Issue BRIEF

From Minority Health Initiatives

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"Reforming" Medicaid: How State Waivers Will Hurt Racial and Ethnic Minorities

Medicaid Overview

Medicaid is a public health insurance program that offers affordable health care to more than 53 million of America's low-income children, pregnant women, and people with disabilities, as well as low-income seniors who require additional care beyond what Medicare covers. Racial and ethnic minorities are disproportionately represented in Medicaid, constituting about one-third of the total U.S. population but more than half of all Medicaid recipients.

Medicaid has been a stable and reliable source of coverage for many of America's racial and ethnic minorities throughout its 40-year history. While disparities in health care access, treatment, and outcomes persist between minorities and whites, Medicaid has been an effective tool for reducing racial and ethnic disparities in health and for increasing access for minority populations. However, recent budget constraints and rising health care costs have led many states to propose plans to radically redesign their Medicaid programs in ways that will disproportionately hurt minorities and potentially exacerbate health disparities. In recent months, several states have proposed waivers to the federal Medicaid statute that could reverse the gains made by the program in providing affordable access to appropriate health care services for low-income populations.

This issue brief provides an overview of waivers currently under consideration—focusing particularly on waiver proposals in South Carolina and Florida—that will likely have a negative impact on minority health.

FamiliesUSA
The Voice for Health Care Consumers

Medicaid Waivers

Under federal law, every state Medicaid program is required to provide a standard set of benefits to its neediest enrollees. However, the Department of Health and Human Services (HHS) has longstanding authorization under Section 1115 of the Social Security Act to waive provisions of the Medicaid law. These federal waivers, referred to as Section 1115 waivers, allow states to operate their Medicaid program outside of federal guidelines. In the past, states have used Section 1115 waivers to expand coverage to people not otherwise eligible for Medicaid or the State Children's Health Insurance Program (SCHIP), to require beneficiaries to enroll in managed care, and, in some cases, to change the benefits and cost-sharing allowed by the program.

In August 2001, the Bush Administration announced a new approach to Section 1115 waivers called the Health Insurance Flexibility and Accountability Initiative (HIFA), which encouraged states to expand coverage without increasing program expenditures and which offered states increased waiver flexibility. However, this flexibility, coupled with state fiscal problems, has given states new opportunities to actually *reduce* coverage for people currently eligible for Medicaid rather than expanding coverage. This suggests that Section 1115 waivers could be used to undermine important beneficiary protections in the Medicaid program.

These state waivers pose a serious threat to the future vitality of the federal Medicaid program. Although each particular waiver affects only the state in which it is enacted, Section 1115 waivers can set a powerful precedent for subverting certain protections originally intended to make health care more affordable and accessible. With the increased flexibility provided by HIFA, states can use existing waivers as a blueprint for their own Medicaid overhauls, allowing proposals that might hurt Medicaid beneficiaries to be replicated across the country. Additionally, the establishment of a federal Medicaid commission in May 2005 has paved the way for waiver experiments at the state level to be adopted at the federal level as commission members decide on long-term cost controls for the Medicaid program.

Emerging Threats to Minority Health: South Carolina and Florida Medicaid Waivers

According to a recent survey of states, South Carolina and Florida are two of 25 states planning to implement Section 1115 waivers during FY 2006.[1] These states have proposed waivers that will drastically restructure how health care services are delivered to Medicaid beneficiaries, many of whom belong to racial or ethnic minority groups. Both states are seeking to impose a cap on the dollar amount that the state spends on each enrollee by moving towards a voucher system. This is a radical departure from how Medicaid is currently funded—a change that could have disastrous consequences for low-income beneficiaries who are unable to meet their health care needs with the limited funding allotted to them by the proposed waivers.

