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OTA RELEASES EVALUATION OF THE OREGON MEDICAID PROPOSAL

The congressional Office of Technology Assessment (OTA) today released its analysis of a proposal by the state of Oregon to dramatically change the state's Medicaid program.

Many states as well as the federal government are struggling with the severe cost and access problems of the current health care system. Oregon is one of the first states to propose comprehensive reforms to address these problems, offering an innovative and controversial program.

Oregon's Medicaid proposal, which calls for a 5-year demonstration program, is part of a state legislative initiative to address the needs of residents without health insurance. In addition to attempting to make private health insurance more available, the state is seeking federal approval to: (1) expand Medicaid coverage to anyone whose family income is less than 100 percent of the Federal Poverty Level (FPL); (2) enroll most Medicaid beneficiaries in some form of managed care such as a health maintenance organization or a "gatekeeper" primary care physician; and (3) limit Medicaid acute and primary health care benefits based on a ranked list of 709 health conditions (e.g. appendicitis) paired with treatments (e.g. appendectomies). At the outset of the initiative, the state proposes that 587 of the 709 pairs be paid for.

Another unique aspect of the proposal is its waiver of legal liability of providers for denying Medicaid patients medically necessary treatments that fall below the cutoff point on the prioritized list.

The changes to Oregon's Medicaid program require federal approval because they do not conform to current federal requirements for this federally-funded, state-administered health program for the poor. If the waiver is approved, Oregon would be the first state in the nation to guarantee federally co-funded Medicaid coverage to all legal residents with incomes below the FPL. For the approximately 120,000 people who would be newly eligible under the waiver -- those who cannot qualify for Medicaid benefits under current rules -- the implications of the new eligibility and coverage rules are unambigously good.

Oregon's proposal cannot be legitimately criticized on grounds there is a clear net loss to current beneficiaries. At a benefit level set at line 587 on the prioritized list, the overall net effects of coverage changes on current Medicaid participants is not clearly either better or worse than coverage under the current program; the net effect cannot be predicted with confidence. Important services are both lost and gained at the current proposed level of coverage.

OTA also notes that, under the proposed eligibility rules, a few pregnant women and young children who would be eligible for Medicaid under the current program would not be eligible under the demonstration.

OTA also found that despite the state's best efforts, the ranking of the 709 condition-treatment pairs was ultimately dependent on the judgments of the members of the commission that produced the list because existing health outcomes information is entirely inadequate to scientifically rank all health services by effectiveness or cost-effectiveness. Nonetheless, says OTA, Oregon's attempt to rank health care services was a worthwhile exercise that may well improve consumer and provider awareness and enhance political decisionmaking in health care. Further, OTA concludes that taken as a whole, and, with the line drawn at 587, the list is not irrational or discriminatory and appears acceptable to the citizens of Oregon.

According to OTA, the main problem of the prioritized list relates to its use by clinicians to make decisions about care for individual patients. It is fundamentally problematic that Oregon's ranking process mixed patients with both very good and very poor prognoses in the same health condition and treatment pair on the list. This shortcoming cannot be remedied without making a significantly more complicated ranking that may be impossible to implement. Also, the list should not be counted on as a cost containment tool because it offers many opportunities for "gaming the system" and is not intended to identify and limit unnecessary services provided for conditions *above* the line.

The lack of a guaranteed minimum set of benefits, below which coverage would not be allowed to fall, is worrisome to OTA, especially because OTA believes that the state may have underestimated the costs of the demonstration. If costs are significantly higher than expected, and if Medicaid benefits were reduced in the future to compensate (as the proposal's design requires in case of a funding shortfall), beneficiaries would stand a greater likelihood of harm. However, even in the absence of the proposed demonstration, it is possible that benefits to current beneficiaries would be reduced in the future due to underlying trends in the economy and in public funding for Oregon's Medicaid program. In this latter case, current beneficiaries could also be placed at greater likelihood of harm due to fewer benefits or loss of eligibility.

According to the state, the 5-year demonstration program would require an additional $143 million from the Federal government, with a potential to recoup $34 million in savings to the Medicare program, for a net Federal cost of $109.6 million.

As a research demonstration project, OTA says, the program would have great difficulty determining the differential effects of managed care expansions and service prioritization on program costs and patient outcomes. However, some policymakers view the proposal as an experiment designed to answer the questions of whether it is possible -- using the combination of mechanisms Oregon proposes -- to provide acceptable health care coverage to the poor uninsured population without significantly raising costs. Viewed in this light, the program, if successful could be an informative demonstration for other states to examine, only if those states were considering implementing the total combination of mechanisms. OTA also concludes that because of its great interest in managed care coupled with past experience, Oregon would be a good site to test the viability of expanding managed care in Medicaid to evaluate whether it can contain health care costs and improve quality of care.

This report was prepared in response to a request from Rep. John Dingell, Chairman of the House Committee on Energy and Commerce, and Rep. Henry Waxman, Chairman of the Subcommittee on Health and the Environment. The request for this study was endorsed by Senator Al Gore, Chairman of the Senate Subcommittee on Science, Technology, and Space and the Oregon delegation, including Senators Bob Packwood and Mark Hatfield, Reps. Mike Kopetski, Les AuCoin, Peter DeFazio, Ron Wyden, and Robert F. (Bob) Smith.

Copies of the 327-page report *Evaluation of the Oregon Medicaid Proposal* or its 22-page summary for congressional use are available by calling 4-9241. Copies of the report for noncongressional use may be obtained from the Superintendent of Documents, U.S. Government Printing Office (GPO); Washington, D.C. 20402-9325; phone (202) 783-3238. The stock number is 052-003-01297-9; the price is $17.00. Summaries are available at no charge by calling (202) 224-8996.

OTA is a nonpartisan analytical agency that serves the U.S. Congress. Its purpose is to aid Congress in dealing with the complex and often highly technical issues that confront our society.

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