

Cost Sharing In Medicaid: Issues Raised by NGA's Preliminary Reform Recommendations

Executive Summary

Background

On June 15, 2005, the National Governors Association (NGA) issued a Preliminary Report on Medicaid Reform and presented its proposals to the Congress. One of the most significant proposals is a recommendation to effectively eliminate all current federal standards for what constitutes affordable coverage in Medicaid. In place of current premium and cost sharing standards, NGA proposes that states be guided solely by a federal requirement that beneficiaries' out-of-pocket spending in Medicaid cannot exceed five percent of their total incomes (7.5 percent for people above 150 percent of the federal poverty line). Borrowed from the State Children's Health Insurance Program (SCHIP), the five percent cap is one of the federal cost-sharing standards currently applied in SCHIP to higher income children.

From a beneficiary perspective, NGA's cost sharing proposal is significant because it would allow states to increase dramatically the amount low-income families with children, impoverished seniors, and people with disabilities must pay to enroll in and use health care services. A substantial body of research shows that even modest premiums or increases in cost sharing would have an immediate and negative effect on the ability of Medicaid beneficiaries to use health care services. In this context, it is important to review the NGA proposal to assess the magnitude of changes it would allow in cost sharing and to evaluate the potential implications for beneficiaries of using a variation on current SCHIP rules to set federal cost sharing standards for Medicaid.

Key Issues with NGA's Cost-Sharing Proposal:

- **SCHIP plays a starkly different role in the health care system, making it an inappropriate model for Medicaid.** Medicaid covers children in poor and low-income families, and sometimes their parents as well. It also covers pregnant women, as well as impoverished seniors and people with disabilities. Many of those served by Medicaid — children as well as adults — have serious health problems. In contrast, SCHIP is designed to provide coverage to children in families with income above Medicaid thresholds, and it plays no role in serving impoverished seniors and adults with disabilities. In light of the fundamental differences in the roles played by SCHIP and Medicaid in the health care system, SCHIP is an inappropriate model from which to develop cost sharing rules for Medicaid.

- **Although SCHIP is cited as the model for the NGA proposal, the cost-sharing rules proposed by the NGA are much weaker than current SCHIP rules.** Even if SCHIP were an appropriate model for the cost sharing rules used in Medicaid, the NGA proposal actually goes far beyond SCHIP in weakening federal standards on cost sharing. The key differences between current SCHIP rules and NGA’s proposed policy for Medicaid include:
 - **No exemption for impoverished people.** The NGA policy would not exempt low-income children and adults from cost sharing. SCHIP implicitly has such an exemption since it only covers children with incomes *above* Medicaid eligibility levels, and children on Medicaid are not subject to cost-sharing;
 - **Leaves out key SCHIP protections for people between 100 percent and 150 percent of poverty.** For people between 100 percent and 150 percent of the federal poverty line (for a family of three, this includes families with total monthly income of \$1,300 to \$2,000), the NGA proposal fails to recommend adopting key SCHIP limits on premium and cost-sharing charges. For example, SCHIP currently limits the amount that states can charge children in this income group to \$16 per month in premiums and no more than \$5 per physician visit. Instead, NGA recommends adopting only a “back up” SCHIP protection that total cost sharing cannot exceed five percent of income.
 - **Increases by 50 percent the potential cost sharing obligations of families above 150 percent of poverty.** At 7.5 percent, the cap on cost sharing costs that NGA is suggesting for people above 150 percent of the federal poverty line would be 50 percent higher than the cap used in SCHIP; and
 - **No exemptions for critical services.** In contrast to SCHIP, the NGA policy does not exclude any services (such as well child or prenatal care) from cost sharing.

Conclusion

NGA’s cost sharing proposal would effectively eliminate all current federal standards for what constitutes affordable coverage in Medicaid. The alternative that NGA has put forth – a five percent cap on cost sharing payments – often is described as simply taking SCHIP rules and using them as a model for Medicaid. In actuality, the NGA proposal would be significantly harsher than current SCHIP rules, both because it would omit key SCHIP protections and because it would apply an SCHIP rule designed for children in more moderate-income families to impoverished children, seniors, and people with disabilities enrolled in Medicaid.