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This report focuses on the ways in which the states are using their new flexibility to change Medicaid. Perhaps the most important changes in Medicaid since its enactment some 18 years ago were incorporated in the Omnibus Budget Reconciliation Act of 1981. This law modified the longstanding program requirement that individual Medicaid recipients have the freedom to obtain services from any qualified provider — the so-called freedom-of-choice provision. Although the Reagan administration has been promoting more diversity among individual state programs and reductions in spending, it is important for the reader to understand that these thrusts do not simply represent the policies of a conservative Republican government. Many Democrats also see the need for greater efficiency.

One expression of this changing attitude occurred last year when California authorized its state government to negotiate with providers on the basis of price and to select providers for Medicaid services to which eligible persons would be limited. In March 1982 Willie Lewis Brown, Jr., speaker of the California Assembly and a long-time advocate of social programs, wrote to his constituents:

Medi-Cal [as California calls its Medicaid program] providers and the State Legislature must acknowledge that at present we no longer have sufficient resources to carry out the grand philosophical ideal which we so proudly enunciated in the mid and late 1960s [that mainstream medical care would be available to every citizen].

The 1981 budget law authorized new exceptions to the freedom-of-choice requirement. The approach represented a compromise between the administration, which sought to repeal the requirement, and Democratic legislators who feared the consequences of such a step for the poor. A state's Medicaid program will no longer be found out of compliance with federal requirements concerning freedom of choice if the state enters into arrangements to purchase laboratory services or medical devices through competitive bids; establish either a "lock-in" feature, which restricts the choice of provider by a beneficiary who has overused services, or a "lock-out" feature, which limits the participation of a particular provider in Medicaid; implements a primary-care case-management system; or allows a locality to serve as a central broker, assisting Medicaid recipients in selecting a provider from competing health plans. Another way in which states may be deemed exempt from the freedom-of-choice requirement is by obtaining a waiver from the Department of Health and Human Services (DHHS).

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New England Journal of Medicine, 1983, pp. 976-80.