

Medicaid Stalemate Tests Cash-Strapped States

With Extra Federal Funding in Limbo, Local Cuts Clash With Health-Care Law

By JANET ADAMY

Wall Street Journal

Several states are preparing to make deep cuts to Medicaid as a federal stalemate over funding for the poor drags on—even as states face mandates to expand the program under the new health-care law.

Frustration is mounting with Congress's failure to pass an extension of additional Medicaid funding to plug holes in state budgets. With the antispending mood building in Washington, governors say they are increasingly skeptical that such an extension, needed to prop up the program starting next year, will come.

That has states laying plans to cut hundreds of thousands of Medicaid enrollees and pare services such as dental care, organ transplants, insulin pumps and over-the-counter medications in the coming months.

MEDICAID

Joshua Lott for The Wall Street Journal

'We are crippling ourselves' with cost cuts, said Stand Together and Recover Centers CEO Suzanne Legander, at right, with Medicaid enrollees.

At the same time, by cutting eligibility for enrollees, states risk losing their remaining Medicaid funding from the federal government, which pays for about \$2 out of every \$3 spent on Medicaid, the federal-state program that provides health insurance to people below or around the federal poverty level.

The health-care overhaul signed into law in March imposes eligibility requirements for federal funding. The law will add 16 million Americans to the 60 million on Medicaid starting in 2014, leaving states to cut a program while they are planning for its largest expansion in years.

"It's like living in a parallel universe," said Monica Coury, assistant director of intergovernmental relations for the Arizona Health Care Cost Containment System, which oversees the state's Medicaid program. "On the one hand, we have federal partners talking about expansion of this program. And at the state level, we're looking at a program that we can't sustain."

Arizona offers a window on the quandary facing states that are struggling to prop up a key safety net for the poorest Americans. For the second half of the fiscal year that began July 1, Arizona banked on getting \$400 million in additional

Medicaid funding from the federal government, an extension of a higher Medicaid match states won last year as part of the federal economic stimulus package. Congressional Democrats had penciled in \$24 billion for the added funding, and the Obama administration had called on lawmakers to pass it.

But the measure died last month in the Senate after Democrats failed to overcome Republican resistance. Republicans say they aren't opposed to the increased funding, but won't approve it unless Democrats find a way to pay for it without increasing the deficit.

A spokesman for Senate Majority Leader Harry Reid said the Senate may revisit the issue as a stand-alone package this month.

For Arizona, where Medicaid is available to a family of four earning as much as \$22,000 a year, a slate of cuts is now on the table. If the federal money doesn't come through, the budget calls for cutting about 320,000 childless adults and other Medicaid enrollees on the higher end of the eligibility income spectrum at the beginning of next year.

Such a cut would put the state in danger of losing the remainder of its federal Medicaid funding. Arizona receives \$7 billion a year in funding.

Michigan and North Carolina have also slated provisional cuts in payment rates for health-care providers who treat patients through Medicaid. California plans to limit Medicaid payment for certain over-the-counter drugs, such as aspirin, and doctor visits regardless of the fate of the additional Medicaid funding. These and other states are also making cuts elsewhere, such as in education funding, in an effort to protect their Medicaid funding eligibility.

While Senate Republicans have blocked the funding extension, some Republican governors are asking them to set aside their deficit concerns and get behind the funding. Arizona Gov. Jan Brewer last month wrote Sen. John McCain (R., Ariz.) a letter calling the funding "an essential tool to assist states."

With Congress seemingly unable to pass the measure, she said, the federal government should give states more flexibility on eligibility for the program without incurring financial penalties.

This summer, Arizona cut about a dozen benefits from its Medicaid program, including certain hearing aids and podiatrist services, and capped physical therapy visits. Since 2008, the state has cut about \$750 million from Medicaid, cumulatively. It has already reduced payment rates to health-care providers and approved a 1% sales tax rise to help shore up the program.

"There isn't anything left for us to do," Ms. Coury said.

Eduardo Parra, a 27-year-old from Chandler, Ariz., is in danger of losing his Medicaid coverage if the federal funding doesn't come through, since he is a childless adult. Mr. Parra enrolled in Medicaid six months ago after he lost his insurance coverage almost three years ago, when he left his job at an auto parts retailer. Under the program, he has gotten a physical, a prescription for a toenail fungus, and peace of mind that he is covered in case of an emergency.

Health-care providers who serve Medicaid enrollees say they have seen an increase in demand amid the weak economy. Self-employed construction workers, who have lost business during the housing bust, are turning to Medicaid and its companion program for children, said Tim Schmaltz, coordinator of the Protecting Arizona's Family Coalition. Hotel workers are seeking coverage through the program after losing their jobs because of a decline in tourism, he said.

Mr. Parra earns \$11 an hour working part-time as a valet while attending school to study electrical engineering. "If I lost my coverage, I would probably just go back to being without any coverage," he said. Keeping his previous insurance would have cost him \$500 a month, which he can't afford.

Agencies say the cuts are making it difficult to simultaneously prepare for a surge in enrollees in 2014, when the health care bill calls for states to make Medicaid available to families of four earning just over \$29,000 a year. Congress offset the funding for that expansion, though states will pick up part of the tab.

Suzanne Legander, chief executive of Stand Together and Recover Centers, which provides mental-health services and other assistance to Medicaid enrollees, said, "We are crippling ourselves instead of preparing ourselves for an increase in eligible people."

[MEDICAID]

Write to Janet Adamy at janet.adamy@wsj.com