Texas Public Policy Foundation

November 6, 2007

Commissioner Albert Hawkins
Texas Health and Human Services Commission
4900 North Lamar Boulevard
Austin, Texas 78751

Dear Commissioner Hawkins:

Thank you for the opportunity to submit comments on the Health and Human Services Commission's Medicaid Reform Concept Paper in response to Senate Bill 10, 80th Regular Legislative Session. The Texas Public Policy Foundation strongly supports aggressive efforts to reform the Texas Medicaid program in an effort to contain costs and gain greater fiscal control of a program that today consumes roughly one-third of all new General Revenue.

The Commission's concept paper presents a number of options for public comment in key decision areas related to premium assistance and the submission of the Medicaid reform waiver. While this letter addresses those items, I respectfully offer additional comments on many of the decision principles the Commission has outlined in these areas as well.

Eligible Populations for Premium Assistance Programs

First, the Commission's decision principles establish that premium assistance will not be an entitlement, and enrollment is subject to available funds. We do not believe it was the intent of the Texas Legislature to expand the Medicaid program and services through Senate Bill 10, and concur with the Commission's interpretation that premium assistance is not an expansion of Medicaid's entitlement.

With respect to two of the other principles in this section, we suggest that the Commission explore ways to allow otherwise Medicaid or CHIP eligible individuals to waive their eligibility for those programs and participate in a premium assistance program instead, as well as *require* individuals to accept affordable employee coverage available. Indeed, the premium assistance program and its access to private coverage may offer a more attractive package and quality of benefits to individuals who would be willing to share this cost. While it is fully appropriate to prohibit dual enrollment in Medicaid, CHIP, or Medicare and the premium assistance program, the Commission's waiver should not prevent individuals from enrolling in a cost-sharing arrangement for private coverage under the premium assistance program if they waive their eligibility for Medicaid or CHIP. Finally, premium assistance should again be a coverage option of last resort, and individuals with affordable employer-sponsored insurance should be required—not encouraged—to accept the employer coverage.

The concept paper reflects HHSC's suggestion that the premium assistance program be implemented statewide for all uninsured Texans below 200% of the federal poverty level. While the eligibility ceiling of 200% makes sense so as not to exceed CHIP eligibility levels, we assume that the majority of enrollees in premium assistance will be adults not currently eligible for Medicaid or CHIP coverage in Texas. The Commission should instead limit eligibility for premium assistance to truly poor adults (i.e. adults living below the poverty line).

Finally, the Commission contemplates methods to minimize or implement crowd-out and suggests that individuals be uninsured for three months in order to qualify for the premium assistance. Efforts to curb crowd-out are important and an effective three-month waiting period for coverage is appropriate in an effort to discourage enrollment in premiums assistance at the expense of other private coverage. Again, however, individuals enrolling in the premium assistance program should be required to accept affordable employer-sponsored coverage as another way to avoid crowd-out. All public programs induce some crowd-out and the evidence has been well chronicled in recent publications from the National Bureau of Economic Research, the Congressional Budget Office, Urban Affairs, and in the *Journal of Health Economics*, and *Health Affairs*. While it is important for the Commission to identify ways to minimize crowd-out, it is highly improbable that such efforts would *eliminate* crowd-out.

Coverage Options

The decision principles presented in the concept paper favor choice and a role for consumer-driven plans to increase coverage in a premium assistance program. Most noteworthy is the stated principle that cost-sharing of some type should be a component of every coverage package on a sliding scale tied to income. The Commission should remain committed to including a cost-sharing component in every package regardless of income.

Cost-sharing under Medicaid and CHIP has been unreasonably low, even below federally allowable levels, thereby asking taxpayers to foot the majority of the bill with minimal obligation on the part of the recipient. The Deficit Reduction Act of 2005 allowed for increases in cost-sharing in an effort to update policy that had remained largely unchanged for more than twenty years. These changes do not preclude the state from requiring meaningful cost-sharing in the premium assistance program and the state should establish aggressive expectations for sharing the financial responsibilities of this coverage with the beneficiaries themselves. Furthermore, these cost-sharing expectations should be a component of every package, extending below the poverty level on a sliding scale tied to income.

