



New MIRC Comment

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PM

Reply-To: [REDACTED]
To: vamirc@mirc.virginia.gov

First Name - State Budget Solutions

Last Name -

Organization Name - State Budget Solutions

Comment - To the Members of the Medicaid Innovation and Reform Commission, State Budget Solutions (SBS) wishes to share with the Medicaid Innovation and Reform Commission (MIRC) our research and analysis of health care reforms in Virginia and in several other states, and to specifically weigh in on the prospect of Medicaid expansion under the Affordable Care Act in Virginia. Our research finds that Medicaid expansion is not appropriate for Virginia. SBS is a Virginia-based, non-partisan, 501(c)(3) non-profit organization with the mission to change the way state and local governments do business by reforming their approach to budgeting. A large part of state budgeting involves health care, and we recognize that the MIRC faces a daunting task of deciding how best to proceed in those areas in such a volatile political and fiscal environment. SBS agrees with the need to enact major Medicaid reforms, but satisfying the MIRC's reform matrix is not a sufficient reason to expand Medicaid. Clarity is needed on Medicaid spending, and misconceptions regarding the funding, effectiveness and flexibility of expansion must be corrected. SBS offers several health care alternatives to expansion that research into health care programs in other states shows will better serve Virginia residents. SBS published the report Medicaid Expansion: The Wrong Prescription for Virginia in August 2013. The report fully explains why and how Medicaid expansion will negatively impact the Commonwealth. Most importantly, our study demonstrates that Medicaid will fail to deliver the quality care that Virginians deserve--and that this lackluster health coverage will cost the state far more than expected. Our detailed remarks on the commission's work are enclosed. Thank you for giving SBS and other members of the public the opportunity to weigh in on Medicaid expansion.

 **SBS Public Comment to MIRC.pdf**
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Comment to the Virginia Medicaid Innovation and Reform Commission

State Budget Solutions (SBS) is a Virginia-based, non-partisan, 501(c)(3) non-profit organization with the mission to change the way state and local governments do business by reforming their approach to budgeting.

SBS submits this public comment to the Virginia Medicaid Innovation and Reform Commission (MIRC) to share our findings on the Affordable Care Act (ACA) and our research into the successes and failures of Medicaid expansion in other states. We do not believe that the ACA's Medicaid expansion is right for Virginia.

Lawmakers Should Continue and Expand Essential Reforms

By establishing MIRC, the legislature and governor recognized the need for Medicaid reform, and the commission identified an ambitious reform matrix. Reform is long overdue and welcome, but rushing it to accept “free money” from Medicaid expansion will not generate the best results for Virginians.

At the August 19, 2013 MIRC meeting, Secretary of Health and Human Resources Dr. Bill Hazel presented an update to the matrix. He also attempted to refute “Overheard Criticisms” of Virginia's Medicaid program, but his responses fell short.

Our chief concern is about the quality of health care provided to Medicaid recipients under the expansion. Dr. Hazel failed to cite a report published in the *New England Journal of Medicine* that found that, in a randomized, controlled study of newly eligible Medicaid enrollees and other eligible individuals who were not enrolled in Medicaid, those covered by Medicaid showed no significant improvement in hypertension, cholesterol levels and glycated hemoglobin. New recipients did not have significant improvement in the diagnosis of these critical health problems. This was a comparison of the same population, separated by Oregon's lottery system that allowed only some members of the same population to “win” Medicaid. The “winners” only found positive results in mental health. This study cannot be brushed aside.

Other reforms, too, are not complete. Though it is true that Virginia has a low Estimated Payment Error Rate Measurement, that statistic fails to address concerns regarding ineligible enrollees. Additional safeguards are especially important to establish before Medicaid expansion could be enacted.

A Decision to Not Expand Medicaid Does Not “Leave Money on the Table”

The Commonwealth is moving too quickly and using flawed assumptions regarding the cost and effectiveness of Medicaid expansion. Virginia will not leave money on the table if it does not accept the ACA's Medicaid expansion.

