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Include Medicaid with Other Safety-net Program Reforms

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In 2014, U.S. Representative Paul Ryan introduced a proposal to consolidate federal antipoverty programs called Expanding Opportunity in America. *Ryan's plan focuses on the Earned Income Tax Credit (EITC), housing and home-energy assistance, education assistance, food stamps (SNAP) and criminal sentencing reform.*[1]

Dallas Headquarters:
14180 Dallas Parkway, Suite 350
Dallas, TX 75254
972.386.6272

www.ncpa.org

Washington Office:
600 Pennsylvania Ave., SE
Suite 400
Washington, DC 20003
202.830.0177

National Center for Policy Analysis

What the proposal does not address is Medicaid, the joint federal and state health plan for low-income Americans. Including Medicaid and the State Children's Health Insurance Program (CHIP) as part and parcel of reforming the safety net, instead of keeping health care in its own silo, would greatly increase the likelihood of success for both beneficiaries and taxpayers.

Opportunity Grants. Ryan's proposal hinges on the Opportunity Grant (OG). States would apply for OGs that would roll some or all of the federal spending on individuals and families in poverty into one lump sum for distribution to the states. However, the money would not just be turned over to states as a block grant. States, civil society organizations and recipients themselves would all be responsible for measuring and achieving outcomes. The OG would have one overriding goal: to help recipients move out of dependency and into self-reliance.

Ryan is looking back to the success of the 1996 welfare reform signed by a reluctant President Clinton after a successful campaign by House Speaker Newt Gingrich. Ten years after the reform, it was widely recognized as a significant success, even by the mainstream media.[2] However, in 2012, President Obama gutted much of welfare reform through executive action.[3] Medicaid, unfortunately, was never reformed in 1996.

Furthermore, Ryan previously proposed a different way to reform Medicaid in isolation from other safety-net programs by transferring a "block" of federal money to the states:[4]

> "One way to secure the Medicaid benefit is by converting the federal share of Medicaid spending into an allotment tailored to meet each state's needs, indexed for inflation and population growth. Such a reform would end the misguided one-size-fits-all approach that has tied the hands of state governments. States would no longer be shackled by federally determined program requirements and enrollment criteria. Instead, each state would have the freedom and flexibility to tailor a Medicaid program that fit the needs of its population.
>
> "The budget resolution proposes to transform Medicaid from an open-

ended entitlement into a block granted program like [the] State Children's Health Insurance Program. These programs would be unified under the proposal and grown together for population growth and inflation."

The Case for Comprehensive Safety-net Reform. There are very good reasons to reform all these safety net programs comprehensively, in one fell swoop.

First, federal spending on Medicaid and CHIP amounted to $274 billion in 2013. Safety-net programs, including the EITC, Child Tax Credit, SNAP, housing assistance, assistance in paying home-energy bills and other supports added up to $398 billion.[5] Thus, Medicaid and CHIP amount to over 41 percent of all safety-net spending. And that was before the Medicaid expansion embedded in Obamacare, which launched in 2014 and aims to make millions more dependent on the federal government for health care.

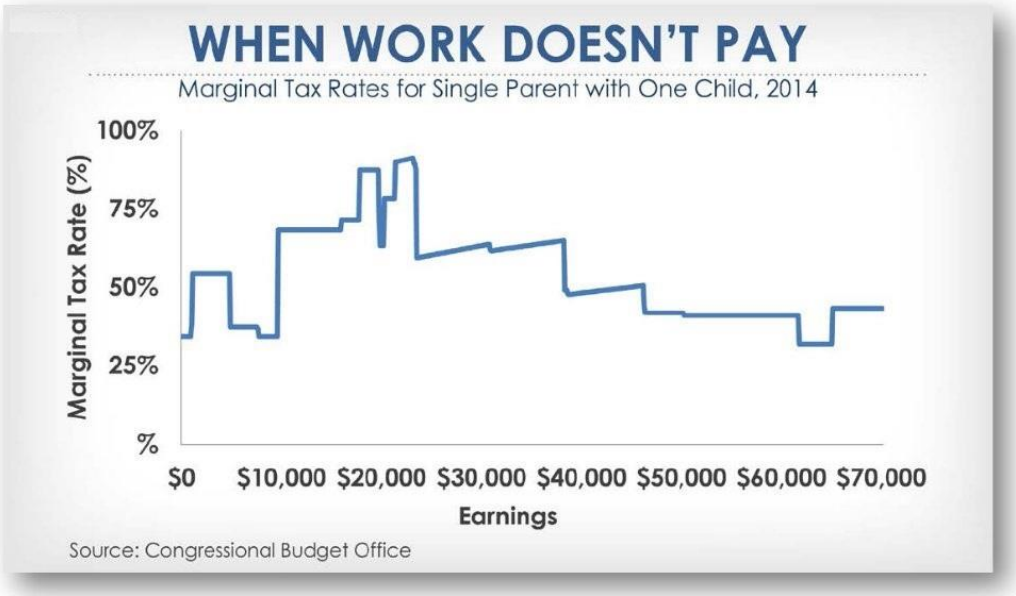
Second, one of the major problems with the federal safety net is that it traps people in poverty due to income tax "cliffs." That is, when low-income people increase their incomes beyond cut-offs, they lose benefits. This imposes extremely high effective marginal tax rates, dissuading people from increasing their incomes.

