Carrot System Proposed for Improving Medicaid

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WASHINGTON — Rewarding states based on quality is one way to cover more uninsured Americans, Henry J. Aaron said at the annual meeting of the National Governors Association.

Following up on a trend that has already affected the physician community, Mr. Aaron proposed a "pay-for-performance" system, where states could receive federal grants based on their "actual measured progress of increasing the number and proportion of state residents covered by health insurance."

The grants would be designed to cover much or all of the costs of extending coverage.

"Any state that succeeded in boosting the fraction of its population [covered by] health insurance would receive federal support. The states that made no such progress would receive nothing," said Mr. Aaron, senior fellow for economic studies at the Brookings Institution.

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The federal government should first define a standard for health insurance coverage, Mr. Aaron said, suggesting that the minimum be "similar to the actuarial value of the Federal Employees Health Benefits Program."

His plan also would include a "first do no harm" standard, prohibiting states from materially eroding coverage for the current Medicaid population.

"Even now, Medicaid is substantially less costly than private insurance of the same scope. Still, state costs for long-term care [are] on track to rise relentlessly as baby boomers age."

This means that states need continued financial protection from adverse trends—and not a cap on federal support.

"[States] also need flexibility to modernize Medicaid but within the limits that maintain the per capita protection of the most vulnerable populations in our nation," Mr. Aaron said.

Within these broad guidelines, states should be encouraged to pursue any approach that would increase the proportion of state residents who have health insurance coverage, he continued. Depending on local conditions and political preferences, states could use refundable tax credits or vouchers in order to promote individual health insurance.

Some additional strategies that states could use to boost coverage for the uninsured include extending Medicaid or the State Children's Health Insurance Program, imposing employer mandates, and trying to create an intrastate single-payer plan.

States could also facilitate new insurance groups by allowing churches, unions, and the like to create association health plans.

None of these options would be mandatory, Mr. Aaron said.

Another panelist, Stuart M. Butler, Ph.D., suggested that Congress should enact a policy "toolbox" that would make a range of ideas available to states, on a voluntary basis. Dr. Butler is vice president of domestic and economic policy studies at the Heritage Foundation, Washington.

Under such an approach, states could propose an initiative for preserving coverage, selecting certain elements from the toolbox, and negotiating with the U.S. Department of Health and Human Services regarding appropriate waivers to pull such an option together, Dr. Butler explained.

In an attempt to maintain and extend the functional equivalent of Medicaid during these very tight budget times, states could utilize an enhanced federal refundable tax credit from the policy toolbox, using additional federal funds to create purchasing alliances or pools, he added.

One of the most important goals is to make sure that Medicaid populations are protected, Dr. Butler said. He recommended "encouraging innovations through the states [and] rewarding pay-for-performance successes by the states, to reach these goals." ■