



Good News for All States And Taxpayers: Rhode Island's Medicaid Waiver Survives Scrutiny

Capital Ideas, Vol. 17, No. 13 (April 6, 2011)

John R. Graham

Rhode Island, the smallest state, is wielding big influence against federal control of health care. Other states would do well to take notice.

Federal taxpayers pay about 53 percent of Rhode Island's Medicaid costs. This has created a perverse incentive for state politicians to increase dependency on Medicaid in order to capture more federal funds. A solution is to convert the funding formula, known as FMAP (Federal Medical Assistance Percentages), to a per-head block grant to the states. Unfortunately, under the Obama administration, things have moved in the wrong direction.

The "stimulus" bill of February 2009, *increased* Rhode Island's match to about 64 percent. Originally a short-term measure, this excessive leverage was extended through this June. Fortunately, Rhode Island succeeded in crafting a mechanism to restrain out-of-control Medicaid growth. In August 2008, Governor Carcieri tasked his Secretary of Health and Human Services, Gary Alexander, to apply for a "Global Consumer Choice Compact Waiver" from the federal government.

Rhode Island's waiver is not quite a block grant. It preserves the FMAP, but caps aggregate federal and state spending through 2013 at \$12.075 billion. Nevertheless, it appears to have had the results one would expect from a block grant. Spending has plummeted from what was anticipated. Remarkably, through the first six quarters of the waiver (January 1, 2009, through June 30, 2010) actual spending was only \$2.7 billion versus \$3.8 billion budgeted, according to an analysis produced by Secretary Alexander last December.

PRI's January 2011 *Health Policy Prescription* discussed reasons for the success of the waiver. For instance, the state was exempted from Any-Willing-Provider (AWP) rules, which meant it had more power to incentivize quality from medical providers. It also "rebalanced" Medicaid Long-Term Care (LTC), reducing abuse of this program along the lines recommended in a report recently published by PRI. Critically, it empowered Medicaid beneficiaries to make better choices about their care by giving them more direct control of the dollars spent on their health care.

Rhode Island's reform benefits not only the state but federal taxpayers nationwide. Even so, it has come under attack from those who prefer that a state's Medicaid program be

controlled remotely by the federal government. Immediately after taking office in January, Steven Constantino, who succeeded Secretary Alexander, told a reporter that the savings were only about \$31 million through June 2010.

However, Constantino's official correspondence confirms the savings predicted in Alexander's report. The state's latest (March 2011) mandated quarterly report, which presents financial performance from July 2009 through December 2010, announced that cumulative total Medicaid savings from the waiver were \$1.3 billion. A report by Jesse Cross-Call and Judith Solomon, published last month by the Center on Budget and Policy Priorities (CBPP), also attempts to debunk the developing success of Rhode Island's waiver.

The report points out that the capped \$12.075 billion budget was significantly higher than what Rhode Island actually thought Medicaid costs would actually be (\$10.761 billion). This leads them to claim that the savings are fictional. This is irrelevant, however, because the savings so far point to total spending of about \$9.3 billion through the 2013 fiscal year — an estimate produced by Alexander that the latest data confirms is credible. If achieved, these savings will amount to 14 percent of the state's original estimate.

The report also concludes that \$200 million of Rhode Island's savings in the first year were the result of the Medicaid bailout in the February 2009 federal stimulus bill. This reflects a fundamental misunderstanding of the perverse political incentives in both the 1965 Medicaid legislation and the 2009 stimulus. A 53 percent FMAP means that every dollar the state spends draws \$1.13 of federal funds. A 64 percent FMAP increases the haul to \$1.78. This is one reason why most states are fiscally worse off now than before the 2009 bailout. Indeed, Alexander asserts that the federal stimulus caused Rhode Island to spend \$74 million *more* of its own funds on Medicaid than otherwise.

Rhode Island's new administration has badmouthed the Medicaid waiver, but actions speak louder than words. The state could unilaterally abandon the waiver but has no plans to do so. Rhode Island's Medicaid waiver survives scrutiny and remains a credible model for other states.

(This article is available online at <http://t.co/AWCFgVT>.)

John R. Graham

Director of Health Care Studies, Pacific Research Institute, San Francisco, CA

E-mail: jgraham@pacificresearch.org

Twitter: [johnrgraham](https://twitter.com/johnrgraham)

Facebook: www.facebook.com/pages/FreeAmericanHealthCare

Blog: <http://free-american-healthcare.blogspot.com/>