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BILL ANALYSIS

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Senate Bill 1 (Substitute S-1 as passed by the Senate)  
Sponsor: Senator Tom George  
Committee: Health Policy

Date Completed: 2-22-07

## **RATIONALE**

The poor health status of some Michigan residents, particularly Medicaid recipients, and the associated cost of treatment are of concern to many. It has been pointed out that many adverse health conditions and causes of death can be prevented, or at least mitigated, by lifestyle choices with regard to diet, exercise, smoking cessation, keeping medical appointments, and compliance with doctors' orders. It has been suggested that the Department of Community Health (DCH) should be required to offer incentives that would encourage Medicaid recipients to adopt healthier lifestyles, and to take other cost containment measures.

## **CONTENT**

The bill would amend the Social Welfare Act to require the Department of Community Health to do all of the following:

- Create incentives, including expanded benefits and incentives related to premiums, co-pays, or benefits for individual medical assistance recipients who practiced specified positive health behaviors, including participation in health risk assessments and health screenings, compliance with medical treatment, attendance at scheduled medical appointments, participation in smoking cessation treatment, exercise, prenatal visits, immunizations, and attendance at recommended educational health programs.
- Create pay-for-performance incentives for contracted Medicaid health maintenance organizations (HMOs), including incentives for meeting health outcome targets for chronic disease

states, increasing the number of medical assistance recipients who practiced positive health behaviors, and meeting patient compliance targets established by the DCH.

- Establish a preferred product and service formulary program for durable medical equipment, which would require participation from the DCH, and would permit the contracted Medicaid HMOs and provider organizations to participate.
- Provide financial support for electronic health records, including personal health records, e-prescribing, web-based medical records, and other health information technology initiatives using Medicaid funds.
- Include in any Federal waiver request that was submitted with the intent to secure Federal matching funds to cover the medically uninsured non-Medicaid population in the State, language to allow the DCH to establish, at a minimum, the incentive programs required under the bill.

With regard to the pay-for-performance incentives for Medicaid HMOs, priority would have to be given to strategies that prevented and managed the 10 most prevalent and costly ailments affecting medical assistance recipients.

With regard to the preferred product and service formulary program, the DCH would have to work with the Centers for Medicare and Medicaid Services to determine if a joint partnership with Medicare were possible in establishing the program as a means of achieving savings and efficiencies for the both the Medicaid and Medicare programs.

The DCH could not implement incentives that conflicted with Federal statute or regulation.

Proposed MCL 400.105b

## **BACKGROUND**

Under Section 1115 of the Social Security Act, the Secretary of the U.S. Department of Health and Human Services may authorize individual pilot, experimental, or demonstration projects within the Medicaid program that otherwise would violate specific provisions of the Act (such as those restricting co-payments to "nominal" amounts and prohibiting states from modifying the benefit packages offered across Medicaid enrollment categories). A state seeking a waiver of Medicaid requirements must participate in an application and review process administered by the Centers for Medicare and Medicaid Services (CMS). Section 1115 waiver programs may be designed to test new Medicaid policy concepts, extend eligibility to populations not previously eligible for coverage, or permit states to contract with managed care organizations to cover enrollees.

A state must demonstrate that a proposed waiver program will result in budget neutrality with regard to Federal Medicaid expenditures over the life of the program. Under the application process, a state first must provide CMS with a general outline of its waiver proposal. The state then receives feedback on the outline from CMS, which it uses to submit a formal proposal. Once the state addresses any issues or concerns identified by CMS, the parties negotiate conditions governing the administration of the waiver program, and CMS conducts site visits in preparation for implementation.

## **ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

### **Supporting Argument**

The State spends a significant amount of Medicaid funding on treatment for diseases and ailments that could be alleviated or prevented if people made better choices with regard to their health. Under the incentive programs proposed by the bill, the

State and Medicaid HMOs would work together to encourage Medicaid recipients to take more responsibility for their own health. Combined with the required durable medical equipment formulary and electronic health records, the incentives would help to bring down Medicaid costs.

**Response:** Although encouraging Medicaid recipients to adopt healthier behavior is a worthwhile goal, it is important that barriers to the adoption of such behavior are taken into account. Many factors unrelated to an individual's willingness can impede the adoption of a healthier lifestyle. Some people live in neighborhoods where it is not safe to exercise outside. Others lack access to transportation to keep doctor appointments, or cannot afford co-pays or take time off of work. The bill could simply reward people who already have been able to overcome those obstacles, rather than encourage others to adopt healthier behavior.

There is also the concern that using Medicaid funds to pay for the required incentives-if the State received Federal approval to do so-could divert money from other areas of the Medicaid program.

Legislative Analyst: Julie Cassidy

## **FISCAL IMPACT**

The FY 2006-07 Department of Community Health appropriation includes \$10.0 million Federal in placeholder funding contingent upon Federal approval of a waiver permitting the use of Federal Medicaid funding for a personal health incentive program. The FY 2006-07 budget also includes \$9.5 million for health information technology efforts.

The cost savings that could be generated from the Medicaid program changes proposed by the bill are largely contingent upon the State's garnering Federal approval for necessary State plan amendments and Medicaid waivers and the actual structure of these programs. These unknown variables make the fiscal impact of this legislation indeterminate at this time.

Fiscal Analyst: Steve Angelotti

### **A0708\1b**

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.