

Medicaid is a federal health insurance program, administered by states, for the poor and the near poor. Although Medicaid participation is optional, all 50 states participate.

Medicare vs. Medicaid

Medicare is a federally funded and federally administered program and is thus identical across the country. Unlike Medicare, each state modifies Medicaid to its own economic condition and political climate after basic federal requirements are met. Because state level improvements are typically more efficient than nationwide changes, Medicaid is often innovating ahead of Medicare.

Medicaid Waivers Enable State Innovation

Waivers allow states to bypass certain Medicaid rules to experiment with new approaches to administering Medicaid for a limited time. Waivers are also responsible for state variation in Medicaid such as who is eligible, what types of services are covered, and how care is delivered.

Evolution of State Level Medicaid Innovations

States' use of Medicaid waivers have evolved over time, from making relatively small changes to making more sweeping systematic changes in recent years.



In 2001, the Bush Administration releases the Health Insurance Flexibility and Accountability (HIFA) initiative. HIFA is unprecedented because it allows states to design their Medicaid programs in ways that have not previously been permitted. Under HIFA, states could:

- Limit enrollment
- Offer coverage to low-income single adults
- Modify benefit designs
- Build on private or employer-sponsored insurance
- Impose greater cost-sharing limits

Without additional funding, however, some states have used HIFA to reduce program spending rather than to expand coverage.¹

Current State Innovations: Baseline for Future Direction and Change

¹ <https://kaiserfamilyfoundation.files.wordpress.com/2013/01/medicaid-section-1115-waivers-current-issues-pdf.pdf>

Medicaid waivers generally echo priorities identified by states and the federal government. Due to budgetary pressures and the passage of the *Affordable Care Act* (ACA), many recent Medicaid waivers explore alternative payment and delivery models. Below are some examples:

Delivery System Reform Incentive Payment (DSRIP) Initiative. DSRIP is financed by redirecting Disproportionate Share Hospital payments used by hospitals to provide uncompensated care. It tests the “pay-for-performance” model, in which provider performance is linked to provider pay. DSRIP is led by safety-net hospitals but often involves collaborations with non-hospital providers.²

As of December 2016, nine states (California, Kansas, Massachusetts, New Hampshire, New Jersey, New Mexico, New York, Texas, and Washington) are participating in DSRIP. Virginia is applying for DSRIP and four other states (Arizona, Florida, Oregon, and Rhode Island) are currently pursuing DSRIP-like programs. While each DSRIP program varies in scope and funding, all states address four key domains: infrastructure development, system redesign, clinical outcomes improvements, and population focused improvements. Because new models in health care tend to build on previous ones, DSRIP-type waivers are not likely to go away in the coming years as the trend toward performance based payments continues.

Implementation of ACA Medicaid Expansion. States that could not secure political support to expand Medicaid coverage under the ACA use Medicaid waivers to implement the expansion. Seven states (Arizona, Arkansas, Iowa, Indiana, Michigan, Montana, and New Hampshire) use the waiver to take advantage of flexibility given to states. As states look to each other to run their Medicaid programs, how these seven states use their waivers signal to the future of Medicaid reform.

- Michigan and Indiana require Medicaid beneficiaries to make monthly contributions into **Health Savings Accounts** (HSAs), which can be used even after they leave the Medicaid program. HSAs are intended to make individuals more sensitive to health care costs, thereby limiting unnecessary care.
- Arkansas, Iowa, Indiana, and Michigan offer **healthy behavior incentives** to reduce Medicaid premiums and co-payments. The goal is to encourage individuals to adopt healthier lifestyles that lead to better health such as exercising, going to primary care appointments, maintaining a healthy diet, or quitting smoking.
- Arizona, Arkansas, Indiana, and Kentucky have pending waiver requests to introduce **work requirement** as a condition for Medicaid eligibility. Historically, the Centers for Medicare and Medicaid Services (CMS) has maintained that voluntary or mandatory work requirements do not advance Medicaid’s purpose of promoting health coverage access. However, CMS recently signaled a change in policy, indicating that it will begin approving such proposals.³

Managed Long-Term Services and Supports (MLTSS). States are increasingly looking for ways to rethink care for Medicaid’s high-need, high-cost population. Often elderly and disabled, MLTSS integrates care for these individuals through capitated managed care. Under this arrangement, managed care plans combine the entire spectrum of services into a single benefit package to streamline program administration, improve care coordination, and expand access to home and community-based services.⁴ As more Baby Boomers with multiple chronic illnesses grow, more states are likely to assign a single entity to combine and coordinate multiple programs in different care settings to address the medical, mental, and social needs of an individual.

² <https://www.macpac.gov/publication/delivery-system-reform-incentive-payment-dsrp-programs-2/>

³ <http://www.kff.org/medicaid/issue-brief/medicaid-and-work-requirements/>

⁴ <http://www.kff.org/medicaid/issue-brief/3-key-questions-section-1115-medicare-demonstration-waivers/>

Future of State Innovation

The states are likely to continue to request waivers to implement their own version of Medicaid beyond what the federal law prescribes. But the proposed cuts in Medicaid funding are more likely to stifle, rather than encourage, state level innovations as states try to compensate for the loss in federal support. Because the federal government pays for at least 50 percent of Medicaid in any given state, it is unclear whether future waivers will lead to state level innovations.