

Cajun Care: Medicaid Reform in Louisiana

By **Adam Frey**, Public Policy Fellow, General Studies, Pacific Research Institute

- The election of Barack Obama has encouraged those who want a federal government takeover of health care, but current fiscal constraints should ensure that states will remain the focus of health reform, within limited scope.
- Louisiana governor Bobby Jindal, and Health Secretary Alan Levine, both veterans of Medicaid reform, have developed a plan based on key reforms such as accountability, consumer choice, cost efficiency, marketplace competition, and transparency.
- While Louisiana's Medicaid reform plan is a step in the right direction, it has troubling aspects, especially the increase of government dependency by expanding Medicaid coverage in the Region 5 area of Lake Charles.

The election of Barack Obama and forthcoming nomination of Tom Daschle as secretary of Health and Human Services has given hope to advocates of government monopoly health care. As the *Wall Street Journal* noted on November 20, the appointment of Daschle, "puts a skilled navigator of Capitol Hill in charge of the president-elect's bid to establish universal health care, which he has made a top priority."¹ However, current fiscal constraints may form a major barrier for any sort of universal plan. For the time being, the nation's \$10-trillion deficit will likely force the health care reform debate to be fought at the state level, where policy entrepreneurs will be operating with limited resources.

One of these policy entrepreneurs is Louisiana governor Bobby Jindal, who began his political career as secretary of the Louisiana's Department of Health and Hospitals when he was only 24 years old. Jindal later gained experience at the federal level as the assistant secretary for Planning and Evaluation for the U.S. Department of Health and Human Services where he served as a principal policy advisor to the secretary of Health and Human Services during the George W. Bush administration.²

On November 14, Governor Jindal and Alan Levine, secretary of the Louisiana's Department of Health and Hospitals—the job Jindal once held—released the "Louisiana Health First" initiative in an effort to reform the state's \$7-billion Medicaid system.

This initiative consists of multiple components, the nexus being replacement of the state's current "fee-for-service" model with one in which managed-care organizations receive a per-patient fee. The managed-care organizations, described as Coordinated Care Networks (CCNs) in the Louisiana Health First model will start in four regions, New Orleans, Baton Rouge, Lake Charles, and Shreveport, with expansion to encompass the whole state within five years—pending measurable success.

Alan Levine implemented a similar reform as secretary of the Florida Agency for Health Care Administration, under governor Jeb Bush. Like Louisiana, Florida's model was based on regional pilot projects in Broward and Duval counties and has since been expanded. While Florida's Medicaid reform program is only two years old, results so far have been promising. Based on the state's 2007 annual report, the Medicaid reform program has:

- Increased the share of beneficiaries who voluntarily choose their own Medicaid provider in its second year to an average of 81 percent (with the highest monthly average of 88 percent in April 2008).
- Increased the number of beneficiary plans from nine to 17 since implementation.
- Increased the value of benefit packages covered by Medicaid by including services such as adult dental care and over-the-counter drug benefits.
- Initiated the application process for the first specialty HMO that serves people with HIV/AIDS in Broward County with enrollment scheduled to begin in year three.
- Successfully implemented two health plans (one HMO and one PSN) in the rural counties, Baker, Clay and Nassau.³

As described in Louisiana Health First's 65-page concept paper, CCNs will be based on consumer choice, care coordination and outcome measurement.⁴ By offering a minimum of at least two CCNs per region, Jindal and Levine hope to "transform the system of care for the poor by creating a model where consumers choose a medical home that optimizes the appropriate care, engages the consumer in their own health and provides transparent measurement of performance."⁵ However, given the demographic composition of the state and the federal and state standards imposed on potential bidders, the report acknowledges that choices could be limited.

Much like all government programs, Louisiana's Medicaid budget is already the focus of intense lobbying from drug makers, hospitals, nursing homes and other health care providers.⁶ A warning that such rent-seeking may persist appears in the report's claim that, "the state may, based on actuarial data, limit the number of networks in a market to provide a sufficient number of enrollees to maintain the critical mass necessary for successful plan operation."⁷

This sort of policy, if enacted, opens the floodgates to special interests as it allows for inefficient providers to avoid being challenged by potential competitors. If Jindal and Levine are serious about reforms that maximize individual choice, they need to avoid creating a cartel of favored managed-care organizations. They also have to be careful about roping too many residents into government dependency.

According to the 2007 Louisiana Health Insurance Survey (LHIS), there are currently 546,348 uninsured adults in Louisiana.⁸ However, this data represents a snapshot of time and does not accurately account for those who are temporarily between jobs and have lost their employer-sponsored health benefits. It does not account for younger, healthier adults who can afford health insurance and yet have chosen not to purchase care because of high premiums and limited choice. In the aftermath of hurricanes Katrina and Rita, this statistic has become increasingly elusive.