Medicaid is a joint state-federal program that states administer within their borders, paying for all expenses, which are partially reimbursed by the federal government. This federal reimbursement rate is known as the Federal Medical Assistance Percentage (FMAP), which is calculated based upon the state's per capita income in comparison with the national per capita income. Virginia's FMAP for Medicaid is 50 percent, and its enhanced FMAP is 65 percent. Nearly all states have a 50 percent FMAP on Medicaid administrative costs, including Virginia.

The FMAP for Medicaid expansion is set at 100 percent for the first three years of the program, meaning that the federal government will reimburse states for all costs associated with "newly eligible" Medicaid recipients. The FMAP percentage for this population will decrease after the first three years, eventually settling at 90 percent for 2020 and beyond. On top of that, the state will have to cover 50 percent of all administrative costs as soon as expansion begins.

The funding for Medicaid does not come from a specific fund but is mandatory federal spending. Money is only sent to states as a reimbursement. The "share" for Virginia will not be split among other states; instead, this money will not be spent at all. Unfortunately, the attitude of many state and federal leaders is one that encourages greater spending just because other states have already committed to doing so.¹ Chasing federal tax dollars on the flawed belief that Virginia should try to "get back" tax revenue leads to a cycle of more irresponsible spending by the state and federal government, and greater taxation to make up the difference.

Officials Should Recognize Future Uncertainty in Federal Funding

Several states have miscalculated the projected costs and expected savings of similar Medicaid expansions in the past, and the Commonwealth must be careful not to do the same. Arizona expanded its Medicaid program in 2000 for many of the same individuals who would qualify for coverage under the ACA's Medicaid expansion. By 2008, the program ballooned far above projections, costing the state 400 percent more than expected.

Maine, Delaware and Oregon faced similar issues regarding the predicted costs--they were always higher, and the cost savings never existed. In Virginia's case, the expected savings, which proponents say can be "banked" to apply to the years when costs increased as FMAP decreases, will never materialize.

Lawmakers should also think carefully before trusting the federal government to keep its promise on FMAP levels for the "newly eligible" Medicaid population. The Obama administration has already proposed altering FMAP to produce a "blended rate" that would reduce overall federal reimbursements. And as the federal government stares down a mounting deficit, making adjustments to state Medicaid payments will always be on the table.

MIRC members must recognize that Medicaid expansion cannot be reversed, unless Virginia wants to put all of its Medicaid funding at risk. Some have suggested that the Commonwealth

¹ "These benefits cannot come without a cost. Virginia would have to do its part and contribute slightly more to its Medicaid program in the out years. But Virginians have already paid and will continue to pay for Medicaid expansion nationwide, even if we forgo expansion here. Virginia taxpayers would just be footing the bill for all the other states that opted to expand their Medicaid programs." -U.S. Rep. Bobby Scott (available at: <http://hamptonroads.com/2013/08/virginia-should-expand-medicaid>)

can control its own destiny and reverse course if Medicaid expansion does not produce their expected results. There is scant legal support for this argument.

The United States Supreme Court, when giving states the right to opt out of expansion, said that it was the unpredictability of such a large mandate that allowed states to escape it. The Court noted that fluctuations in funding levels for these programs would not be considered sufficiently coercive as to deem the federal government's action unconstitutional in the future.

Once Virginia enters in to Medicaid expansion, it will no longer be able to control its own destiny.

MIRC Should Take the Time to Explore Innovative Alternatives

Simply accepting the ACA's Medicaid expansion falls short of the goals of MIRC, particularly when there are a number of examples from other states that show better ways to deliver health *care* to state residents, not just assigning them basic medical coverage.

Florida showed that it could deliver care more efficiently and effectively through an entirely new Medicaid program known as Medicaid Cure. It began as a pilot program in a handful of counties, and is now expanding to the entire state based on its success. Enrollees select from 11 different plans, in which many options such as copays and preferred medications can be customized. Medicaid Cure also delivers higher reimbursement rates to doctors. Medicaid Cure has been customized and applied in several other states.

In addition, Rhode Island received a block grant for its Medicaid program in 2008, which led to an overall decrease in spending growth of the program. SBS urges Virginia to examine and replicate the successes other states have found with alternative reforms.

The reforms supported by MIRC are the start of what should be a long process to reform Medicaid as Virginians know it today. MIRC should not short-circuit this important process by accepting the risky proposition of the ACA's Medicaid expansion.