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Medicaid Cutbacks Not the Same as Private Insurance Rescission

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Everywhere you look, Medicaid seems to be in jeopardy. The program provides health insurance for the very poor, but depends on state funding and, right now, the states don't have any to spare. Last week, President Barack Obama signed a law that will give the states additional money, enough to avoid the worst cuts. But when that money runs out, in the middle of 2011, those cuts could be back on the agenda.

Cutting Medicaid during a recession is terrible economics, since it takes money out of the economy at precisely the moment when we should be putting more into it. It's also cruel. The Medicaid population includes some of the country's most economically and medically vulnerable residents. Without Medicaid coverage, these people become even more vulnerable.

A little outrage, then, is in order. But what kind of outrage?

Writing last week for Kaiser Health News, John Goodman suggests we channel our outrage at the whole concept of government insurance. During the health care debate, Goodman notes, reform advocates like me complained about private insurers that yanked coverage from people with high medical claims--a practice known as "rescission." Goodman thinks we had it exactly backwards. It's Medicaid that's yanking away people's coverage, in what he calls "Medicaid rescissions." And "these abuses," he says, were "not addressed in the health overhaul."

Goodman, who runs the National Center for Policy Analysis in Texas, has been writing and speaking about the evils of government insurance for a long time. And that's a respectable philosophical viewpoint, although not one I happen to share. But his analysis here takes some curious turns--turns worth examining more closely, since Goodman columns have a way of reverberating through the conservative echo chamber and, eventually, into the national political conversation.

The place to start is with a reminder of what, exactly, Medicaid is and how it is supposed to work. Medicaid is for people who don't have nearly enough money to buy decent private coverage on their own or through an employer. The federal government sets broad guidelines for the program, like who is eligible for it and what services it must cover, and it provides some of the money. The rest of the money comes from the states, which are in charge of administering

the program and have the option of expanding it, either by making the coverage more generous and/or offering it to more people.

States have frequently taken advantage of that option, particularly in recent years, for one simple reason: More and more people need it. The proportion of Americans who get Medicaid coverage has expanded since its inception and, if not for that expansion, the total number of people without health insurance would be a lot higher than it is today.

States don't have the money to sustain these expansions during hard economic times, forcing them to make cuts unless the federal government steps in, as it did last week. And, make no mistake, this is terrible. But to compare Medicaid cutbacks to private insurer rescission is grossly misleading.

The problem with rescission has been that there's mounting evidence of insurer bad faith--that, in an effort to fatten margins, insurers singled out the people with big medical claims and found excuses to drop their coverage, frequently leaving these people to pay bills they've already incurred and thought were covered. That's a whole lot different from scaling back the safety net because the states have run out of money to sustain it at current levels. Rescission is the product of insurers trying to make money at the expense of people in need. Medicaid cuts are the product of society trying to help people in need, but coming up short.

Of course, Goodman isn't primarily focused on the here and now. His big beef is with the future--and the focus of health care reform. The new health law, the Patient Protection and Affordable Care Act, expands Medicaid substantially, so that all Americans with incomes under 133 percent of the poverty line are eligible for it. Goodman implies that, in so doing, the government exposes yet more Americans to the vulnerability present Medicaid recipients feel whenever state budgets get low.

This is--how do I put this?--a creative reading of health care reform. Yes, the new law expands Medicaid. But it expands the "mandatory" population that all states must cover, and it dedicates a stream of federal money to make that happen. It also guarantees that people making more than 133 percent of the poverty line can get insurance, regardless of preexisting conditions, with subsidies to offset much or most of the cost. And, yes, it bans the practice of rescission except in clear cases of fraud. In short, the law creates a seamless and permanent system of insurance that should eliminate precisely the insecurity that's the focus of Goodman's article.

Goodman does have a broader, more reasonable argument. The more government gets involved in health insurance, he suggests, the more people's coverage will depend on politicians' decisions. Under health reform, government will be setting the rates at which Medicaid pays providers (something it does now) as well as defining a minimum benefits standard for private insurance (something it doesn't do now). And that means there will inevitably be fluctuation. If budgets are tight, for example, future governments might reduce Medicaid payments to providers--which, as Goodman rightly notes, makes it harder for people on Medicaid to get timely appointments with doctors.

But the new health law actually increases what Medicaid will pay primary care providers, at least for the first few years. It also locks in place certain guarantees, like who is eligible for Medicaid and the idea that basic medical care should always be covered that will be very difficult to alter. Lawmakers and officials would still have some leeway, particularly if they're willing to rewrite the law itself. But, unlike the people who run insurance companies, they will be accountable to the public when they come up for re-election.

Does that mean Medicaid under health reform will as reliable, and as strong, as the best private insurance policies? Regrettably, no. Future lawmakers will make cuts, just as today's sometimes do. And those cuts will affect beneficiaries in one way or another. But it will still be far more secure than what the poor could get on their own--just as it is now.