
June 15, 2005

STATEMENT OF ROBERT GREENSTEIN ON THE NATIONAL GOVERNORS ASSOCIATION'S MEDICAID RECOMMENDATIONS

Today, the National Governors' Association outlined NGA's preliminary recommendations for Medicaid. Several of the NGA proposals are promising. Others are troubling and likely would be damaging to low-income people.

On the positive side, the proposals dealing with prescription drug costs, for example, hold the potential to reduce state and federal Medicaid costs in ways that do not harm coverage for low-income beneficiaries. These proposals could help states and the federal government become smarter purchasers of drugs without compromising access to, or the quality of care for, Medicaid beneficiaries.

Certain other NGA proposals, however, likely would cause harm to low-income people who rely on Medicaid, including low-income children, working-poor parents, and low-income people who are elderly or have serious disabilities.

For example, the governors are proposing significant increases in the amounts that impoverished beneficiaries must pay to use health care services. For parents, children, and elderly and disabled people below or slightly above the poverty line, the permitted increases would be dramatic. A substantial body of research, dating from the landmark RAND health insurance experiment of the 1970s to recent studies of cost-sharing increases in state Medicaid programs, documents that increased cost-sharing significantly reduces the use of essential health care services by low-income people and worsens their health status. Moreover, low-income Medicaid beneficiaries already spend a larger share of their incomes on out-of-pocket medical expenses than middle-class privately insured people do.

NGA suggests its cost sharing increases should take effect, and then be evaluated to see if they are causing harm. Given the extensive research in the field, this would be ill-advised: another study isn't needed to tell us that significant increases in copayments cause poorer beneficiaries to forgo essential care and that premiums result in fewer poor people being covered by health insurance.

Another NGA proposal — to allow states to scale back the medical services that Medicaid will cover for children and some other Medicaid beneficiaries — also is likely to compromise access to needed care. The individual health care tax credit that NGA suggests raises additional concerns.

As designed, the proposed credit would risk accelerating the decline in employer-sponsored coverage by encouraging some employers to drop health coverage or not to offer it in the first place,

on the grounds that their employees could use the credit to purchase coverage on their own. Yet the credit would be sufficiently small that it would not be likely to enable many people to secure more than stripped-down coverage. (This would be especially true for those who are older or have medical conditions.) If employers drop coverage, this would lead more people to join the Medicaid rolls, the opposite of the goal the governors seek to achieve.

The governors' proposals illustrate the difficulties that states now face. Their fiscal conditions are making it harder for them to maintain health care coverage for their low-income citizens; a number of states are scaling back or terminating Medicaid coverage for certain populations. At the same time, the Congressional budget resolution requires up to \$10 billion in cuts in federal Medicaid funding over the next five years.

Faced with these problems, governors are trying to recommend policies that reduce federal spending without shifting burdens to states. Unfortunately, some NGA recommendations would shift substantial costs to the nation's poorest and most vulnerable citizens instead. The harshness of some of the recommendations illustrates why Congress should broaden its focus and consider reforms in Medicare (which provides more generous payments to health care providers and covers many people with greater means), as well as changes in Medicaid, in achieving the \$10 billion in required reductions.