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Contact: HHS Press Office
(202) 690-6343

Headline: BUSH ADMINISTRATION WILL PROPOSE INNOVATIVE IMPROVEMENTS
IN STATES' HEALTH COVERAGE FOR LOW-INCOME AMERICANS

Would Give States Extra Immediate Funding Plus SCHIP-type Flexibility

HHS Secretary Tommy G. Thompson announced today that the President will propose a sweeping new plan to enable states to improve health insurance coverage for low-income Americans.

The plan gives states the upfront investment and flexibility to design health care programs that best meet the needs of their citizens and expand coverage to more people, including the mentally ill, chronically ill, those with HIV/AIDS and those with substance abuse problems.

Secretary Thompson is consulting with governors in developing the new plan, which would be optional for states. The plan would:

- Provide an estimated \$3.25 billion in extra federal funding for Medicaid in fiscal year 2004, with \$12.7 billion in extra funding over seven years. Federal funding for Medicaid and State Children's Health Insurance Program (SCHIP) would be provided in annual allotments, with one allotment for acute care and another for long-term care.
- Preserve comprehensive benefits for "mandatory" groups, while giving states expanded flexibility to tailor coverage for "non-mandatory" recipients and services. The proposal would be built on the SCHIP model -- under SCHIP's flexible benefits, more low-income children and families were provided health care coverage than would have been possible using traditional Medicaid rules.
- Encourage coverage for whole families, not just the children in a low-income family; and encourage "medical homes," so that all the members of the family are treated by the same providers, whenever appropriate.
- Support increased use of home and community based services for Americans with disabilities, enabling them to be served outside of institutional settings -- including older Americans needing care that can help prevent premature use of nursing home care.

The plan would also require maintenance of effort, so states continue to invest and maintain their commitment to health care.

Secretary Thompson said the increased near-term funding, combined with flexibility similar to the SCHIP program, would help states preserve the benefits they now provide beyond the mandatory Medicaid population. By infusing extra federal funds quickly into state programs, the proposal would help protect beneficiaries who face loss of coverage when states are forced to cut back their Medicaid spending and would create opportunities to extend coverage.

"The time to modernize Medicaid is here," Secretary Thompson said. "The states' budget crises are threatening the progress we've made in expanding health insurance, and at the same time the old Medicaid rules are a straight-jacket, restraining creative new approaches that could preserve coverage and expand it to more Americans in need."

Secretary Thompson compared the need for improving Medicaid with the successful movement for welfare reform. "We need to bring the same clear-eyed spirit of innovation to Medicaid that we brought to welfare," he said. "We need to leave behind the old definitions and look at how we can better serve today's beneficiaries."

Based on the successful SCHIP model that Congress adopted in 1997, as well as successful innovations developed by states in their Medicaid programs through federally-approved waivers, the proposal would give states flexibility to simplify eligibility rules and tailor benefits to better meet current beneficiary needs. For example, as in SCHIP, states could work with private insurers and provide premium support for beneficiaries enrolled in private plans.

In addition to the plan announced today, the President's budget will also include \$2.4 billion over five years to extend Transitional Medicaid Assistance, which provides for coverage up to 12 months of extended Medicaid coverage for those transitioning from welfare to work.

Under the plan being developed, states would draw from two annual allotments: an acute care health insurance allotment and a long-term care and community services allotment. Amounts would be based on their own level of spending in 2002 in Medicaid and SCHIP, and would be increased each year based on a formula. They would gain new flexibility in transferring funds between the two allotments to meet the health care needs of their low-income populations, as well as gaining more flexibility in spending set-aside dollars to cover more people. States that do not choose the new reform option would continue to administer their Medicaid and SCHIP programs under existing rules. All states would also continue to have separate access to unspent SCHIP funding that is still available to them.

Spending increases in Medicaid have been driven especially by the optional services and populations covered by states. About one-third of Medicaid recipients are "non-mandatory," added to coverage at state option and subject to being dropped from coverage. Moreover, two-thirds of Medicaid spending is on non-mandatory groups or optional benefits. "Mandatory" recipients are those who are entitled to Medicaid by law, especially children from very low-income families, and low-income people with severe disability. Institutional services for people with disabilities and older Americans in nursing homes are especially costly, and those receiving such services often would prefer home or community based care. An important part of the finalized new plan should focus on encouraging home and community care, and preventing or delaying inappropriate institutional care, Secretary Thompson said.

In addition to the proposal announced today, the President's budget will include significant new provisions for advancing the New Freedom Initiative, especially to help serve people with disabilities outside

of institutional settings. One of the budget proposals would provide \$350 million in fiscal year 2004, and \$1.5 billion over five years, to support transfer of people with disabilities who are in institutions but who could be served in home or community based settings - the "Money Follows the Individual" Rebalancing proposal. (See HHS press release, Jan. 23.)

With Secretary Thompson's encouragement, states have tried new approaches in Medicaid, securing more than 500 waivers since January 2001. Overall, HHS has approved more than 2,500 Medicaid and SCHIP waivers and plan amendments that have expanded eligibility for health coverage to more than 2.2 million people. However, Secretary Thompson said, the waiver process is unnecessarily time-consuming and burdensome. States should be given flexibility to design their programs, with a predictable federal contribution and broad rules to protect coverage.

"We need to stop tying our own hands in the Medicaid program, letting old rules prevent us from taking actions that would work better for everyone," Secretary Thompson said. "We need to be creative. We could stretch our dollars much further and serve those who need our help better. The states have shown they can do it, and we need to take what we've learned and move forward."

A Jan. 16 letter from Governors John G. Rowland of Connecticut, Bill Owens of Colorado and Jeb Bush of Florida asked the President and Secretary Thompson to increase flexibility in Medicaid, giving examples of the kinds of actions states would be prepared to take. Secretary Thompson said he will work closely with all governors and Congress to develop and enact the reform option for states.

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