As Medicaid program expires, Arizona looks for federal OK of new plan

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By Max Levy
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WASHINGTON – Medicaid as you know it in the state of Arizona is on the way out and a deeply cut version of the program could be in place within a matter of weeks.

The state is negotiating with federal officials on a scaled-back program that state officials say is needed because of Arizona's financial straits.

The state wants permission to make cuts that will affect patients, providers and insurers, in an effort to trim up to $500 million in state spending for Medicaid.

The program's current five-year Medicaid waiver officially expired Friday, but federal officials at the Center for Medicare and Medicaid Services have granted an extension of at least two weeks while negotiations continue.

Though the talks have already lasted six months – Arizona submitted its waiver requests in March – the extended process is to be expected, said Joan Alker, an expert on Medicaid waivers at the Georgetwon Center for Children and Families.

But she said Arizona is the first state asking to be exempted from a federal mandate requiring that states maintain existing healthcare coverage until at least 2014 as part of federal healthcare reform. Whether it is approved or rejected, the federal decision on Arizona’s request could set a precedent for state flexibility within federal health reform, Alker said.

If its waivers are approved, Arizona would freeze enrollment of parents whose incomes are between 75 and 100 percent of the federal poverty limit; eliminate emergency services to non-citizens who don’t qualify for Medicaid; and raise copayments for all parents, among other proposed changes.

U.S. Secretary of Health and Human Services Kathleen Sebelius has the final say on whether waiver applications are compatible with the objectives of the Medicaid program. But Alker said she does not believe many of Arizona’s proposals fit the objectives.

“I would argue … that having people lose coverage is not compatible with the objectives of the Medicaid act,” she said. “So I don’t think that CMS (the Center for Medicare and Medicaid Services) should be waiving that as a general rule.”

But state officials said they can no longer afford the expanded coverage that the state has offered in the past. Gov. Jan Brewer noted in a 2010 letter to Sebelius that Arizona was one of a handful of states to cover all low-income residents, including childless adults.

“Simply put, the Arizona Medicaid program as it exists today is unsustainable,” Brewer wrote.

In a subsequent letter, Brewer said the cuts are necessary “to preserve coverage to the greatest extent possible. But it will not be possible to achieve my proposed reforms … without your (federal) support.”

The changes, including the recently approved elimination of coverage for childless adults and the medically needy, could save the state about $500 million. But these savings sacrifice up to $1 billion in federal funding to the Arizona Health Care Cost Containment System, Arizona’s Medicaid agency.

AHCCCS receives about two federal dollars for every dollar the state spends on Medicaid, one of the highest matching rates in the country, according to the Kaiser Family Foundation.

Hospitals argue that while these changes would save the state money, many would simply shift the financial burden to healthcare providers and contribute to rising healthcare costs.

Those who lose Medicaid coverage still come to hospitals, leaving providers to absorb medical costs for uninsured patients. That forces hospitals to raise costs for insurance companies, said Peter Wertheim, spokesman for the Arizona Hospital and Healthcare Association.

“We refer to this as the hidden healthcare tax because it’s really something that everybody ultimately ends up paying for,” he said.

Arizona has also requested approval for a 5 percent reduction in the share of medical fees it pays providers for treatment of Medicaid patients. CMS prevented the reduction from going into effect as planned Saturday, but it remains in negotiations with the state.

Hospitals expect that rate reduction to be approved, said Neal Jensen, CEO of Cobre Valley Regional Medical Center in Globe.

“Just about half our operating income, gone in two simple cuts,” he said. “If they cut us enough, the bottom line is it could close any of us down. It just happens quicker at a rural hospital.”

With some changes to Arizona’s Medicaid program still under federal review and others only recently approved, it’s too soon to tell how severe the impact will be. But hospitals are not optimistic, Wertheim said.

“So far the canary in the mine is just starting to choke a little bit,” he said. “You add this 5 percent (rate reduction) on top of all these childless adults showing up to emergency rooms. That’s a
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