South Carolina

In South Carolina, each eligible enrollee will receive a risk-adjusted allotment of funds to be spent on health care in what the state is calling a personal health account (PHA). Risk adjustment, however, is a complicated process that could leave individuals with less money than they need to meet their health care costs. To calculate the amount of money that Medicaid enrollees will receive, the state will assign each eligible beneficiary to a "rate category" based on the individual's age, sex, eligibility category, and health status. The amount of money that each beneficiary receives in his or her PHA will be based on what the state has spent, *on average*, for beneficiaries in that rate category in the past. Thus, under the proposed waiver, some Medicaid enrollees will receive more money than they need to cover their health care costs, while others will likely receive less money than they require to afford all the health care services they need.

According to the South Carolina proposal, the enrollee must choose how to "spend" his or her allotment by selecting from one of three delivery options, each of which has its own type of benefit package. All of the plan options allow for cost-sharing, which will increase the out-of-pocket costs for beneficiaries and possibly discourage them from obtaining necessary medical care.

South Carolina Medicaid beneficiaries would face significantly higher copayments for hospital visits, plus higher out-of-pocket costs for prescription drugs. More importantly, the waiver proposal seeks to make these copayments enforceable, meaning that beneficiaries could, for the first time, be denied access to needed medical services if they are unable to pay.

It is important to recognize that racial and ethnic minorities in the state, particularly African Americans, disproportionately rely on Medicaid for their health care needs. One-fourth of all African Americans are enrolled in the program, versus just over one-tenth of whites.[2] Furthermore, racial and ethnic minorities constitute slightly more than half of all beneficiaries affected by this change to the state Medicaid program. According to recent data, 47.2 percent of South Carolina's Medicaid beneficiaries are African American and 3.5 percent belong to other racial and ethnic minority groups.[3] What's more, by many measures, minority populations in the state experience significantly worse health outcomes. The infant death rate is nearly three times as high for African Americans as it is for whites (1.5 percent and 0.59 percent, respectively), and African Americans die from diabetes at more than twice the rate that whites do (52.7 versus 20.1 deaths per 100,000). African Americans are also more likely to die from cancer and heart disease, and they make up the vast majority (80 percent) of new AIDS cases in South Carolina.[4] Raising Medicaid copayments would only limit access to needed health care services and exacerbate these health disparities.

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Ironically, South Carolina Governor Mark Sanford is using the disproportionate representation of African Americans in the state's Medicaid program as an argument to *support* the proposed waiver. According to Sanford, the purpose of the waiver is not only to preserve state funds, but is

also a way to achieve "social justice."[5] Sanford refers to the poor health of African Americans in the state to argue that the waiver might actually improve health care for low-income people, despite the fact that the waiver would actually shift health care costs to low-income beneficiaries. If state officials are serious about addressing health disparities, they must recognize that the changes proposed under South Carolina's waiver would likely move the state in the wrong direction.

Florida

Florida's waiver application, which was approved by federal administrators and now awaits final confirmation by the state legislature, requires that eligible beneficiaries choose a managed care plan using a risk-adjusted allotment of funds.[6] This is similar to the South Carolina proposal in that it caps the amount of money available to beneficiaries and forces them to enroll in a managed care plan. Copayments for adults also will be raised under the proposed waiver, presenting an additional barrier to obtaining care for Medicaid beneficiaries.

The Florida waiver differs from South Carolina's, however, in that it requires that eligible beneficiaries split their voucher money between three types of care: 1) a standard "comprehensive" benefit plan for routine medical care; 2) a "catastrophic" plan for unexpected, high-cost services; and 3) an "enhanced benefits account," which is an incentive system designed to encourage recipients to engage in healthy behaviors. However, these plans might not adequately provide for the health care needs of beneficiaries, especially if the enrollees reach or exceed their voucher funds. Individuals are responsible for all costs above their maximum annual benefit—the Florida waiver proposal does not include any safety net provision for Medicaid beneficiaries who face higher costs than they can afford. This leaves Medicaid's neediest beneficiaries with very few options once they reach their predetermined benefit limit. Most likely, they will forego needed care entirely and suffer worse health outcomes as a result. If they do obtain health care, they will either acquire an unmanageable amount of debt, or their provider will be forced to offer services without being compensated. Ultimately, it is unclear how Medicaid beneficiaries in Florida will obtain health care services if they have unexpected costs that are not included in their benefit plan.

