

March 17, 2005

Senator Jim Leddy, Chair
Senate Health and Welfare Committee
State of Vermont
Senate Chamber
115 State Street
Montpelier, VT 05633-5201

Dear Senator Leddy:

Thank you for your letter of March 8th regarding this administration's proposed *Global Commitment to Health* program. I appreciate the fact that we are in agreement that a solution to the current funding crisis with the Medicaid program must be found. I also agree with you that addressing the Medicaid crisis will not, in and of itself, deal with all aspects of the problem of universal access to, and affordability of, health coverage in Vermont.

However, Medicaid is an important component of the health care system in the state, providing health coverage to one in four of our residents. Unlike Medicare and private sector and employer-sponsored programs, the state has direct responsibility for the structure and administration of the Medicaid program. Therefore, it is incumbent upon us to develop and implement a program reform strategy which can ensure the viability of Medicaid in Vermont, now and into the future.

The *Global Commitment to Health* includes a number of components, each of which will contribute to ensuring that the Medicaid program in Vermont, which includes much broader eligibility and provides more extensive benefits and services than many other state programs, can continue to fulfill its commitment to those it serves. It also incorporates strategies designed to facilitate stability in other sectors of the health insurance marketplace, in particular employer-sponsored coverage, by supporting alternatives to the public program through the provision of premium subsidies to private-sector health plans.

The *Global Commitment* program we propose is very different than the block grant proposals of the past. Those initiatives were vetted and rejected by the states because they did not provide adequate protection against growth in program costs, in terms of both medical inflation and enrollment growth. As you pointed out, analyses such as those conducted by Jeanne Lambrew for the Milbank Memorial Fund indicate that there is a shortfall between the level of funding that would have been provided under

either the 1981 or 1995 block grant proposals and the actual federal expenditures that have since been made under the program in the absence of the imposition of those caps.

While future expenditures are difficult to predict, Vermont has operated a large part of its program under a federal ceiling since 1996. Our ability to sustain the VHAP program is premised on the negotiation of adequate base year funding and sufficient annual trend rates. Under the proposed *Global Commitment to Health*, we would not entertain an agreement unless it ensures that our program is fiscally sustainable.

During the time periods between the two block grant proposals and now, many states undertook major expansions in eligibility for medical assistance, including Medicaid and SCHIP. In fact, Vermont was a leader in the expansion of coverage, securing one of the early Section 1115 Demonstration Waivers from the federal government and allowing the state to access federal Medicaid funds to cover groups of individuals that did not meet the traditional Title XIX requirements.

Under the current model, Vermont, as a state, has now exceeded its capacity to continue to fund our portion of the Medicaid program's cost without very significant increases in taxes. By 2010, the state income tax would have to rise 29% over today's level, or the sales tax would need to increase by 60%, to keep up with the growth in program costs. The impact of such tax increases would be detrimental to Vermont's economy and would have repercussions well beyond health care.

If you believe, as we do, that the state has reached its limits in its ability to fund the current program, now is the time to explore alternative health care financing strategies in conjunction with a federal commitment of dollars for the next five years. If we simply go about a process of reducing program expenditures by cutting eligibility or benefits, every dollar we save in state general funds results in a loss of \$1.50 of federal revenue. This is exactly the situation we are trying to avoid.

The challenge then is how to manage the state's share of the cost of the program at a level we can sustain while ensuring that the current federal commitment is protected and continues to grow at the historical rate (approximately 10-12%). The solution we propose to address this challenge is the *Global Commitment to Health* program. We are working with the Federal Centers for Medicare and Medicaid Services (CMS) to negotiate an agreement on a five year funding plan that will ensure that a fair and equitable level of federal Medicaid funds come to our state, while giving us more flexibility in how we administer the program. This flexibility will allow us to implement innovative programs, including many of the proposed strategies outlined in the concept paper. And as I noted in my March 14 memo to you and other legislative leaders, any policy changes that occur within this new flexibility will only be implemented after a broad public process and legislative approval.

With regard to your concerns over our proposals for supporting Employer-Sponsored Insurance (ESI), we acknowledge that some employer health plans may not be as generous as the VHAP or Dr. Dynasaur benefit package. However, most adults and all children currently enrolled in those programs will retain their state-sponsored coverage. Only newly eligible persons with incomes above 100% of FPL (children) or 50% of FPL

(adults) will be required to take advantage of the coverage that is available to them through their employers, with the state providing a subsidy toward the purchase of that coverage. This is an appropriate requirement and will assist employers by providing financial support for their group health plans. This in turn will provide incentives for employers to continue offering such coverage in the face of rising premiums.

With respect to Health Savings Accounts, we have merely included this option for those who do not insure themselves and/or their families through VHAP, Dr. Dynasaur, or an ESI program. Our goal is to offer as many cost-effective options as possible, in the hope that individuals have an opportunity to secure their family's financial situation in the event they incur health care expenses.

The plan we have proposed maintains a strong safety net of health coverage for our poorest and most vulnerable citizens. It does require those with somewhat higher incomes to share in the cost of the program. And it asks some of those with higher incomes who have access to health coverage through their employers to take that coverage in lieu of the public program, but with state financial assistance. Since the safety net for the poorest is assured through this program, what we are actually trying to save in this process is Medicaid as a safety net for more modest income adults and children who have no other access to affordable coverage.

Vermont has a long history of using the Medicaid program to serve those who do not meet the traditional profile of mother and children receiving cash assistance benefits from the state or a disabled person with so little income and assets that they can qualify for Supplemental Security Income. On the contrary, we have maximized every avenue to broaden the mission of Medicaid in this state. That mission, to fill the gaps and inadequacies of our nation's private health insurance market for low and modest income people, continues. However, the specific means by which we achieve this goal must, of necessity, evolve to meet our current fiscal realities.

I look forward to the opportunity to work with you in addressing your concerns and those of your colleagues. Together, I believe we can meet the challenges before us and continue to serve well those who entrusted us with these responsibilities.

Sincerely,

Michael K. Smith, Secretary
Agency of Human Services

MKS/rrs

cc: Members, Senate Health and Welfare Committee
Members, Senate Appropriations Committee
Senator Peter Welch, Senate President *Pro Tem*