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CLAIMED STATE SAVINGS FROM RHODE ISLAND'S MEDICAID CAP HEAVILY OVERBLOWN, REPORT SHOWS

Rhode Island Does Not Provide Support for Proposals to Convert Medicaid to a Block Grant

By Jesse Cross-Call

Rhode Island has operated its Medicaid program since 2009 under a waiver that caps the federal financing available to the state. Some proponents of converting the Medicaid program nationally to a block grant have argued that the waiver — and its Medicaid funding cap — have generated substantial savings for Rhode Island, and have cited the waiver as evidence that states will fare well if Congress turns Medicaid into a block grant. A new, independent report commissioned by Rhode Island Governor Lincoln Chafee finds, however, that Rhode Island's savings under the waiver were very modest and not in any way related to the cap on federal funding.[1] The findings undercut claims that the Rhode Island experience demonstrates the advantages of block-granting Medicaid.

Moreover, Rhode Island's waiver, agreed to in the final week of President George W. Bush's administration, was something of a "sweetheart deal" that allowed the state to obtain *millions of additional dollars in federal funds*. It is nothing like the Medicaid block grant proposals that policymakers like House Budget Committee Chairman Paul Ryan have promoted, which would produce very large federal savings by giving states substantially *less* funding (especially over time) than they would otherwise receive. The Medicaid block grant in the Ryan budget, which the House approved last year, would cut federal Medicaid funding by $750 billion over the next ten years and slice federal support for state Medicaid programs by 35 percent in 2022, and 49 percent by 2030, according to the Congressional Budget Office.

The new report on Rhode Island's waiver, prepared by the Lewin Group, includes several noteworthy findings:

- The central claim of block-grant enthusiasts — that the state saved $100 million over 18 months as a result of the waiver — was highly inflated. In reality, the report found that the waiver saved the state $23 million over three years, and these savings were due to policy changes that did not require a waiver with a funding cap.

[1] The Lewin Group, "An Independent Evaluation of Rhode Island's Global Waiver," December 6, 2011, www.ohhs.ri.gov/documents/documents11/Lewin_report_12_6_11.pdf.

- As part of the "sweetheart deal" with the Bush Administration, the state received $42 million in new federal funds because the waiver allowed the state to claim a federal match for services that were previously funded solely by the state.

- Over the time period of the waiver, the state has saved $32 million by utilizing *existing* flexibility that is available to all states under current federal rules. These savings are from initiatives that do not require a waiver.

Report Rebuts Claims that Waiver Generated Large Savings

The Bush Administration approved Rhode Island's Section 1115 waiver, known as the Global Consumer Choice Compact, four days before it left office in January 2009. The waiver allowed the state to merge a number of the Medicaid waivers for which it had already received federal approval into a single one, and permitted the state to restructure how it delivers long-term care services and supports and to institute a process to rely more heavily on competitive bidding in purchasing medical equipment and various other services. Such changes can be implemented through a waiver *without* a cap.

The waiver Rhode Island received capped combined federal and state Medicaid spending at $12.075 billion over the waiver's five-year duration (2009-2013). Under it, the federal government continues to pay a fixed percentage of Rhode Island's Medicaid costs up to the cap, with the state responsible for any costs over the cap. However, the waiver ensures that the state will never be in danger of spending beyond the cap, because the waiver set the cap *well above* what the state expected its Medicaid program to cost over the five-year period. (Rhode Island also can terminate the waiver at any time — for example, if it begins to receive less federal funds than it would get under the regular Medicaid program — a feature not present in block-grant proposals.)

Of particular note, the waiver gives the state access to several *additional streams of federal Medicaid funding* that are *not* available to states under the regular Medicaid law. The waiver allows the state to claim federal matching funds for certain health care services that previously were funded entirely with state dollars because states normally can't receive federal Medicaid matching funds for those services.[2] For example, the waiver lets the state receive federal Medicaid matching payments for health care services provided to certain individuals with HIV who otherwise are not eligible for Medicaid because their income is too high.

Some supporters of block-granting Medicaid have likened the waiver to a block grant and claimed, without corroboration from any current state officials, that in its first 18 months, the waiver saved the state more than $100 million.[3] Governor Lincoln Chafee, who took office in 2011, commissioned the Lewin Group to determine the waiver's actual financial impact.

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[2] For more information about Rhode Island's waiver, see Jesse Cross-Call and Judith Solomon, "Rhode Island's Global Waiver Not a Model For How States Would Fare Under a Medicaid Block Grant," Center on Budget and Policy Priorities, March 22, 2011.

