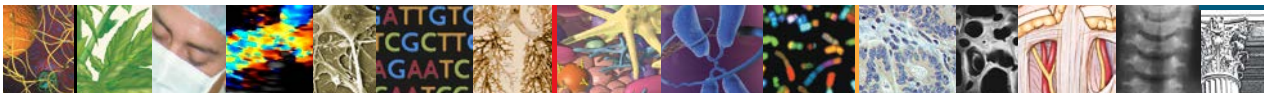

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Perspective

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Michigan's Approach to Medicaid Expansion and Reform

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A cornerstone of the Affordable Care Act (ACA) is the expansion of Medicaid coverage in 2014 to adults with incomes up to 133% of the federal poverty level (approximately $15,500 for a single adult in 2014).

The proportion of these low-income adults under 65 years of age who are uninsured exceeds 40% nationally. Individual insurance is prohibitively expensive for most adults with low incomes, and employer-sponsored insurance is often unaffordable or not offered to the members of this population who work.

Extending Medicaid coverage to more low-income adults can have important benefits for their access to care, health outcomes, and financial well-being.[1,2] The Medicaid expansion authorized by the ACA is also projected to have substantial economic benefits for participating states by reducing uncompensated care and sustaining hospitals, community health centers, and other safety-net providers that serve uninsured patients.[3,4] Numerous judicial challenges to the ACA, however, culminated in the landmark U.S. Supreme Court ruling, in June 2012, that Congress could give states the option to expand Medicaid coverage to more low-income adults but could not reduce existing Medicaid funds for states that chose not to do so.

Most states have responded to this decision in predictably partisan ways. All 14 states in which Democrats control the governor's office and both houses of the state legislature have opted to move forward with plans to expand Medicaid, as have 7 of 12 states in which control of state government is split between Democrats and Republicans. Conversely, of the 24 states in which Republicans control the governor's office and both chambers of the state legislature, 17 have decided not to expand Medicaid.[4] Four Republican-controlled states (Indiana, Ohio, Pennsylvania, and Tennessee) continue to deliberate about this decision, and only three such states — Arizona, North Dakota, and most recently Michigan — have approved plans to extend Medicaid eligibility. Michigan's approach to expanding and reforming Medicaid may provide a model for other Republican-dominated states that might choose to expand coverage for low-income adults under the ACA while introducing market-oriented reforms and limiting the Medicaid expansion's impact on their budget.

Key Provisions of Medicaid Expansion and Reform in Michigan

- Expands Medicaid to cover adults with incomes up to 133% of federal poverty level beginning in April 2014
- Authorizes Michigan to withdraw from the Medicaid expansion if new state Medicaid costs in 2017 and later years are not offset by other related savings in the state budget
- Introduces cost sharing amounting to up to 5% of annual income for new enrollees with incomes of 100% to 133% of the federal poverty level and allows reduced cost sharing for enrollees who engage in healthy behaviors
- Enrolls newly covered adults in private managed-care plans, with health savings accounts funded by enrollees or their employers to cover cost sharing
- Requires new Medicaid enrollees to have access to primary care and preventive services and be offered the option of completing advance directives for end-of-life care
- Authorizes the Department of Community Health to identify innovations in Medicaid that improve the quality of care, reduce its costs, or both

In February 2013, Michigan's Republican governor, Rick Snyder, announced his support for extending Medicaid eligibility to low-income adults, along with provisions to limit the state's associated costs. The Michigan Chamber of Commerce and the Small Business Association of Michigan endorsed the proposed Medicaid expansion and reforms, particularly to reduce cost shifting of uncompensated care for uninsured adults to employer-sponsored insurance plans. Numerous organizations representing health care providers also endorsed the Medicaid expansion in legislative hearings. Tea Party groups testified against it.

On June 13, the Michigan House of Representatives approved the Medicaid expansion and reforms in a 76-to-31 vote with a substantial bipartisan majority, as 28 Republicans joined 48 Democrats to support the bill and 30 Republicans and 1 Democrat opposed it. In a dramatic 20-to-18 vote on August 27, the Michigan Senate approved its version of the House bill, with 8 Republicans and all 12 Democrats in support and the remaining 18 Republicans in opposition.

