

Made for Each Other: A Coverage Plan is Texas' Best Bet to Maximize Medicaid 1115 Waiver Renewal

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Texas has a special 5-year (2012-2016) Medicaid “waiver” project worth billions per year to the hospitals that serve uninsured Texans and those enrolled in Medicaid. To continue the project past 2016, Texas Medicaid must submit a new 3-to-5-year plan to the national Medicaid program for approval. But a major decision by the U.S. Supreme Court in 2012 changed the ground rules for states to cover adults in Medicaid, and along with it changed the ground rules for states to continue these special Medicaid projects. ***This brief explains how and why Texas' decision about covering adults in Medicaid is now affecting our ability to continue our waiver project past 2016.***

The Texas Health and Human Services Commission is holding 8 local hearings and one state-wide webinar between July 13th and 24th to hear public comments on renewing and extending Texas' Medicaid 1115 Transformation waiver (full details and related documents [here](#)). CPHP and other supporters of improving access to care in Texas will be testifying in support of waiver renewal with the added feature of a coverage plan for uninsured Texas adults below or just above the federal poverty line. This approach is Texas' single best chance to maximize federal funding for health care, efficiently use taxpayer dollars, while providing the best quality comprehensive care to the largest possible number of Texans.

At a Glance:

- The public can comment July 13-24 on renewal of Texas' Medicaid 1115 Transformation waiver (full details and related documents [here](#)).
- The 1115 waiver does NOT provide health coverage for any Texans. It DOES help hospitals with costs of the uninsured and supports many excellent projects that help local health care systems deliver care to both insured and uninsured residents effectively and efficiently.
- After renewal, federal Medicaid officials will no longer pay for care to uninsured Texans who could have been covered by Medicaid or a Medicaid-funded alternative.
- Waiver renewal ***with the added feature of a coverage plan for uninsured Texas adults below or just above the federal poverty line*** would offer Texas' single best chance to maximize federal funding for health care and efficiently use taxpayer dollars while providing the best quality comprehensive care to the largest possible number of Texans.
- Without a coverage plan, Texas' yearly federal waiver funding could be ***cut*** by \$1 billion or more. With a coverage plan, Texas would ***gain*** an estimated \$5-10 billion per year in federal healthcare funds.

What is the Coverage Gap and how can Texas close it?

The Affordable Care Act (ACA, or ObamaCare) was passed in 2010 and designed to provide affordable coverage for all lawfully present U.S. adults:

- Medicaid for adults with income up to just above the federal poverty line (up to about \$16,000 per year for a single person, or \$33,000 for a family of 4); and
- Sliding-scale premium subsidies for adults above that income level who lack affordable coverage through their jobs.

But in 2012, the U.S. Supreme Court ruled that states could **not** have federal Medicaid funds cut off if they failed to provide that Medicaid coverage for their poor and near-poor adults.

That ruling created the Coverage Gap problem: the sliding-scale insurance premium subsidies in the ACA are by law only allowed for Americans above the federal poverty line. Today, Texas adults just **below** the poverty line are left uninsured with no reduced-price insurance. Their neighbors with income just **above** poverty can get subsidies that reduce a \$440 monthly premium for two parents to just \$43 per month.

States have 2 ways to close the gap:

- (1) traditional Medicaid expansion; and
- (2) special negotiated coverage “waivers” that allow new features like premiums, wellness incentives, Marketplace coverage, and Health Savings Accounts. These waivers are popular with more conservative states.

Today, 29 states have closed the Coverage Gap; two are in active discussions about how to close the gap; and 19 states (including Texas) still have a Coverage Gap.

In Texas, best estimates are that around 1.5 million uninsured U.S. citizen adults would be eligible for a coverage solution (traditional Medicaid or a waiver alternative). Of these, roughly 1 million are estimated to have incomes below the poverty line; these are the Texans with no Medicaid and no subsidies who are said to be in the “Coverage Gap.”

What is the Texas Medicaid 1115 Transformation Waiver? “It’s complicated...”

WHY: Texas first sought the current 5-year waiver as a way to keep special federal Medicaid payments flowing to hospitals (under federal rules, these would otherwise have stopped) when most Medicaid hospital care shifted from being paid by the state to being paid for by managed care health plans. Federal Medicaid officials approved this plan because they saw an opportunity to improve the transparency of special “uncompensated care” payments to hospitals that provide free care to uninsured patients, and at the same time to promote innovative healthcare reforms.

Designed and approved shortly after Congress passed the ACA, the Texas waiver was designed to build health system capacity and to support innovations. Both state and federal officials hoped that when more Texans gained coverage in 2014 (through both Medicaid Expansion and the new private insurance Marketplace), the waiver would make Texas’ health care system more efficient and better able to absorb new, formerly uninsured patients.

