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California could pose problem for Obama’s healthcare reform

California, a model for healthcare reform, is seeking to impose some of the toughest limits on government-subsidized coverage. If approved, the limits could herald deep Medicaid cuts nationwide.

Drew Altman, president of the nonprofit Kaiser Family Foundation, says that the outcome of California’s implementation of President Obama’s healthcare law may have ramifications for other states.
(Laura Morton / For the Los Angeles Times)

By Noam N. Levey, Los Angeles Times
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Reporting from Washington -- For more than a year, as conservative states have battled President Obama's sweeping healthcare law, California was supposed to be a model that showed the law's promise.

But the state is emerging as one of the biggest headaches for the White House in its bid to help states bring millions of Americans into the healthcare system starting in 2014.

Though still outpacing much of the nation, cash-strapped California is cutting its healthcare safety net more aggressively than almost any other state, despite billions of dollars in special aid from Washington.

And state leaders are pressing the Obama administration for permission to place some of the toughest limits in the nation on government-subsidized healthcare, including a cap on how often people with Medicaid — the healthcare program for the poorest Americans — can go to the doctor.

A decision on some of California's requests is expected this month. If approved, the limits could open the door to deep cutbacks nationwide.

"There are states that are bellwethers. California is one of them," said Jane Perkins, legal director of the National Health Law Program. If the federal government approves California's requests, other states are almost certain to seek similar treatment, setting off a "race to the bottom," she said.

The stakes are unusually high for the Obama administration. "Health reform is badly in need of success stories, and early success in California could add decisive momentum," said Drew Altman, president of the nonprofit Kaiser Family Foundation, a leading health policy center. "But if California bogs down, or if there is an implementation failure, it would be a huge negative for the whole implementation effort nationally."

Less than a year ago, California officials were setting out to lead the country toward healthcare reform.

In October, then-Gov. Arnold Schwarzenegger broke with national Republicans to support the healthcare overhaul and made California the first state to create an insurance exchange after the national law was enacted. Beginning in 2014, these exchanges will serve as Internet-based marketplaces in which people who do not get health benefits at work can buy coverage.

A month later, the Obama administration approved a $10-billion plan to help California get a jump start on expanding coverage to its poorest residents, another key part of the new law.

The state continues to move ahead. A well-respected expert is taking the helm of California's insurance exchange, and the state is expanding the number of low-income Californians eligible for health coverage.

"Health reform is the light at the end of the tunnel," said Anthony Wright, executive director of Health Access California, a leading advocacy group.

By contrast, GOP leaders in Texas, Florida, Kansas and other conservative states have recently put the brakes on expanding health coverage.

But as a result of a deep budget crisis, California's 2012 spending plan slashes $2 billion from Medi-Cal, as Medicaid is called in the state, over the next two years. That could affect more than 8.5 million people.

California already spends less per beneficiary than any state. It is now seeking waivers from the federal government to impose copays of $5 for office visits and prescriptions, $50 for emergency room visits and $100 for hospital stays. Few other states come close to charging Medicaid recipients that much.

Cost sharing in Medicaid is tightly restricted under federal law because it can discourage people from seeking needed care. A family of three at the federal poverty line makes just $356 a week.

The state plans to limit Medicaid beneficiaries to seven doctor visits a year, with exceptions for essential care. No state has imposed such stringent limits.

California, which already pays Medi-Cal providers less than all but two states, also is pushing to cut payments to doctors, hospitals and others who serve Medi-Cal patients by 10%. That would drop reimbursement for a standard physician visit to less than $12.

"This isn't the way we'd want to run a Medicaid program," said Toby Douglas, California's Medi-Cal director. "If it wasn't for the state fiscal crisis, we ... would not be going forward with these proposals. We would be focusing solely on healthcare reform."

Medical providers and patient advocates are growing increasingly concerned, however, that the cuts will undermine the goals of the new law.

Many doctors have already closed their doors to Medicaid patients. Other providers are following suit. In June, Sharp Coronado Hospital in San Diego County stopped taking new patients at its facility providing long-term life support.

"I'm afraid no one is going to take these people," said Chief Executive Marcia Hall.

In Washington, officials at the Department of Health and Human Services, who have been in intense discussions with California officials for months, desperately want to avert a healthcare crisis in the state.

In a case before the U.S. Supreme Court this fall, the administration is backing California's bid to throw out a lawsuit by state medical providers challenging its Medi-Cal cuts.

At the same time, many administration officials are worried that granting California permission to further slash Medicaid could prompt other states to follow suit.

"We want to honor the flexibility that the states need and want," said Dr. Donald Berwick, who heads the federal Medicaid and Medicare programs. "But beneficiaries are also having a tough time, and we want make sure their interests and access are being protected."

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