SUBJECT: Creating a Medicaid medical savings account pilot program

COMMITTEE: Public Health — favorable, without amendment

VOTE: 9 ayes — Berlanga, Hirschi, Coleman, Delisi, Glaze, Janek, Maxey, McDonald, Rodriguez

0 nays

SENATE VOTE: On final passage, March 23 — 30-0

WITNESSES: (*On House companion, HB 1970*):

For — Jose Camacho, Texas Association of Community Health Centers; Joyce Dawidczyk, United Cerebral Palsy; Nancy Epstein, Disability Policy Consortium; James Willmann, Texas Nurses Association.

Against — None

On — DeAnn Friedholm, Texas Health and Human Services Commission; Lynne Hudson, Susan Steeg, Texas Department of Health; Donald Gessler, M.D., Texas HMO Association.

BACKGROUND: For background on Medicaid, the state-federal health program for certain low-income persons, see analysis of SB 10 in today's *Daily Floor Report*.

DIGEST: SB 604 would require the Texas Health and Human Services Commission to develop a medical savings account pilot program for Medicaid clients by December 1, 1995, and to implement it by January 1, 1997. Implementation could be delayed until federal waivers or authorizations, if necessary, are granted.

The pilot program could establish provider payments at negotiated rates and copayments, deductibles and payments to or deductions from a client's account for achieving or not achieving HMO standards prescribed by the commission. Any savings realized from the program could be shared by managed care providers, Medicare clients and the state. A client's share

could be credited to an individual savings account for the client, if certain health maintenance standards were met.

The act would expire September 1, 1999. The commission would be required to report to the governor and the 76th Legislature the effectiveness of the pilot program.

The commission could choose not to implement the pilot program if it found that the program would not result in any cost savings to the state during the next five years. The commission would be required to report its findings to the governor, lieutenant governor, speaker and chairs of the Senate and House health committees.

The goals of the program would be to create patient awareness of the high cost of medical care, provide incentives to seek preventive and primary care, reduce inappropriate use of health services and to enable clients to take responsibility for their health.

The commission would be required to include urban and rural counties in pilot program sites and determine the type and amount of payments or deductions from individual accounts and the disbursement of non-cash payments from accounts when clients leave the Medicaid program.

SB 604 would take immediate effect if approved by two thirds of the membership of each house.

SUPPORTERS SAY:

SB 604 would direct the health and human services commission to investigate and implement a potential cost-savings measure for Medicaid clients that is used in the private sector and that is being widely discussed in Congress for use in the Medicare program. The bill would give the commission adequate direction about the goals and parameters of using medical savings accounts (MSAs) in Medicaid, while at the same time sufficient flexibility to design a program that saves state expenditures.

One way a Medicaid MSA program could work would be to divide savings from purchasing Medicaid coverage through a managed care organization among the state, the organization and the client. Clients would receive payment to their account when they follow recommended guidelines in

caring for themselves or their families, such as obtaining prenatal care and immunizing their children. Client accounts would be debited when inappropriate care was sought, such as going to the emergency room for treatment of a cold.

Another way a MSA program could work is that the state could provide Medicaid clients health benefit coverage that would cover unexpected high-cost medical care (catastrophic care benefits) and account contributions to pay for routine medical care costs.

MSAs could give Medicaid clients financial incentives to take better care of themselves and to use preventive and primary care. A client who left the Medicaid program would not receive a cash payment but would have resources to draw on. For example, the account could be spent by the state for the client's education or child care expenses.

MSAs could help stem the rising costs of Medicaid by fostering preventive and primary care and by curbing utilization of expensive or unnecessary services. People are more careful spending their own money than the state or federal government's money. MSAs would also allow clients and the state to accrue investment earnings on unspent funds.

Texas could break new ground with an MSA pilot program that promotes free-market solutions to health care challenges. Other states have already expressed interest in this proposal. SB 604 is a recommendation of the Senate Health and Human Services Committee interim study on Medicaid reform.

OPPONENTS SAY:

The pilot program proposed by SB 604 has little chance of saving money. Patient misuse or overutilization of services is not a major cause behind rising Texas Medicaid program costs; most of the recent cost increases come from increasing provider reimbursement rates, increasing numbers of Medicaid clients and federal mandates.

People already have incentives to stay well; no one wants to be sick and wait for hours in typically crowded and impersonal conditions for public health services. Patients misuse health care services and use emergency

rooms because of lack of education about appropriate self-care or because of the lack of primary care doctors accepting Medicaid patients.

A Medicaid medical savings account program has never been tried in any other state. It would cost Texas $220,866 in the next four years to develop and run the program.

OTHER OPPONENTS SAY:

The patient financial incentive to obtain appropriate health care is reduced by the provision that prohibits the state from granting a cash payment when the patient leaves the Medicaid program. Cash is a much more powerful incentive than credit or non-cash resources. Managed care providers would be allowed to use cash savings as they chose, so former Medicaid clients should be given their cash savings too.

NOTES:

Also on today's calendar are five other bills relating to the state's Medicaid program and allied issues: SB 10, SB 600, SB 601, SB 602 and SB 605.