

# THE HUTCHINSON NEWS

online edition

November 26, 2006

## **Medicaid Reform Should Top Agenda**

*By Gregory Schneider*

As the business of government, rather than campaigning, takes center stage again, one of the key items on the agenda of both the governor and the Legislature should be reform of the Medicaid system in Kansas.

Gubernatorial candidate Jim Barnett proposed an idea that the Wichita Eagle labeled "intriguing" in an October editorial. Barnett's idea was to create a Kansas Insurance Connector, a central marketplace for all Kansans.

The idea sounds remarkably similar to one proposed by Michael Bond, an economist who has assisted other states in the reform of their Medicaid programs. In a Flint Hills Center policy paper, "Reforming Medicaid in Kansas: A Market-Based Approach," Bond suggests the establishment of an Open Health Mart for Medicaid recipients. In such a mart, providers would offer prepaid services to beneficiaries. The state would manage a mart for the providers to offer services, and recipients of Medicaid would receive funds from the state to pay for their insurance. In this way, Medicaid would be a facilitator of health care, not a buyer of it as it is currently.

Why would this matter? What are the problems with the Medicaid program?

Among the key problems is how Medicaid has grown in both the number of recipients (in 2005, 247,000 Kansans received Medicaid services; in 2006 the number rose to 302,000) and how much money the services delivered by Medicaid cost (about \$2.1 billion of the state's All Funds budget in 2005).

"Over the last 25 years, the Kansas Medicaid program increased at a rate of approximately 10 percent," Bond wrote. "By comparison, the roughly 6 percent rate for medical inflation no longer looks so high."

If Medicaid keeps growing at this rate, the program will reach \$3 billion of the state's All Funds budget by 2010. It already has begun to consume limited state resources, and as it consumes more of the state's resources, it will necessitate either cuts in other government programs or a tax increase that will further crowd out private sector economic investment in Kansas. The current expense and growth in the Medicaid program are unsustainable over the long term.

Bond argues that the main reason for the high cost of Medicaid services is the program's "administered pricing structure." The price for Medicaid services is not determined in a marketplace but rather in a bureaucratic system where various medical procedures are assigned set reimbursements. This structure spills over into the private sector as insurers and

providers negotiate prices without consumer involvement. Both Medicaid and the private sector, then, could use a healthy dose of consumer-driven pricing that better reflects market realities.

That brings me back to the Open Health Market. A Medicaid facilitated program where the Medicaid recipient could choose the procedures and plans that best fit their own situation could wind up saving the state money and contribute to the ending of dependency among those who received Medicaid services.

Bond suggests the use of reverse health saving accounts to achieve this reform. Health savings accounts (HSAs) are growing in popularity in the private insurance market and among employers. These are individually controlled health accounts that allow tax-deductible contributions to a savings account, similar to the Individual Retirement Accounts (IRAs). In coordination with a qualified high deductible health plan, a HSA allows the individual to control their own health care spending, making them aware of how much a procedure costs.

Reverse health savings accounts work similarly to a HSA. Initially, the account would have a zero balance and the state Medicaid office would add dollars to the account when individuals used their health care responsibly. Medicaid pays millions of dollars for emergency room care. Someone who used a doctor's office rather than an emergency room for care would receive money in the HSA. Pregnant women who sought pre-natal care would receive HSA funds. This would reduce the costs on the Medicaid system while providing the recipient with an incentive to manage their care responsibly. Funds in the account would accumulate from year to year and would be available to the individual when they left Medicaid rolls. Recently, the state of Florida has implemented reverse HSA's as part of its Medicaid reform experiment.

Market incentives work. Barnett's plan recognized that solving the problem of the uninsured in Kansas lies not in spending more on Medicaid but in changing the incentives. The Open Mart idea and reverse health savings accounts - two ideas to reform Medicaid - encourage responsibility, consumer choice and market-based competition. This is vital for reform of Medicaid and should be top on the agenda for both the governor and Legislature now that the campaigning is over and the governing can start.

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*Gregory L. Schneider is a senior fellow with the Kansas-based Flint Hills Center for Public Policy. To learn more about the Flint Hills Center and author, please visit [www.flinthills.org](http://www.flinthills.org). A bio on Dr. Schneider can be found at <http://www.flinthills.org/content/view/24/39/>.*