**17.315 Health Policy** **Harvey M. Sapolsky**

# HEALTH REFORM---THE STATES

States have and will keep having a role in US health system and therefore in health system reform.

US a federal system/ constitutional division of power. GR and CANADA also federal systems as we will see. Contrast with UK, FR, JP. But each federal system is unique. US reserves powers to states, limited federal government. Evolved because war, economy ---use of commerce clause, emergencies. A living thing.

## I. Why states in health:

1. LEGACY ARGUMENT: stuck with it; can't avoid so don't try.

States already there---license MDs
monitor facilities
run facilities
public health
manage Medicaid and pay share

Reform will not exclude those already in –insurance companies and states

2. POLITICAL ARGUMENT: best to decentralize politically

- Need to decentralize to avoid attack that building a national bureaucracy. Federal gov't not popular. Local is democratic, responsive, honest?

- Each party has reasons to favor states. Dems have states that want NHI; Reps have states that will never agree.

3. FEDERALIST ARGUMENT: Belief in benefits of decentralization

- Experiment; innovation---genius of federalism

- Diversity --- US big county; CA=Canada; NY=Netherlands; CA+FA+MI=GR; no one system best, have to allow flexibility of local conditions, traditions.

But ---isn't the one of big complaints the lack uniformity
most visible in Medicaid
you are OK in Massachusetts but not Mississippi

> Family of three in CA $11,708 but AL $1,488

> NY pays $120 per day for Nursing Home care; CA pays only $65.

Federal government though can set framework. Congress could get more uniformity if it wanted it.

And we have variation in everything anyway----schools, welfare
Why not health care?

**II. What the states were doing:**

- HAWAII 1974 exemption from ERISA to allow it to mandate employers provide insurance, SHIP for those outside.

  But still has 11% without (because of exception part-time, seasonal workers, dependents)

  And only two big insurers in state; no competition

- MASSACHUSETTS 1988 Play or pay (way around ERISA) plus subsidies

  legislature keeps postponing implementation date. $$$

- OREGON 1989
  Expanded Medicaid, did some insurance reform, tried to mandate but ERISA block
  Added 100,000 to Medicaid supposedly by using RATIONING. Picked 587 of 709 conditions.

  But opposition to cutting services, clashes with Americans for Disabilities Act, Feds.

Mostly for show? Genius?
MINNESOTA 1990s
For children; President visits

VERMONT only a study; KENTUCKY to give uninsurable insurance; WASHINGTON employer mandates but didn't happens; FLORIDA sets up agency for affordable health care, needed waiver, most does pooling—still has 23% without health insurance.

Lessons:

1. Reform can conflict with other important goals---ERISA, ADA

2. Hold back on taxes (cigarette $?)

3. States compete economically ---- hard to get out too far in front.

4. Most of benefit in the politics

"Health Care for All"

"Commonhealth" in Commonwealth of Massachusetts

"Dr. Dynasore " in VT for Kiddy care

**Political gain is in championing, not in implementing**

Larry Brown: Law (FLORIDA) underscores the limits of state health policy innovation. behind heroic political drafting (of legislation) lies the state's inability to decide how broad coverage will be financed and to designate the losers (necessary) in successful cost containment. **NO GAIN IN PAIN**

**III. What do states really do in health care?**

------Like everyone else mostly try to shove costs off onto someone else

-------states actually are fairly successful at doing this

Friends in Congress help
Soft, easy touch Federal Government

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A. MENTAL HEALTH, the de-institutionalization story

- local governments maintained poor houses
- turn of Century shift to state/ senility made an illness/medicalization
- state mental health hospitals insane places
- de-institutionalization movement
- neighborhood mental health clinics BUT
- real show in Medicaid pays 50/50 for nursing homes UNLOVING CARE
- plus SSI/Medicare lets insane young go out on streets

Wise policy?

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B. MEDICAID EXPANSION

- increases 5 fold in 1980s; 24 initiatives between 1984-90

The Waxman Wedge
House Chair of Commerce Committee; Reps President needs Dems—deal is to add programs but to keep first years costs down e.g. Y1 $800M y5 $5.4B
Medicaid coverage for children (1992 all children under 9 goal is all under 19 by 2002, mothers to be 1.3 times poverty level, legal aliens )

27% increase in 1991
29% increase in 1992
21% increase in 1993

Added 10 million plus to rolls

- State exploit Medicaid loopholes

Federal share of Medicare goes from 57% to 62%

States leverage federal dollars set providers tax then give providers dollar for dollar back which feds match. Tax 100 give 200 states pay 0

Louisiana
1988 $1.6B
1993 $ 4.5B, but state costs drop from $595M to 462M

Massachusetts State Employee of Year 1992 found way to charge federal government $350M

- States file claims against Federal Government – collect politically

just before election Bush I gave into NJ

Clinton same two years same for Jim Florio his favorite governor NJ
then same in Florida for another Dem $1B of someone else's money.

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**IV What about the Administrative Capacity of States?**

My DRG study of New Jersey ----"THE CALL TO ROME" paper

NJ set up all payer system to level playing field among insurers---inner city hospitals in trouble. system was to guarantee viability of hospitals

Innovative payment system being developed at Yale (actually set up at MIT/Sloan)

Team brought into state government on federal grant to design and implement DRG system

- set up categories
- be generous to start
- ratchet down to squeeze excess

But all except one left within few years for better jobs---Call to Rome
jobs as hospital consultants, federal government.

- regular bureaucracy couldn't handle
- hospitals game system --- file appeals $1.5B
- rebasing instead of ratcheting down gives them more—nursing shortage
- Medicare drops out ---costs going up

Recession in early 90s people stop insurance, bad debt goes up from 5% to 19%

Unions drop out citing ERISA

Medicaid drops out

Everyone things they are better off by getting out.

Some hospitals doing well

**V. LESSONS**

DIFFICULT TO RUN SYSTEM. IT'S YOUR BUREAUCRATS AGAINST THEIR CONSULTANTS AND LAWYERS. THEY PAY BETTER

REMEMBER HOW STATES GAME FEDERAL SYSTEM

NEED SYSTEM THAT IS SIMPLE; THAT DOESN'T RELY ON TALENT OF GOV'T

Pay for yourself????

Cap????