In response to the options presented, the structure of any premium assistance program should primarily offer high-deductible plans that provide catastrophic coverage and come at the lowest cost for individuals. Individuals enrolled in the premium assistance program should have the widest menu of coverage options available without restrictions or requirements on what services must be covered. In addition, this range of options should include a variety of price points, allowing individuals to share in the cost of the premium and experiencing the resulting savings from high deductible plans. If the state is interested in making coverage more widely available, the Commission's premium assistance program should favor coverage that addresses high-cost, catastrophic events and offers additional coverage at increasing cost to participants.

Subsidy Levels and Duration

The decision principles appropriately identify that premium assistance should be related to income and the value of coverage selected, minimize crowd-out, align with practices in the commercial market, and reiterate that premiums assistance should not be an entitlement. However, the Commission's preliminary assessments on the design questions should be modified to reflect premium assistance as a temporary program, not a permanent alternative to unsubsidized coverage. A 12 month term of coverage may be more administratively simple and preferable to the private companies offering coverage, but may also encourage dependence on the program. To the extent possible, the Commission should limit participation in the program to temporary coverage only and the Texas Legislature should provide additional direction to time-limit eligibility for premium assistance. Furthermore, to the extent the premium assistance program is a function of reforming hospital financing, the premium assistance program should be an entirely temporary program.

In addition, the Commission's preliminary assessment that the premium subsidy should be based on the cost of a basic benefit plan should clarify that the premium amount paid by the state and by the individual may vary based on the type of plan and coverage provided. For instance, the premium for a high-deductible plan should

be lower than a comprehensive health benefit package, thereby making the premium subsidy and the participant's share of the premium lower than the comprehensive plan.

Administration and Implementation

The Commission's stated decision principle to maintain solvency by controlling or capping program enrollment based on available funds leads to the question of how enrollment should be managed. It is fully appropriate for the Commission to manage enrollment to control the growth of the program and operate the premium assistance program within available funds. In order to achieve this, the state should narrow eligibility for the program to truly poor adults (i.e. adults with incomes below the poverty level) and make use of funds on a first-come, first-served basis. This arrangement puts appropriate pressure on the state to preserve the integrity of the program by enrolling only truly eligible individuals in the program. Financial resources will always be limited, highlighting the imperative for the state to narrowly define the target population to ensure funds are used most responsibly. Accordingly, it would be irresponsible to extend premium assistance to individuals with incomes up to 200% of the poverty level and be forced to deny enrollment for a truly poor individual when funds run out. The program should put a priority on eligible persons with incomes below the poverty line to ensure the most responsible management of public funds.

In closing, we applaud the Commission for establishing principles that clearly define the scope of the premium assistance program, but want to reiterate that expanding the Medicaid program is irresponsible for the financial health of the state. The uncontrolled growth of the Medicaid program in Texas and in states around the country has raised the imperative for reform and, unfortunately, the federal government appears largely unwilling to make the changes that can best help the states control the Medicaid program. The Foundation supports the premium assistance program only insofar as the federal government has allowed such an arrangement as a way to reform Medicaid financing. We remain concerned that premium assistance will prove to be a vehicle for unchecked growth in public health care programs, underscoring the importance that the program be not only temporary and time-limited for recipients, but also a temporary program in place only to achieve hospital financing reform in the near term.

Texas deserves recognition for its interest in Medicaid reform by embracing many of the concepts signed into law in the Deficit Reduction Act of 2005 which are included in Senate Bill 10, but managing expectations around these reforms is essential. Texas must begin taking steps to implement these reforms, but they alone will not be sufficient. Additional reforms, including petitioning the federal government for a block grant that exchanges fixed federal funding for great program flexibility will be essential if the state truly wants greater fiscal certainty and increased flexibility in running this program.

Thank you again for the opportunity to comment on the concept paper.

Sincerely,

Mary Katherine Stout

Mary Katherine Stout
Vice President of Policy and
Director, Center for Health Care Policy