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# Can Managed Care Solve the Medicaid Crisis?

Republicans in Congress are considering a proposal to turn Medicaid, the nation's health care system for the poor, over to the states and to give the states a free hand in running their own programs. Congress can't balance the budget unless spiraling Medicaid costs are reined in, and an increasing number of people are convinced that the problems can't be solved in Washington.

But can state governments succeed where the federal government has failed? Many are already trying by experimenting in new and innovative ways. For example, the state of Texas is placing nearly 2 million poor children, pregnant women, blind, elderly and disabled Texans who receive Medicaid benefits into health maintenance organizations (HMOs) and other managed care plans.

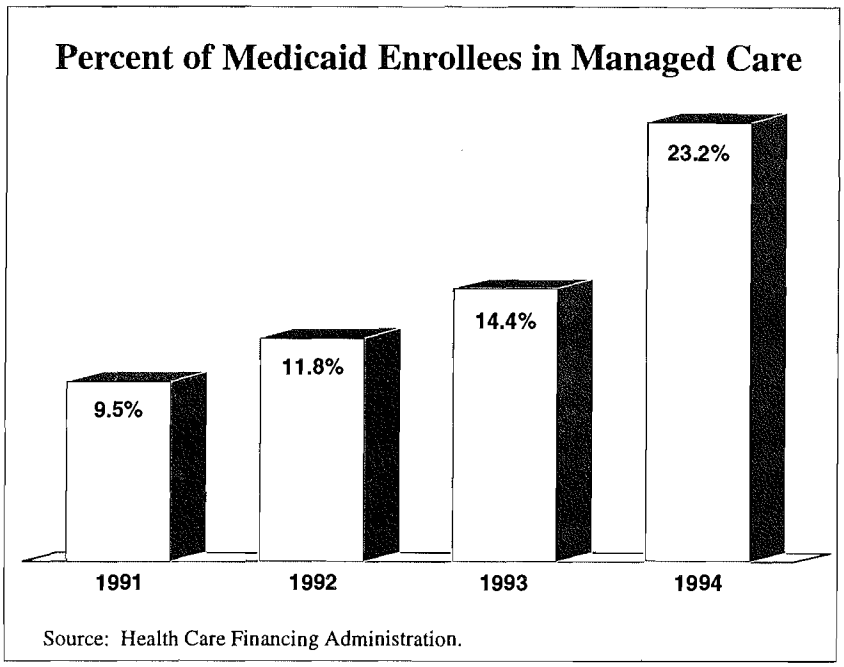
Faced with a projected $2.2 billion shortfall in the state's Medicaid budget, both liberal and conservative legislators felt they had to act quickly.

Many other states are doing the same. Let's see why.

**Medicaid in Crisis.** Medicaid, a federal-state program begun in 1965, now costs taxpayers almost $138 billion. Of the 34 million Americans currently enrolled in Medicaid, 27 percent are blind, disabled or poor elderly adults. Another 50 percent are infants and children, most of whom receive Aid to Families With Dependent Children (AFDC). Medicaid also pays for one-third of all U.S. births.

The Medicaid program has become a primary target for federal and state legislators because Medicaid spending has been exploding — growing 21.8 percent annually between 1988 and 1992. Medicaid is the fastest growing component in most state budgets and, according to an estimate by the National Association of State Budget Officers, is expected to account for more than 25 percent of many states' budgets in 1995.

As a result, the states have been looking for new and innovative ways to reduce Medicaid costs, and managed care has been promoted as a quick fix. Nearly all states have sought Medicaid waivers for demonstration projects that permit the states to experiment with new ways of delivering health care to the poor. Most of these demonstration projects are placing Medicaid recipients in established managed care programs.




**The Growth of Medicaid Managed Care.** As recently as 1991, only 2.7 million (9.5 percent) of Medicaid's 28.3 million enrollees were in managed care, according to the Health Care Financing Administration (HCFA). However, as the figure shows, Medicaid HMO membership has soared in recent years. Currently, 7.8 million (about 23 percent) of the Medicaid population is in a managed care program. And HCFA's director of managed care estimates that by the end of the decade, 75 percent of Medicaid recipients will be enrolled in managed care programs. Because most of Medicaid's managed care waivers were granted in the last few years, the programs are too new to evaluate their effects on quality or costs.

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In fact, no one is predicting that the cost savings from managed care will be large. Although the Congressional Budget Office estimates overall savings of between 4 and 8 percent, a report on Medicaid reform in Texas predicts that even under the most optimistic projections managed care would save the state only 2 percent of its Medicaid budget. And HCFA administrator Bruce Vladeck, who oversees Medicaid and Medicare, says, "There are no big savings from increased managed care enrollment in either the Medicare or Medicaid programs."

**The Quality of Medicaid Managed Care.** Proponents claim that managed care provides needed preventive and primary care for lower-income people who often forego such care because the cost is prohibitive. There is a concern, however, that as Medicaid reduces its HMO reimbursement rates, managed care plans will have to reduce the quality of care. Already stories are emerging that appear to verify this concern.

- In Minnesota, there has been documented evidence of Medicaid HMOs skimping on Pap smears and other cancer screening tests for poor women.
- Because of widespread abuses and serious quality problems, Florida has temporarily suspended Medicaid patient enrollment in managed care plans, although the federal government has just approved moving all 1.6 million Florida Medicaid beneficiaries into managed care.
- An audit by the Tennessee Employees Association found that of the physicians included in the Tennessee Preferred Network — who serve TennCare, the state's Medicaid managed care program — three were dead, 18 were unlicensed, 12 had retired and 14 practiced out of state.
- Another recent survey found that 93 percent of TennCare physicians were unable to prescribe at least one drug because it wasn't on the state's formulary.
- The executive director of the Hawaii Nurses Association recently complained that those in the state's Medicaid managed care program, "the at-risk people, the people who we're supposed to be treating — pregnant women and children — are not getting balanced, regular care."

Replacing traditional Medicaid delivery with managed care does nothing to change patient incentives. Since both systems make services free to the consumer, both encourage overuse of health care services. The big difference is that managed care gives providers incentives to provide less care.

**Medical Savings Accounts.** Another way to try to contain rising Medicaid costs is by using Medical Savings Accounts (MSAs). Under this approach beneficiaries would control some of their own health care dollars and would have incentives to use those dollars wisely. Indeed, several states are already considering MSA Medicaid legislation.

- Under a 1994 Indiana proposal, which passed in the state's Senate but not the House, each member of a family on Medicaid would have received a $100 voucher for health care and would have been permitted to use 10 percent of what was not spent of the next $3,250 for in-kind services such as day-care and job training. Those spending more than $3,250 would still have had their medical bills covered by the state but would have received nothing at year's end.
- Legislation in Virginia that would create MSAs for "the working poor and individuals who are eligible to receive medical assistance services" has passed unopposed in committee in both chambers.
- Several other states, including Montana, Louisiana and Texas, are looking at MSAs for Medicaid recipients.

MSAs would empower individuals rather than bureaucracies. They also would offer the poor opportunities to benefit from being prudent shoppers in the health care marketplace.

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