Ryan's plan clearly shows that there is a very high marginal-income tax rate imposed at an income between about $20,000 and $30,000 [see the Figure "When Work Doesn't Pay"]. The second figure ["Maximum Available Tax and Benefit Programs"] shows that this is largely due to the complete elimination of Medicaid benefits in this income range. Federal housing benefits decline at a lower household income than Medicaid, but at an even steeper rate. A reform that doesn't tackle this entire mess is unlikely to succeed at improving individuals' incentives to escape poverty.

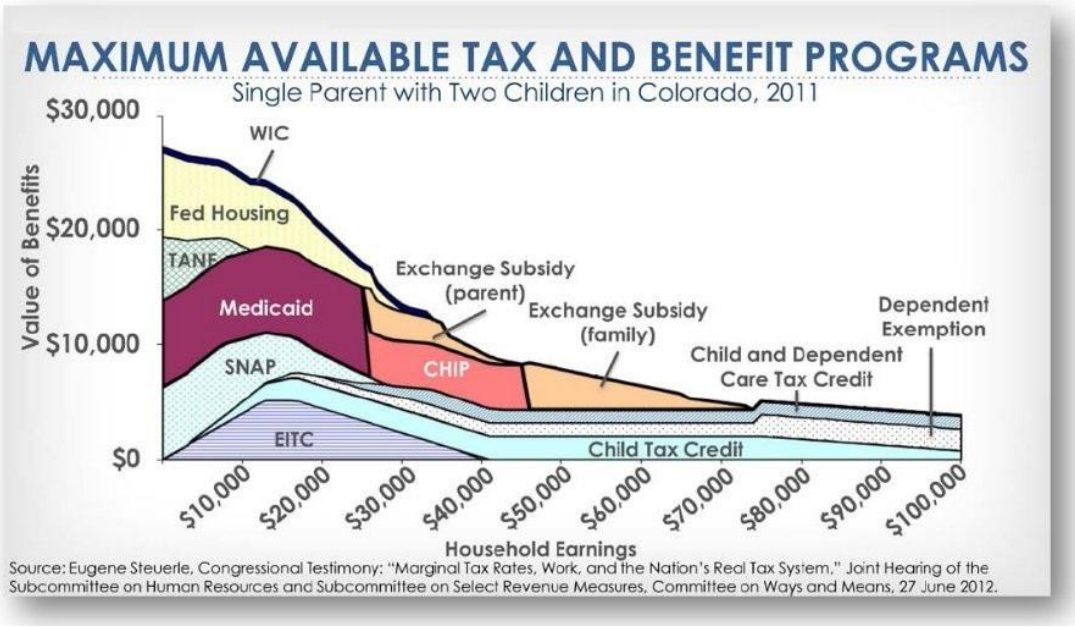
Third, excluding Medicaid from the proposal does not allow states and local authorities to take into account the social determinants of health. Most scholars believe that the health care "system" accounts for maybe one-fourth, and likely not more than one-half, of a person's health status. Factors like unemployment or family life independently affect health.[6] Ryan's Opportunity Grant proposal recognizes this in other contexts.

"The OG program will also be more responsive to different needs," says *Expanding Opportunity in America*. "For example, it makes little sense to provide a household with a consistent stream of SNAP [Supplemental Nutrition Assistance Program, or food stamp] benefits when what the household may need most is reliable transportation to and from work. Giving providers this kind of flexibility will allow them to intervene early on with targeted benefits in cases where short-term assistance can prevent someone from falling into deeper poverty."[7]

State Medicaid bureaucracies and Medicaid Managed Care Organizations (MCOs) already cover nonemergency medical transportation for dependents who cannot get to medical appointments on their own.[8] Bundling Medicaid into an OG would allow entrepreneurial civic organizations to deliver comprehensive transportation services to the needy.



