

Section 1115 Waivers

For the SJR 22 Subcommittee on Health Care and Health Insurance

What they are:

Section 1115 of the Social Security Act permits the Secretary of the U.S. Department of Health and Human Services to waive certain portions of the Medicaid Act for five-year demonstration projects, if the demonstration is budget neutral to the federal government. Once the budget neutrality test is met, a state may be granted its request to alter Medicaid eligibility standards, benefit rules, and payment provisions, among other things. Basically, a Section 1115 waiver offers states a way to expand coverage options using Medicaid funding. However, covering an expanded population must be offset by programmatic changes in Medicaid that lowers overall spending to ensure budget neutrality.

Why an 1115 Waiver:

There are four (among others, most likely) main reasons that motivate states to pursue an 1115 waiver. They include:

- ? The waiver allows states to access federal Medicaid funds to cover expansion populations who would not otherwise qualify for the program, including poor adults who are single or have grown children, and children above Medicaid's eligibility ceilings. Only an 1115 waiver allows a state to expand to adults without children.
- ? The waiver allows states to offer a tailored package of benefits, rather than full Medicaid benefits, to a targeted population.
- ? The waiver allows states to tap into federal Medicaid funds to serve more people. While matching rates vary, the federal government will pay at least 50 percent of the expenditures in an approved waiver, which constitutes an advantage over a purely state-run program with similar goals.
- ? A waiver allows states the opportunity to cap enrollment or create a time-limited program. Under regular Medicaid eligibility groups, states do not have these options.

Financing and Budget Neutrality Issues:

As stated, a Section 1115 waiver will not be approved if it would result in a higher level of federal spending than otherwise would have been the case under the state's Medicaid program. This requires comparing, over the five-year proposed waiver period, the "with waiver costs"

(what the federal government would spend upon approval of an 1115 waiver) against the "without waiver costs" (what the federal government would spend assuming the status quo).

States having received approval of their Section 1115 waiver proposals have addressed the budget neutrality issue in a number of ways. Those efforts include:

- ? Managed Care Savings; in essence, moving the Medicaid population into managed care, and re-investing the savings into the expanded population to cover those people not eligible for Medicaid. Several states including Delaware, Texas, Minnesota, and Vermont have employed this technique to meet the budget neutrality requirements.
- ? Reallocation of Disproportionate Share Hospital Funds (DSH); DSH is a special Medicaid program that subsidizes certain health care providers that serve disproportionately large volumes of Medicaid patients. The argument using this approach is that if more people have insurance coverage, the number and volume of Medicaid patients visiting these providers and hospitals would shrink, thus justifying the reallocation of funds.
- ? Pay Now, Save Later; the theory behind this approach is that the number of people lacking coverage that have the tendency to be expensive to serve would be reduced due to greater coverage options. The "without waiver" costs are assumed to be high, and the "with waiver" costs are assumed to be lower. This approach is most often used for very specific populations targeted under the waiver proposal.
- ? Controlling Enrollment, Benefits, and Cost Sharing; this approach allows state's to apply a variety of techniques to reduce the overall cost and thus meet the budget neutrality test. If states cap enrollment or require expanded populations to share some costs, the "with waiver" costs could be projected to be lower. States may not impose these restrictions on existing Medicaid eligible populations.
- ? The Combination Approach; as the name suggests, states may engage in a combination of cost-savings alternatives depending on the nature of the targeted population.

What's Next

If the SJR 22 Subcommittee is interested in focusing more attention on the issue of Section 1115 Waivers, greater information can be made available.