The new law, signed by Governor Snyder on September 16, enables the state to accept up to $1.7 billion in federal funding during fiscal year 2014 to begin enrolling approximately 400,000 low-income adults who are newly eligible for Medicaid. The law also requires the state to obtain a waiver of some federal regulations from the Department of Health and Human Services to allow state-mandated reforms. Key components of the law are highlighted in the box.[5]

Five core principles are evident in Michigan's approach to expanding and reforming Medicaid under the ACA. First, the state must achieve sufficient savings to offset its contributions for the Medicaid expansion when federal funding drops from 100% to 95% in 2017 and to 90% in 2021. Medicaid coverage of some state-financed health services, including mental health and prison health programs, is expected to result in approximately $200 million in savings for the state budget in 2014. If the state's costs are not offset by such savings, Michigan will withdraw from the Medicaid expansion in 2017 or later years. But current projections indicate that the state's cumulative savings should cover the additional costs through 2027.[5]

Second, Michigan will introduce financial incentives for new Medicaid enrollees to control their use of health care services and to maintain healthy behaviors. For 150,000 new enrollees with incomes between 100% and 133% of the federal poverty level, cost sharing amounting to as much as 5% of their annual income (approximately $580 to $775 for a single adult) is slated to begin 6 months after Medicaid enrollment. After 48 months of Medicaid coverage, cost sharing for these new enrollees will increase to 7% of their annual income, or they can choose to enroll in subsidized private insurance offered through the state's health insurance exchange. A system resembling health savings accounts will be created for individuals or their employers to deposit funds to cover copayments for health care services. Cost sharing can be reduced to 2% of annual income for new enrollees who demonstrate that they engage in healthy behaviors.

Third, the state will enroll newly eligible adults in private health plans rather than in traditional fee-for-service Medicaid. Health plans will be eligible for financial bonuses for effectively managing enrollee cost sharing required by the state and for achieving cost and quality targets. Health plans will also be directed to implement value-based insurance design by varying cost sharing according to the clinical value of services provided.

Fourth, Michigan's new law addresses health care delivery by requiring that new enrollees have access to primary care and pre-

ventive services. New enrollees will also be offered the opportunity to complete advance directives for end-of-life care when they enroll in Medicaid — part of a broader state initiative to encourage residents to express their preferences regarding end-of-life care.

Fifth, Michigan's new Medicaid law enhances the state's capacity to monitor the costs and quality of health care. The Department of Community Health, which oversees the Medicaid program, will assess opportunities for improving the Medicaid program and make Medicaid data available to outside vendors that can help participating health plans to pursue innovations in the program. The Department of Insurance and Financial Services will evaluate the effect of the Medicaid expansion on private insurance premiums in the state; some reduction in these premiums is anticipated.[3,5] A new Health Care Cost and Quality Advisory Committee will be created to promote greater transparency with respect to the costs and quality of care.

By linking Michigan's Medicaid expansion to market-oriented changes in this federal–state program, the governor and legislature have created a pragmatic pathway to link Republican and Democratic priorities for health care. The key Democratic goal of expanding Medicaid coverage to low-income adults will be implemented in tandem with Republican objectives to control the state's health care costs, increase the role of private health plans, and require some new Medicaid enrollees to contribute toward the costs of their care. In recent years the U.S. Congress has rarely been able to achieve bipartisan agreement on health care or other major issues. Thus, the best prospects for achieving greater efficiency and equity in health care may arise from states such as Michigan that can blend public and private approaches to health care reform, with bipartisan support.

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Disclosure forms provided by the author are available with the full text of this article at NEJM.org.

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Professionalism and Caring for Medicaid Patients — The 5% Commitment?

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Medicaid is an important federal–state partnership that provides health insurance for more than one fifth of the U.S. population — 73 million low-income people in 2012. The Affordable Care Act will expand Medicaid coverage to millions more. But 30% of office-based