiver there "is no guarantee that all beneficiaries who are eligible will be able to access needed care," and that the waiver "would shift costs from the State to the Federal government, increasing the Federal share without proper oversight or accountability."

Proposal Would Shift Medicaid Costs to Federal Government

Under the waiver proposal, the federal share of Rhode Island's Medicaid expenditures would grow over time. This is because the federal block grant would increase by 9.2 percent each year (the state's forecast of annual Medicaid cost and enrollment growth), while the state's MOE funding would increase only at the rate of state general fund spending.

Rhode Island's own estimates show that by the final year of the waiver, the federal government would pay 64 percent of the state's total Medicaid expenditures, well above the current 52.5 percent rate. Moreover, if the state budget shrinks because of a recession or for another reason, state MOE funds also would decline, leaving the federal government to pay an even larger share of Rhode Island's Medicaid costs. Citing this fact, Senate Finance Committee Chairman Baucus and Finance Health Subcommittee Chairman Rockefeller warned in a recent letter to HHS Secretary Michael Leavitt: "At a time when federal expenditures on health care are rising rapidly, Rhode Island's proposal would take us in the wrong direction by eroding the federal-state partnership that is at the heart of the current financing structure for Medicaid."¹⁰

¹⁰ The Senate letter, from Senators Baucus and Rockefeller, is at <http://www.senate.gov/~finance/sitepages/baucus.htm>.

If Rhode Island's proposal receives approval, other states may seek similar arrangements. That could threaten Medicaid's fiscal sustainability while exposing low-income beneficiaries to risks of cuts in health care services.

Conclusion

Rhode Island's waiver proposal is a marked departure from any Medicaid waiver ever approved. The waiver would radically transform Medicaid's current federal-state funding partnership into a block grant without federal supervision or oversight. Many beneficiaries would be at risk of losing coverage and services, while at the same time significant program costs would be shifted to the federal government. The federal government ought not approve this proposal in its current form.