

budget. Some states with Democratic governors, including Washington, are also quietly pressing for the change.

"We're asking for cooperation...so that we can work our way through what is a very challenging time for us," Washington Gov. Christine Gregoire said at a meeting of the National Governors Association in Washington this weekend, where curbing Medicaid costs was a top issue.

The Obama administration Friday moved toward allowing a small cut in eligibility and greater cost-sharing for enrollees, but gave no sign it will allow larger reductions.

Health and Human Services Secretary Kathleen Sebelius told states earlier this month they should close their Medicaid budget gaps through other means, such as via higher copayments and by purchasing prescription drugs more efficiently.

"An eligibility cut or even a provider cut can potentially bring in some savings, but it's really not going to get where the big dollars are," said Cindy Mann, director of the federal Center for Medicaid and State Operations.

States disagree, contending federal rules hamper them from touching the real cost drivers of the program, such as long-term care. Medicaid funds nearly two-thirds of all nursing-home residents.

A bigger issue may be whether federal officials have the power to grant such waivers. Some governors say Ms. Sebelius has told them she's unable to grant states the flexibility to reduce their Medicaid rolls.

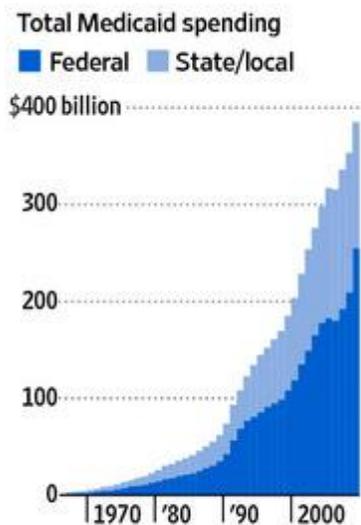
While the law gives the HHS secretary some flexibility for enforcement, officials say they still haven't determined whether she could waive this particular requirement. "We're still looking at our waiver authority and whether we think we have the legal authority," Ms. Mann said.

The last time there were big changes to the social safety net was in the mid-1990s, after an overhaul of welfare crafted by a Republican Congress and signed into law by President Bill Clinton, a Democrat.

Since then, federal social programs have tended to grow, not shrink, including a big expansion of drug benefits signed by President George W. Bush, a Republican.

In recent years, Medicaid has grown into one of largest payers in the health system, accounting for 17% of all hospital spending. Experts say the program's funding woes stem from the rising number of people with expensive chronic health conditions, coupled with the recession. As of

Swollen Costs



Note: Includes children's coverage, 2009 (latest data available)
Source: Centers for Medicare & Medicaid Services

2008, 1% of all beneficiaries ate up 25% of the program's expenditures, HHS says.

In 2000, Medicaid spending was \$187 billion. That figure rose to \$346 billion in 2009, the latest full calendar year for which figures are available, according to the Centers for Medicare and Medicaid Services. Governors are also casting a worried eye to 2014, when the health-care overhaul will add millions more to Medicaid.

Governors say the fastest way to pull back their costs is to allow states to cut people and costly benefits. Since taking office last month, Maine Gov. Paul LePage, a Republican, has brought his state's Medicaid woes to President Barack Obama, Vice President Joe Biden and Ms. Sebelius.

Maine has among the country's most generous Medicaid standards. Around a quarter of the state's residents are in the program, which costs \$2.6 billion a year.

To help cover a nearly \$1 billion budget gap, Mr. LePage wants the Obama administration to let Maine drop its standard to match the federal ceiling—a move he says would save the state at least \$70 million a year. He says the administration is so far refusing to grant the state an exemption.

The health law allows states that have budget deficits to eliminate certain higher-earning enrollees, though that provision applies only in a narrow amount of cases.

"We are being penalized for being overly generous," said Mr. LePage. "All we are asking for is latitude in how we work our own system."

The state of Washington wants flexibility in the rates it pays health-care providers that treat Medicaid patients, the services it offers and its eligibility requirements.

"In our state, the least attractive of those tools is to just cut people off the program," said Jonathan Seib, a health-policy adviser to Gov. Gregoire, who is chairwoman of the National Governors Association. "But it's an authority we'd like to have in order to manage our budget."

Delaware Gov. Jack Markell, a Democrat, may also pursue a waiver to reduce Medicaid eligibility. "We haven't ruled anything particular in or out yet," Mr. Markell said, adding that it has been difficult to rein in Medicaid costs and "the population that qualifies has increased significantly."

Some states have had to step back from planned Medicaid cuts after meeting political resistance. Washington halted a plan to cut adult prescription-drug coverage, and South Carolina reversed a decision to cut hospice care, both after an outcry from the health community.

In Mississippi, Republican Gov. Haley Barbour says he has reduced his state's Medicaid rolls 20% by simply requiring all recipients to apply annually in person to prove

their eligibility. He believes he could make further advances by requiring annual physicals, a step he says the federal government doesn't allow.

"The administration is granting waivers out the yin yang to businesses and everyone else," he said. HHS has exempted more than 700 employers and others from providing richer insurance benefits mandated under the health law. "We'd like a little of that leeway, too."

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