[3] In January 2011, the Galen Institute, which supports converting Medicaid to a block grant, issued a paper by Gary Alexander, the former Secretary of the Rhode Island Executive Office of Health and Human Services and Director of the Department of Human Services. The paper included claims of state savings under the waiver that current Rhode Island officials had not been able to verify. See "Rhode Island Medicaid Reform Global Consumer Choice Compact

The Lewin Group report found that claims that the waiver had led to over $100 million in state savings were false. The state saved $23 million over three years as a result of the flexibility the waiver gave it to move more of its Medicaid population into managed care and to redesign payment structures for certain services.

The report found that Rhode Island realized greater savings — $32 million over three years — by utilizing *existing* flexibilities available under federal law to all states. The state took additional steps to emphasize home- and community-based services for people needing long-term care, implemented tougher measures against waste, fraud, and abuse, redesigned services for children with special needs, and cut reimbursements to certain providers. None of these policies require a cap on overall Medicaid spending, and many do not require a federal waiver at all.

Finally, the report found that the provision of the waiver that allows Rhode Island to receive federal matching funds for various *additional* health care services that normally aren't eligible for federal Medicaid reimbursement enabled the state to claim $42 million in federal funds it would not otherwise have received.

To these amounts must be added the $523 million in additional federal Medicaid funding that Rhode Island received as a result of the temporary increase in the federally-financed share of state Medicaid costs from October 2008 through June 2011, under the 2009 Recovery Act.[4] This influx of Recovery Act funding is the primary reason why the state's share of Medicaid expenditures declined in the first years of the waiver, and is how the state achieved a large portion of its overall Medicaid savings.

Rhode Island Waiver Differs Markedly from Recent Block Grant Proposals

Although some block-grant proponents have described Rhode Island's waiver as a block grant, the state's experience under the waiver stands in sharp contrast to how states would be affected under the conversion of Medicaid to a block grant.

Several key features of the waiver — most notably, the ability it gave Rhode Island to claim additional federal matching funds for a broader array of health services than regular Medicaid allows, as well as a cap set *well above* the state's expected Medicaid spending level — insulated Rhode Island from the harsh decisions that states would be forced to make under block grant proposals like Rep. Ryan's. Most federal block-grant proposals are designed to reduce federal Medicaid expenditures substantially by giving states *far less* federal funding than they otherwise would receive, not the other way around. Each state would get a fixed dollar amount (usually based on the state's current

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Waiver," January 28, 2011, www.galen.org/assets/RIMedicaidReform.pdf. Some conservative columnists and other conservative policy organizations that favor a Medicaid block grant, such as the American Action Forum and the Pacific Research Institute, have cited the paper, but current state officials dispute the Galen paper's claims. See Megan Hall, "Former DHS director published unauthorized report on global waiver," *The Pulse*, WRNI Health Care blog, January 20, 2011, http://wrnihealthcareblog.wordpress.com/2011/01/20/what-happened-to-gary-alexander/.

[4] This includes $448 million in increased federal Medicaid matching funds under the original Recovery Act and $75 million under the six-month modified extension of its provisions. The Kaiser Family Foundation, "Impact of the Medicaid Fiscal Relief Provisions in the American Recovery and Reinvestment Act (ARRA)," October 2011.

expenditure level) that would grow at a considerably slower rate than health care costs (and than the expected rate of increase in Medicaid costs). As a result, the federal government would provide less and less funding to state Medicaid programs than under the current system.

As noted, the block grant proposal in last year's Ryan budget, which the House is likely to consider again in coming weeks, would cut federal Medicaid funding by 35 percent in 2022 and 49 percent in 2030, according to CBO.[5]

Faced with federal funding losses of this magnitude, states would inevitably be forced either to contribute far more state dollars to their Medicaid programs or — as is much more likely — to cut eligibility, benefits, and payments to providers.[6] The Urban Institute estimated last year that the block grant in the Ryan budget would cause states to cut between 14 million and 27 million people from Medicaid by 2021. The Urban Institute also estimated that the Ryan proposal would cause Rhode Island to cut between 46,000 and 95,000 people from its Medicaid program by 2021 and reduce federal Medicaid funding to Rhode Island hospitals by as much as 31 percent.[7]

[5] Congressional Budget Office, "Long-Term Analysis of a Budget Proposal by Chairman Ryan," April 5, 2011.

[6] For more information on how a Medicaid block grant would work, see Edwin Park and Matt Broaddus, "Medicaid Block Grant Would Shift Financial Risks and Costs to States," Center on Budget and Policy Priorities, February 23, 2011.

[7] John Holahan, *et al.,* "House Republican Budget Plan: State-by-State Impact of Changes in Medicaid Financing," Kaiser Commission on Medicaid and the Uninsured, May 2011.