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United States Government Accountability Office
Washington, DC 20548

December 16, 2011

Congressional Committees

Subject: *Medicaid: Health Opportunity Accounts Demonstration Program*

The Deficit Reduction Act (DRA) of 2005 established a 5-year demonstration program allowing up to 10 states to test alternative health benefits under Medicaid, a joint federal state program that finances health care coverage for certain low-income individuals.¹ States participating in the demonstration program were required to establish savings accounts—known as Health Opportunity Accounts (HOA)—that beneficiaries could use to pay for out-of-pocket medical expenses.² The state and federal government could fund the accounts with up to \$2,500 annually for an eligible adult and \$1,000 for a child.³ The HOA had to be offered in conjunction with a high-deductible health plan, and withdrawals from the account had to be conducted electronically, without cash.⁴ Generally, Medicaid-eligible healthy adults under age 65 and children could voluntarily enroll in the program, subject to annual renewal.⁵ Beneficiaries who subsequently lost Medicaid eligibility could pay for medical or certain other expenses with the unused balances in their accounts.⁶ Although the demonstration program began in January 2007, Congress prohibited

¹Pub. L. No. 109-171, § 6082, 120 Stat. 4, 113 (2006) (codified at 42 U.S.C. § 1396u-8). Demonstrations were required to (1) create patient awareness of the high cost of medical care, (2) provide incentives to patients to seek preventive care services, (3) reduce inappropriate use of health care services, (4) enable patients to take responsibility for health outcomes, (5) provide enrollment counselors and ongoing education, and (6) provide access to negotiated provider payment rates.

²States were allowed to fully cover preventive care, with no costs charged to the HOA.

³These amounts were to be adjusted each year to take into account medical inflation. States could contribute amounts in excess of these limits, but no federal matching would be available for those amounts.

⁴The deductible amount had to be at least equal to 100 percent, and not greater than 110 percent, of the annualized amount of state contributions into the HOA.

⁵Certain individuals, such as disabled individuals and those aged 65 or over, were not eligible to enroll.

⁶Individuals enrolled for 1 year or less who lost Medicaid eligibility could use 75 percent of any remaining account balance for up to 3 years to pay for the cost of medical expenses or to purchase private health insurance. In addition, individuals who maintained an HOA for more than 1 year before losing eligibility could use any surplus funds for other purposes including job training or educational expenses, if permitted by the state, and approved by the Department of Health and Human Services.

the approval of any new state HOA demonstrations in the Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA) in February of 2009.⁷

The DRA directed that we evaluate and report on the HOA demonstration program at the end of the 5-year period. Specifically, we examined how many states had established an HOA program, and the barriers to enrollment that they faced.

To conduct our work, we interviewed officials from the Centers for Medicare & Medicaid Services (CMS)—the agency within the Department of Health and Human Services (HHS) that administers the Medicaid program—as well as Medicaid officials from South Carolina, the only state that established an HOA program. We also reviewed relevant laws, CMS guidance to states, and other materials related to South Carolina's program.

We conducted our work from October 2011 through December 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We found that only one state—South Carolina—applied for and was approved to implement a demonstration prior to CHIPRA. According to a CMS official, two factors that may have prevented more states from applying were (1) the fact that states paid up front to set up the HOA for a generally healthy population that could keep any remaining amounts if they lost Medicaid eligibility, and (2) the difficulty of implementing the required electronic debit card system to access the accounts.

South Carolina began implementing its HOA in Richland County in May 2008, and faced several barriers to enrollment. Officials from the South Carolina Department of Health and Human Services (DHHS) told us that although the state's application projected that 1,000 individuals enrolled in its fee-for-service Medicaid program would eventually participate in the demonstration, enrollment since 2008 totaled 2 adults and 3 children. As of December 2, 2011, only 1 child was still enrolled in the program.^{8,9} Officials told us that children were more likely to qualify than adults because the state's Medicaid income eligibility requirement for children was 200 percent of the federal poverty level compared to 50 percent for adults who are not pregnant or disabled. According to state officials, other factors contributing to low enrollment may have been:

- a lack of beneficiary interest in a program that did not yield any immediate access to the cash in the HOA account;

⁷Pub. L. No. 111-3, § 613, 123 Stat. 8, 101.

⁸One of the other two children recently turned 19 years of age and was thus no longer eligible, and the second child lost eligibility for failing to complete the annual review form.

⁹Two adults were also enrolled at one point, but their enrollment had to be terminated for failure to maintain their Medicaid eligibility.

- competition from the state's Medicaid managed care program that was also being launched at the same time with extensive marketing compared to limited marketing for the HOA program; and
- the reluctance of beneficiaries who were already enrolled in a Medicaid managed care plan to switch back to fee-for-service Medicaid in order to participate in the demonstration.

According to state officials, the enrolled children had received preventive services that were not charged to their HOA accounts and the account balances remained high even though some services were paid for out of the HOAs. They also told us that the state has never had to pay out any unused account balances.¹⁰ The South Carolina HOA demonstration is scheduled to continue through May 2013.

We provided a draft of this report to CMS and to the South Carolina DHHS. CMS had no comments and South Carolina provided an update on the status of children who had been enrolled in the program, which we incorporated into the draft.

We are sending copies of this report to the appropriate congressional committees. We are also sending copies of this report to the Secretary of Health and Human Services. This report is also available at no charge on GAO's website at <http://www.gao.gov>.

If you or your staffs have any questions regarding this report, please contact me at (202) 512-7114 or yocomc@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Individuals making key contributions to this report include Walter Ochinko, Assistant Director, and Iola D'Souza.



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¹⁰The child who recently turned 19 and lost eligibility for the program is eligible to receive about \$558 from the program, but has not contacted the state to collect this amount.

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