March 8, 2005

Michael Smith, Secretary
Agency of Human Services
103 South Main Street
Waterbury, Vermont 05676

Dear Mike:

I'm writing to offer comments and ask some questions re: the Global Commitment to Health Concept Paper, which I received on February 24th.

While I agree with Governor Douglas that, "it falls on us * all of us * to find a solution that will save Medicaid for future generations before it collapses under the burden of its own weight," it must also be understood that this same burden afflicts all of health care. In my view, addressing Medicaid in isolation with tantalizing but elusive solutions will result in irreparable harm to its beneficiaries, while ignoring many of the causes of its unsustainability. It may also shift the burden of cost to other payers, an outcome no one wants.

Preparing for the future can be informed by the experience and analysis of similar proposals offered in the past. Converting Medicaid to a block grant was first proposed by President Reagan in 1981 and again by the Gingrich-led Congress in 1995. While neither were enacted, it is possible to examine the maximum funding that would have occurred under each proposal and compare it with the actual Medicaid spending in the years the block grants would have been in effect, if they had passed.

Such an analysis by Jeanne Lambrew of George Washington University has just been published in the Milbank Quarterly, a respected journal, published by the Milbank Memorial Fund. Examining data over a 30-year period, the Lambrew study showed that predicting Medicaid costs even three years into the future is difficult, with wide variances in both directions.

Specific to the 1981 and 1995 proposals, Lambrew demonstrates that achieving lower federal spending through a predictable block grant would have resulted in a considerable impact on Medicaid beneficiaries and the services they receive.

In planning for a Medicaid block grant program, has the Douglas Administration considered the impact and implications of these previous proposals, had they been enacted? If so, such analysis is not evident in the concept paper.

A review of the Global Commitment concept paper indicated that its success is predicated on the implementation of a number of important initiatives. For the most part, these concepts are decidedly short on explanation or detail. I expect a more thorough explanation will be presented prior to submission to the Federal government.

With respect to the Employer-Sponsored Insurance (ESI) proposal, it appears that the benefits will be different and less than what are offered presently to VHAP and Dr. Dynasaur beneficiaries. Further, the concept paper states that "this initiative would facilitate the use of commercial market-based coverage, representing an important step toward meeting the state's goal of offering more choice to program beneficiaries."

Let's be clear: this plan does not offer choice. It replaces one plan with another, which offers lower benefits. The beneficiary has no choice.

Practically speaking, the ESI plan is akin to another form of cost shifting being used by a growing number of employers who incent their employees to take health insurance through their spouses' employer, thereby limiting risk and containing costs. While understandable as an effort to control costs in a narrow sense, it also speaks to the need for truly universal coverage and significant structural change in the administration, deliver and financing of all health care.

Health Savings Accounts are another part of the ESI initiative, offering tax credits to employers and subsidies to eligible employees. For an employer considering such a plan, a more fundamental question might be: "If so many of my employees are already eligible for VHAP and Dr. Dynasaur at no expense to me, why should I add a benefit to my already tight bottom line, which almost certainly will grow in expense at a far faster rate than my revenue?"

Among the key concepts presented in the paper, a number offer real and encouraging possibility for structural reform across a spectrum of areas. Streamlining and standardizing eligibility processes, reducing administrative costs, controlling prescription drug costs, among others, clearly are not unique challenges to Medicaid and potentially offer real opportunity for systemic reform across all health care.

Conversely, to address Medicaid alone will almost certainly exacerbate the cost shift to other payers. It likely will result in an even greater number of employed but uninsured Vermonters, the ultimate unintended consequence.

One area for possible integration is the State's management of its several health benefit programs. For example, the State currently has separate administrative structures for Medicaid and the state employees' health insurance plan. While the benefit plans may,

of necessity, differ, why must the administration be separate and duplicative? Similarly, why does the State have two separate privately-administered pharmacy benefit plans?

While I have a number of other questions about the various initiatives and concepts outlined, I will address them in other communication with you.

In summary, I agree with the fiscal plight of Medicaid and with the urgent need to adopt meaningful and sustainable reform measures. At the same time, the plan of the Bush Administration to cut Medicaid and abandon a host of programs directed at children and low-income citizens, hardly inspires me to take a leap of blind faith in support of transforming Medicaid from an insurance benefit to a block grant program.

Quite simply, when all is said and done, if the predictions on utilization, enrollment, medical inflation and other important variables are as inaccurate as past (and even present) projections, while the revenue in a block grant scenario is predictable but disconnected from these essential variables, then what is absolutely predictable is the outcome. Medicaid will be saved at the expense of its very purpose: a safety net for the poorest, most vulnerable and least insurable among us.

In the absence of better data and projections, and without a more detailed and persuasive explanation of your key initiatives, I therefore cannot support an agreement with the Federal government which seems no more than a vague promissory note replacing the essence and insurance of the Medicaid program.

I am hopeful that further work with you can answer these questions and resolve my concerns.

Sincerely yours,

Sen. Jim Leddy, Chair
Senate Health and Welfare Committee

cc: Members, Sen. Health and Welfare Committee
Members, Sen. Appropriations Committee
Sen. Peter Welch, Senate President Pro Tem