The federal Internal Revenue code motivates workers to accept non-taxable, employer-based health "benefits" that their bosses choose, instead of health insurance they choose themselves with pre-tax dollars. This creates "job lock" and fragmentation. Job lock is worse for women than men, worse for singles than married people, and reduces job mobility by 15 to 60 percent.⁹ The share of non-elderly Louisiana adults with employer-based health benefits increased from 46.4 percent in 2005 to 53.3 percent in 2007.¹⁰

When any of these folks lose their jobs, they are likely to fall into government dependency through Medicaid. Jindal and Levine address this by suggesting a federally matched premium for private health insurance in Region 5 to those over 200 percent of the Federal Poverty Level (FPL). This should slow the growth of Medicaid dependency, while minimizing the fragmentation of care suffered by those who fall through the gaps of employer-based health benefits.

Unfortunately, the Jindal-Levine plan is also looking to expand its Medicaid coverage in the Region 5 area of Lake Charles for parents and caretaker relatives with incomes from 51 percent of the FPL up to and including 200 percent of the FPL, as well childless adults with incomes from 0 percent up to 200 percent of the FPL. This boost in direct government dependency is bound to increase the state's tax burden, reducing job growth and household incomes.

Nevertheless, the Jindal-Levine plan has the potential to offer significant health savings. According to Michael Bond, Ph.D., senior fellow at the James Madison Institute, "Medicaid does not rely on a 'market' in the traditional sense of buyers and sellers acting in their own interest in a decentralized market place. Instead, it is an 'administered pricing' system where various schemes are used to determine reimbursements."¹¹ By promoting competition among providers, Louisiana hopes to introduce some efficiency into a previously dysfunctional program.

According to a 2004 study by the Lewin Group, which offered a synopsis of 14 studies, Medicaid managed-care models general yield cost savings somewhere between 2-19 percent.¹² These savings and increased Medicaid choice mechanisms could further improve the Pelican State's standing of 10th in PRI's 2008 *U.S. Index of Health Ownership*.

While the Jindal-Levine plan contains flaws, overall it is a step in the right direction. The plan correctly acknowledges key concepts of health policy reform such as accountability, consumer choice, cost efficiency, marketplace competition, and transparency. Government run health care is inherently flawed, so any attempt to reform a system such as Medicaid is naturally going to be difficult. This is important to remember as the Obama administration, backed by a Democratic House and Senate, seeks to expand the role of government in our health care.

Adam Frey is a Public Policy Fellow in General Studies at the Pacific Research Institute. He can be reached via email at afrey@pacificresearch.org or 415-955-6141.

Endnotes

- ¹ Laura Meckler, "This Time Around, Health-Care Revamp Has Wings," *Wall Street Journal*, November 20, 2008.
- ² Bobby Jindal, Governor, "Bobby's Experience: About Bobby," http://www.bobbyjindal.com/bobby/bobby_experience.aspx (access date December 1, 2008)
- ³ Florida Agency for Health Care Administration, *Florida Medicaid Reform: Year 2 Annual Report July 1, 2007-June 30, 2008 1115 Research and Demonstration Waiver*, October 27, 2008, p. 1
- ⁴ Louisiana Department of Health and Hospitals, *Louisiana Health First: Health Care Reform Concept*, November 15, 2008, p. 20
- ⁵ Ibid.
- ⁶ Jan Moller, "Jindal names state health-care chief," *The Times-Picayune*, January 8, 2008.
- ⁷ *Louisiana Health First: Health Care Reform Concept*, p. 23.
- ⁸ Stephen Barnes, Kirby Goidel, and DekTerrell, *Louisiana's Uninsured Population: A Report from the 2007 Louisiana Health Insurance Survey*, (The Public Policy Research Lab, A Partnership of the Manship School of Mass Communication's Reilly Center for Media & Public Affairs and the E.J. Ourso College of Business Administration, December 19, 2007). The methodology for this data comes from the 2005 LHIS estimates for children and non-elderly adults, and from Parish level updates based on forecasting models.
- ⁹ John R. Graham, *Presidential Prescriptions: Diagnosing the Candidates' Health Reforms* (San Francisco, CA: Pacific Research Institute, October 2008).
- ¹⁰ *Louisiana's Uninsured Population: A Report from the 2007 Louisiana Health Insurance Survey*.
- ¹¹ Michael Bond, Ph.D., "Reforming Florida's Medicaid Program with Consumer Choice and Competition," *Backgrounder* Number 43, (Tallahassee, FL: The James Madison Institute, February, 2005.)
- ¹² The Lewin Group, *Medicaid Managed Care Cost Savings – A Synthesis of Fourteen Studies*, July 2004.