The Florida waiver will begin as a demonstration in two counties, Broward and Duval. Together, these two counties account for more than 15 percent of all Medicaid enrollees in the state.

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The two counties also have exceptionally large minority populations. In Broward County, 24 percent of the population is African American (versus 15.1 percent in Florida and 12.2 percent in the overall U.S. population). Duval County is even more heavily African American (29 percent, almost double the overall rate in Florida).[7] Thus, minority communities will be the first to face the potentially disastrous consequences of Medicaid reform in the state of Florida.

Take-Home Messages

By expanding coverage and access to those who need it most, Medicaid can be an effective tool for targeting racial and ethnic disparities in health and reducing the gap in health status between minority populations and whites. However, recent waiver proposals, particularly those currently underway in South Carolina and Florida, should cause significant concern for community leaders, advocates, and policy makers who have a stake in improving the health of minority populations.

- **The waivers proposed in South Carolina and Florida will hurt racial and ethnic minorities the most** due to their disproportionate representation in these states' Medicaid programs.
- **Racial and ethnic minorities already suffer from less access to care and worse health outcomes**. In addition, they also encounter language and cultural barriers far more frequently than whites enrolled in Medicaid. Since the proposed waivers might cause Medicaid enrollees to forego necessary medical care, the proposed changes to the Medicaid program could actually result in worse health outcomes for low-income racial and ethnic minorities and exacerbate health disparities.

- **The implementation of these waivers will slowly destroy Medicaid as the nation's health care safety net**. For more than 40 years, Medicaid has provided health coverage to many of those who need it most, allowing millions of Americans to obtain high-quality medical services that they otherwise could not afford. With the new state waiver proposals, Medicaid beneficiaries will for the first time face increased out-of-pocket costs that could prevent them from receiving the health services they need.
- **In addition to exacerbating health disparities, the proposed waivers also pose a threat to state economies**. By imposing financial barriers on Medicaid beneficiaries' access to care, the waiver proposals might encourage enrollees to postpone obtaining medical care until their health deteriorates to a point where they require more expensive health care services. Furthermore, if enrollees exceed their funding allotment under the new waivers, they will be more likely to require uncompensated care, which could then place a greater financial burden on state resources.

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[1] Kaiser Commission on Medicaid and the Uninsured, Medicaid Budgets, *Spending and Policy Initiatives in State Fiscal Years 2005 and 2006, Results from a 50-State Survey* (Washington: Kaiser Family Foundation, October 2005).

[2] Kaiser Family Foundation, State Health Facts Online, "South Carolina: Health Insurance Coverage Rate of Nonelderly Medicaid Enrollees by Race/Ethnicity (2003-2004)," available online at http://ww.statehealthfacts.org, accessed on November 14, 2005.

[3] Estimate based on the Census Bureau's March 2005 Current Population Survey. *Current Population Survey: Annual Social and Economic Supplements*, available online at http://pubdb3.census.gov/macro/032005/health/toc.htm, accessed on November 14, 2005.

[4] Kaiser Family Foundation, State Health Facts Online, "South Carolina: Introduction to Minority Health," available online at http://www.statehealthfacts.org, accessed on November 14, 2005.

[5] Aaron Gould Sheinin, "Hearing Showcases Sanford's Medicaid Plan," *The State* (October 29, 2005), available online at http://www.thestate.com/mld/thestate/news/local/13027918.htm.

[6] The waiver was approved by the Centers for Medicare and Medicaid Services (CMS) on October 15, 2005. The Florida state legislature is expected to vote on the waiver during a special session scheduled for December 5–December 9.

[7] U.S. Census Bureau, "Duval County, Florida: Fact Sheet," *2004 American Community Survey*, available online at http://factfinder.census.gov, accessed on November 14, 2005.

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