Importantly, Texas' waiver does not provide health coverage to any uninsured individuals. It was never conceived of as an alternative to coverage for Texas' working poor adults. Through 1115 waiver projects, Texas communities have grown their ability to deliver care to both insured and uninsured residents, but the waiver does not provide medical homes or full access to chronic and specialty care that many adults need to avoid future disability and costly hospitalizations.

HOW: Under the waiver, hospitals and other providers can earn funds through two pools: an Uncompensated Care (UC) Pool and a Delivery System Reform Incentive Payment (DSRIP) Pool. The 5-year project involves 20 different Regional Health Partnerships (RHPs), with about 300 different health care providers involved in nearly 1,500 delivery system reform projects. Care providers participating in an RHP can qualify for payments from the two pools. Delivery system reform projects have been widely applauded for improving capacity for mental health and substance abuse care, primary care, chronic care management and healthcare system navigation, specialty care, and for other health promotion and disease prevention efforts.

HOW MUCH: There's more below on the numbers, but Texas' 1115 full annual "budget" is about \$6 billion, with Texas gaining about \$4 billion of that each year in federal matching funds, and the other \$2 billion in "state match" coming mostly from local taxpayers' dollars (rather than the state budget).

For the final waiver year 2015-2016, the \$6 billion is split 50-50 between the two pools (UC and DSRIP), so for each pool, Texas Medicaid has to come up with about \$1 billion in mostly-local tax dollars to draw down about \$2 billion in federal match.

[Click here](#) for Texas Medicaid's official 1115 waiver information.

How the Coverage Gap and Texas' Medicaid 1115 Waiver are connected

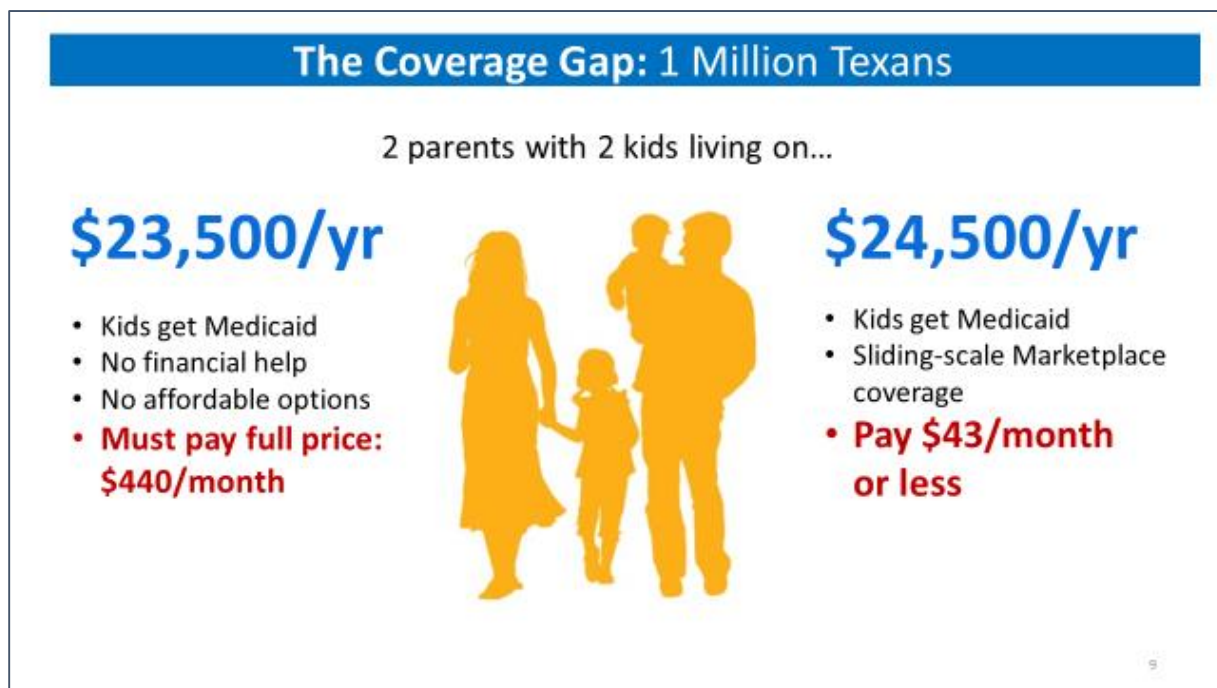
When Texas submitted its waiver in July 2011, both Texas and federal Medicaid officials assumed all 50 states would offer Medicaid coverage for adults, just like newly insured folks just above the poverty line would be insured in a new state or federal Marketplace in every state. The waiver was approved in December 2011—six months *before* the Supreme Court ruling effectively made the Medicaid Expansion optional for states. This is very important because the funding and system reforms approved for Texas' waiver (and those in several other states) were all based on the assumption that a large number of uninsured would gain coverage through Medicaid in 2014.