Fourth, bringing Medicaid into an OG program would dramatically improve politicians' and bureaucrats' incentives. Currently, every incentive drives them to increase dependency on Medicaid. Indeed, official statistics count Medicaid recipients among the insured, just like people who buy their own insurance or get it as an employer-based benefit. So, politicians can always increase the number of insured by expanding Medicaid. Current statistics barely recognize Medicaid as welfare. Ryan's proposal would reward politicians and bureaucrats based on measurements that include "the number or percentage of people who find work" and "the number or percentage of people who get off assistance." It is long past time to offer the same goals to Medicaid dependents.



Indeed, bureaucrats and others working in the poverty sector might welcome such reform. Medicaid and safety-net bureaucracies already collaborate at the federal level. For example, state Medicaid agencies can compete for funding from the U.S. Department of Housing and Urban Development (HUD) for Section 811 Project Rental Assistance (PRA) funds for housing for disabled, low-income people. Imagine if we could shrink the federal bureaucracy by collapsing both HUD and Medicaid into Ryan's Opportunity Grants. Imagine a civic organization like Catholic Charities (which Ryan promotes) partnering with a Medicaid MCO to provide housing that improved health outcomes.

Evidence shows that combining housing and health benefits would succeed, given the right incentives. For example, a research study conducted in Cincinnati from 2009 through 2012 concluded that housing code violations (for instance, mold or cockroaches) explained 22 percent of the variation in rates of visits to emergency departments for children with asthma, and children hospitalized for asthma were 84 percent more likely to revisit an emergency department or be re-admitted if they lived in census tracts with high violation rates.[9]

Even the Veterans Health Administration, widely condemned for its neglect of veterans, has figured this out. It has established Homeless Patient Aligned Care Teams (H-PACTs), which offer coordinated care to homeless veterans and help them find housing and other support services. Though H-PACTs were only launched in 2012, early results indicate patients enrolled in an H-PACT experience an average of 31 percent fewer emergency room visits and require 24 percent fewer hospitalizations.[10]

Conclusion. Keeping people out of hospitals, especially emergency departments, saves money. Bundling Medicaid alongside other safety-net funding into Opportunity Grants would unleash civic entrepreneurship at the local level that would improve dependents' lives and health, while dramatically reducing the burden on taxpayers.

John R. Graham is a senior fellow with the National Center for Policy Analysis.

Notes

1. Republican staff, "Expanding Opportunity in America," Committee on the Budget, U.S. House of Representatives, July 24, 2014. Available at http://budget.house.gov/uploadedfiles/expanding_opportunity_in_america.pdf.

2. Richard Wolf, "How Welfare Reform Changed America," *USA Today,* July 18, 2006. Available at http://usatoday30.usatoday.com/news/nation/2006-07-17-welfare-reform-cover_x.htm.

3. Robert Rector and Katherine Bradley, "Obama Ends Welfare Reform As We Know It," *National Review Online,* July 12, 2012. Available at http://www.nationalreview.com/corner/309300/obama-ends-welfare-reform-we-know-it-robert-rector.

4. "The Path To Prosperity: A Responsible, Balanced Budget," U.S. House of Representatives, Committee on the Budget, March 2013, page 31. Available at http://budget.house.gov/uploadedfiles/fy14budget.pdf.

5. "Policy Basics: Where Do Our Tax Dollars Go?" Center for Budget and Policy Priorities, March 31, 2014. Available at http://www.cbpp.org/cms/?fa=view&id=1258.

6. Richard Wilkinson and Michael Marmont, eds., *The Solid Facts, 2nd Edition* (Copenhagen: World Health Organization, 2003).

7. Republican staff, "Expanding Opportunity in America," Committee on the Budget, U.S. House of Representatives, July 24, 2014, page 17. Available at http://budget.house.gov/uploadedfiles/expanding_opportunity_in_america.pdf.

8. "Medicaid Benefits: Nom-Emergency Medical Transportation Services," Kaiser Family Foundation, State Health Facts, 2012. Available at http://kff.org/medicaid/state-indicator/non-emergency-medical-transportation-services/.

9. Andrew F. Beck, Bin Huang, Raj Chundur and Robert S. Kahn, "Housing Code Violation Density Associate With Emergency Department And Use By Children With Asthma," *Health Affairs,* Vol. 33, No. 11, 2014, pages 1,993-2,002.

10. " Homeless Veterans," U.S. Department of Veterans Affairs, October 21, 2013. Available at http://www.va.gov/homeless/h_pact.asp.

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