VIEWPOINT

# The Changing Landscape of Medicaid
## Practical and Political Considerations for Expansion

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**It has long been anticipated** that 2014 would be the year in which most major elements of the Patient Protection and Affordable Care Act of 2010 (ACA) would be implemented.[1] Yet even after surviving legislative, judicial, and electoral challenges, what the law actually will accomplish is uncertain. A major reason is the prominent role given to the states over the implementation of the ACA.[2,3]

State flexibility is a double-edged sword. By shifting some difficult decisions from the federal government, states can tailor health reform to the needs of their stakeholders. But implementing reform through the states increases the number of elected officials able to influence implementation.

Between June 2011 and February 2014 we conducted 152 interviews with leaders in 25 states about 2 major ACA-related decisions: whether to create a state health insurance exchange and whether to expand Medicaid eligibility.[3] Neither decision was part of the version of reform that President Obama preferred, which included a national exchange and mandatory Medicaid expansion.

The opportunity for each state to create an exchange was seen as a form of "conservative means to liberal ends,"[3] allowing the country to move closer to universal coverage through a state-level market-based mechanism favored by conservative policy experts. Similarly, many commentators and scholars suggested that the Medicaid expansion would be so beneficial that every state would ultimately comply. The federal government is paying for 100% of the Medicaid expansion until 2017 and phasing down to 90% in 2020. State policy makers were expected to respond to pressure from local stakeholders to accept Medicaid expansion. Hospitals and health care practitioners want to reduce uncompensated care, whereas the business community wants to reduce cost-shifting of uncompensated care onto charges to private payers.

Yet by January 2014 only 15 states and the District of Columbia had chosen to fully comply with the ACA by creating a state-based exchange and expanding Medicaid, whereas 23 states took neither of these steps (**Table**). These decisions have followed partisan patterns. All but 2 of the 15 states that fully complied are led by Democratic governors, and all but 3 of the 23 states that did not expand Medicaid or establish a state-based exchange are led by Republican governors. In the 2012 election, President Obama won all but 1 of the states that have fully complied and lost all but 5 of the 23 states that have not fully complied with these ACA provisions.

However, partisanship is an incomplete explanation obscuring the underlying political dynamics at work. Ten states have chosen to expand Medicaid but not create an exchange (Table), including 6 led by Republican governors. This difference is not surprising, given that much more federal funding is at stake with the Medicaid decision. By comparison, Idaho is the only state to forgo the Medicaid expansion but create a state or partnership exchange.

The policy implications of these decisions are enormous. Nearly 2.6 million Americans in the 25 states not expanding Medicaid will fall into a coverage gap.[5] These people will be too poor to receive subsidies through the exchange but will have incomes too high to permit participation in Medicaid.

One approach for increasing the number of states expanding Medicaid may be for the Obama administration to allow states to use waivers to incorporate more local elements in the program. Stakeholders indicate it will be easier to convince resistant legislators to consider reforming rather than simply *expanding* Medicaid. Michigan is a good example of this view.[6] This approach could allow state-requested changes to the Medicaid program without congressional approval. State legislatures often must be involved, but the primary negotiation takes place between the executive branches of the federal and state governments as governors apply to the Centers for Medicare & Medicaid Services for waivers.

Five states have taken the lead in this movement. Arkansas, Iowa, and Michigan have sought Medicaid waivers as part of their expansion, whereas Indiana and Pennsylvania are moving toward this path. Arkansas was the first state to seek a new waiver specifically connected to Medicaid expansion, receiving approval to allow new Medicaid enrollees to shop for coverage through the health insurance exchange. The creation of a "private option" in Arkansas opened the door to alternative proposals in other states.

Iowa later adopted a similar plan, although it added a focus on increased cost-sharing for certain segments of their new beneficiaries. Michigan's and Pennsylvania's waivers also included cost-sharing for new enrollees starting at 100% of the federal poverty level. Indiana is seeking to extend and expand an existing waiver to include cost-sharing for all new enrollees. New enrollees in these states must contribute between 2% and 7% of their annual income toward their medical expenses. Iowa, Michigan, and Pennsylvania have also included financial incentives in their waiver applications to allow new beneficiaries to reduce their cost-sharing by engaging in healthy behaviors. Furthermore, Pennsylvania includes a provision that—if approved—would reduce cost-sharing for beneficiaries who actively search for full-time employment and participate in employment training programs.[7]



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Table. Implementation of the Exchange and Medicaid Expansion, by State (as of April 3, 2014)[a]

| | Medicaid | |
|---|---|---|
| Exchange | Expanding | Not Expanding |
| State | California, Colorado, Connecticut, District of Columbia, Hawaii, Kentucky, Maryland, Massachusetts, Minnesota, Nevada, New Mexico, New York, Oregon, Rhode Island, Vermont, Washington | Idaho[b] |
| Partnership | Arkansas, Delaware, Illinois, Iowa, New Hampshire, West Virginia | |
| Federally facilitated | Arizona, Michigan, New Jersey, North Dakota, Ohio | Alabama, Alaska, Florida, Georgia, Indiana,[c] Kansas, Louisiana, Maine, Mississippi, Missouri, Montana, Nebraska, North Carolina, Oklahoma, Pennsylvania,[c] South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Wisconsin, Wyoming |

[a] Adapted from Kaiser Family Foundation data.[4]

[b] The only state to forgo the Medicaid expansion but create a state or partnership exchange.

[c] Indiana and Pennsylvania have pending waivers to implement expansion after 2014.

The policies in these waivers are not entirely new. Large numbers of Medicaid recipients are already enrolled in private managed care plans, and the ACA included pilot projects for 10 states to use financial incentives to promote health behaviors.[8] These waivers are important politically. They have enabled governors to persuade enough conservatives to support a modified Medicaid expansion. This approach allows some Republicans to remain critical of the ACA while pursuing Medicaid waivers they view as beneficial for their states. This should increase the number of individuals with insurance in these states.

Not every state will follow this approach in the near term. Interviews revealed that many Republicans do not trust the federal government to sustain its increased share of funding for the Medicaid expansion. They argue that paying 10% for a program they do not like and that already accounts for a large portion of their budget is still too much. They recognize that once Medicaid is expanded, it will be difficult politically to retract the program. Some want to expand Medicaid but find it too difficult to cooperate on any component of the ACA while President Obama is in office. They may hope that a Republican president will grant even more leeway than they might have now. However, waiting will cause other challenges as residents fall into the coverage gap and stakeholders increase their pressure. Thus, applying for waivers may be a politically feasible approach for more states to move forward with expanding Medicaid.

Three important implications should be considered as more states consider requesting waivers. First, executive branch federalism in which governors negotiate directly with the Centers for Medicare & Medicaid Services limits transparency compared with the legislative process. Second, supporters of this approach must recognize that each of these waivers expires by 2018, leaving the expansion vulnerable to shifts in the political climate at the state and federal levels. A new president in 2017, as well as new governors and new state legislators, may take a different approach. Third, by using waivers to distance themselves from President Obama, Republicans are accepting greater political responsibility for their states' Medicaid programs. Democrats do not favor every proposed change, but this approach of requesting waivers may be the only path to Medicaid expansion in many states.

## ARTICLE INFORMATION

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