Florida has an 1115 waiver with a pool similar to Texas' UC pool for hospitals. The Florida waiver is older than Texas' and is already well into its formal renewal process. In April 2015, federal Medicaid officials [notified Florida](#) and other states with upcoming 1115 waiver renewals that pools similar to Florida's and Texas' would be subject to a set of new principles, including that ***uncompensated care pools can no longer pay for costs for persons who would be covered in a Medicaid expansion.***

FLORIDA FORESHADOWS: Because Florida's Legislature has not reached agreement on a Coverage Gap plan, their pool payments are scheduled to shrink by the amount the federal Medicaid officials calculate are related to Floridians potentially eligible for Medicaid. What this means for Florida is that their "Low-Income Pool" will not be doubled in size (to \$4.5 billion) as they had requested in their waiver renewal, but instead will be cut from \$2.1 billion to \$1 billion from the upcoming year (a 50% reduction) and to \$608 million in the following year (71 percent reduction). Federal Medicaid officials have stated that Florida would more than make up for these reductions if it puts a Coverage Gap plan into place. For

now, Florida's Governor has agreed to the reductions terms and withdrawn his earlier lawsuit against the Obama administration over the new standards. And, because they have no Coverage Gap plan to bring in replacement federal dollars, the state Legislature appropriated over \$400 million to replace some of the lost funding for 2016.

That's a complicated story, but the take-home is that **without a plan to Close the Coverage Gap**, Texas will likely also have to reduce its UC pool amount from the current \$3.1 billion (\$2 billion federal plus \$1 billion local Texas tax revenues) after 2016. It's too soon to know exactly what size reduction we face, or how the other waiver pool (DSRIP) may be affected: Texas will negotiate that with federal Medicaid officials starting in September 2015.



What Could Texas Lose — What's at Stake?

As noted above, **Texas in 2016 is scheduled to earn about \$2 billion in federal matching funds for the UC pool alone.** If Texas' were to lose UC funds in the same proportion as Florida, we would see a 50 percent drop to \$1 billion in federal UC match in 2017, and a 71 percent cut to just \$580 million in 2018. This would be a blow for Texas hospitals, already pressured by Congressional Medicare cost containment reductions that were designed to be offset by new Medicaid enrollee revenues—but which haven't been offset in Texas and the other states with no Coverage Gap plan.

At this time, it is not clear whether a reduction in the **other** (DSRIP) waiver pool—also about \$2 billion in federal funding—will be at risk for Texas in our waiver renewal process. Needless to say, reductions in that pool would affect the ability of Regional Health partnerships to continue some of the innovative care projects now supported by the DSRIP pool—a real loss to the participating communities.

What Could Texas Gain?

The best possible outcome for Texas communities, local taxpayers, and access to health care would be to pair a unique Texas coverage gap plan with our 1115 waiver renewal.¹ If Texas takes that path, we can ***go far beyond replacing any reduced UC pool dollars***: estimates of federal dollars that would be gained from closing the coverage gap in Texas range from [\\$5.4 billion in 2016](#) to an average of [over \\$10 billion a year](#) over a decade (Texas [HHSC's latest estimate](#) for Medicaid Expansion or an alternative waiver coverage expansion was a net \$6 billion each year in new federal funds for Texas). ***That's more federal spending than both of Texas' 1115 waiver pools combined bring in a year.***

And, with that coverage in place, federal Medicaid officials can support an ongoing UC pool for the uninsured who do not qualify for Medicaid. Even with a coverage gap plan, Texas hospitals and communities will still need to serve the remaining uninsured, (like undocumented residents, and Texans in the “family glitch” gap).

Equally importantly, creating a coverage plan will equip Texas to far better fulfill the original 1115 waiver intent to develop innovative delivery models that improve both the quality and the cost-effectiveness of care. Because the delivery system reform projects supported by the DSRIP pool were all designed to support new coverage (not just to serve the uninsured), they will be able to serve more Texans with better care with a coverage gap plan that provides preventive and comprehensive health care in a medical home to about 1.5 million now-uninsured US citizen adults.

Finding a conservative coverage solution, as other states have already done, would provide needed revenues to all our hospitals, and would more-than-replace any reduction in UC pool funds by bringing Texas the annual \$5 billion or more in perpetuity. It will also allow Texas to negotiate the largest possible 1115 waiver extension, for the longest possible period.

For more information or to request an interview, please contact Oliver Bernstein at bernstein@cphp.org or 512.823.2875.

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¹ A coverage gap plan for Texas is also projected to [reduce state-dollar](#) and county-dollar spending on the uninsured; and create an estimated [200,000-300,000](#) Texas jobs. Read more here: <http://bettertexasblog.org/2015/04/closing-the-coverage-gap-what-you-need-to-know/>