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Obama administration unlikely to block Arizona plan to cut 250,000 from Medicaid rolls

By N.C. Aizenman Washington Post Staff Writer Wednesday, February 16, 2011; 10:44 PM

The Obama administration would permit a controversial plan by Arizona's governor to cut an estimated 250,000 impoverished adults from Medicaid, despite a provision in the new health-care law barring states from tightening their eligibility standards for the program, federal officials said Wednesday.

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Gov. Jan Brewer (R) formally requested a federal waiver from the provision last month to make the cut. But in a letter dated Tuesday, Secretary of Health and Human Services Kathleen Sebelius wrote that no waiver is necessary, because the provision does not apply to Arizona's somewhat unusual circumstances.

The decision could further embolden the other 28 Republican governors who recently released a letter charging that the health-care law's Medicaid provisions impose crushing costs at a time when many states are grappling with budget shortfalls.

However, advocates for the poor noted that only about a dozen states have Medicaid programs with the particular set of features that would enable Arizona to trim its rolls. In one of those states, Indiana, the deputy chief of staff to Gov. Mitch Daniels (R) said he was not planning to follow Arizona's example. And it is not clear that

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leaders of any other eligible states are interested either.

"Certainly we are keeping a watchful eye on a handful of states that might wish to go in this direction," said Joan Alker, co-executive director of the Georgetown Center for Children and Families. "But Arizona is in a very unique situation . . . so it's my hope that [it] continues to be an outlier."

The state has already made some of the country's most drastic cuts to Medicaid and other health initiatives - halting coverage of organ transplants for about 100 indigent patients on a waiting list, slashing payment rates to doctors by 10 percent, and freezing enrollment in its supplemental health insurance program for children.

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At issue now is the health-care law's Medicaid spending requirements for states. To participate in the health insurance program for the poor - and receive billions in matching federal dollars - states must cover all children and pregnant women up to specified levels of poverty, as well as various other populations, such as some parents of poor children.

For years, states could also choose to use extra federal funds to expand that coverage beyond the minimum to include, for instance, childless adults who are poor. The health-care law turns that option into a mandate. Starting

in 2014, states will have to open Medicaid eligibility to all individuals who earn up to 133 percent of the poverty level - with the federal government covering nearly all the additional cost.

In the meantime, the law directs states to maintain their current level of coverage, even if it is above the old minimum standard.

In Arizona's case, this requirement appeared to block Brewer's proposal to save \$541 million by bumping 250,000 childless adults and 30,000 parents of poor children from the state's Medicaid plan halfway through the 2012 fiscal year. (The move would save an estimated \$900 million more the following year.)

But as Sebelius's letter noted, while the 30,000 parents fall under Arizona's regular Medicaid plan, the childless adults are covered through a "demonstration waiver" that permits the state to run Medicaid as a managed care system, similar to an HMO plan.

Such agreements are fairly common and frequently run three to five years. According to HHS officials, the health-care law's Medicaid eligibility freeze applies only while these agreements are still in effect. For most states, that means 2014 and beyond. But Arizona's agreement expires Sept. 30.

This means that when the state applies for a new agreement, it can tighten its eligibility rules for childless adults, Sebelius said in her letter. Technically, HHS must still sign off on any new agreement. However, a senior official at the agency said officials had no intention of withholding approval to prevent Arizona from dropping its childless adults - most of whom earn less than \$10,830 per year to qualify for the program.

"That would be pretty disingenuous of us to do, given the guidance we've just given the state," the official said.

Monica Coury, a top official in Arizona's Medicaid program, said she was very pleased with HHS's position. "The secretary's letter is extremely well written, and it addresses the state's concerns," she said. "Now it's a question of reviewing it and determining what policy direction will work best for the state."

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Even if Arizona's majority Republican legislature were to adopt Brewer's plan, state Democrats would probably counter with a lawsuit. They argue that because Arizonans voted to expand Medicaid to childless adults in a referendum, state lawmakers lack the authority to roll it back.

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