Testimony of

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Before the

Senate Finance Committee

United States Congress, Washington, DC

Thursday, June 23, 2011

Chairman Baucus, Ranking Member Hatch and Members of the Committee:

Thank you for the opportunity to appear before this Committee to address the impact that proposed reforms of our health care entitlement programs would have on the states and our citizens.

Reforming the Medicare and Medicaid programs to ensure their long-term sustainability is a priority that I share with the members of this Committee, with many other governors, and with the Obama Administration. It's also a necessary element in the effort to reduce the national budget deficit, a goal I believe is both important and achievable. But how we reform these programs is about people, not

abstract policies. It's about what kind of country we want to live in, and what kind of future we are building for the next generation.

My comments come from that perspective because I do my job with that perspective. And although Medicaid is a small part of the medical cost picture, I want to focus my comments mainly on that.

Like nearly every state in the last few years, in Massachusetts we have had to make tough choices to manage through the global economic collapse. We have cut billions of dollars in spending and thousands of state jobs. We have imposed furloughs and pay freezes, and negotiated concessions from public employee unions. We have also prudently used our "rainy day" funds, modestly increased our sales tax,[1] and benefited, like every other state, from the support of the American Recovery and Reinvestment Act.[2]

We have at the same time invested significantly in education, health care and job creation -- because we all know that educating

[1] *See* www.massbudget.org/file_storage/documents/FactsSales.pdf.

[2] *See* http://articles.boston.com/2011-05-30/news/29600265_1_federal-stimulus-budget-debate-rainy-day-fund.

our kids, securing people's health care, and putting people to work is the best way to climb out of our economic hole and build a better future.

Because we made those choices, on both the spending and the revenue side, the Massachusetts economy is now growing twice as fast as the Nation's.[3] Our unemployment rate, at 7.6%, is well below the national average and declining.[4] Our annual budgets have been responsible, balanced and on time; our decades-long structural deficit has been eliminated; and our bond rating has not only remained strong, but gotten stronger.[5] In fact, we are one of only three states in America whose fiscal outlook is currently positive.[6]

The Massachusetts experience may offer a lesson for the national discussion today. We were able to cut spending, reform

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[3] *See* U.S. Department of Commerce, Bureau of Economic Analysis, http://www.bea.gov/newsreleases/regional/gdp_state/gsp_highlights.pdf, (showing Massachusetts is the fourth fastest growing state economy). *See also* Boston Globe, "Mass. recovery leading region," June 8, 2011, http://www.boston.com/business/articles/2011/06/08/mass_economys_growth_fourth_in_the_nation/.

[4] Regional and State Employment and Unemployment Summary, Bureau of Labor Statistics, June 17, 2011, http://www.bls.gov/news.release/laus.nr0.htm.

[5] *See* "FISCAL FALLOUT: The Great Recession, Policy Choices, and State Budget Cuts -- An Update for Fiscal Year 2012," MassBudget, April 3, 2011. http://www.massbudget.org/documentsearch/findDocument?doc_id=781; Governor's Message, Fiscal Year 2012 Budget Proposal; January, 2011, http://www.mass.gov/bb/h1/fy12h1/msg_12/hdefault.htm.

[6] Standard and Poor's "US States Ratings and Outlooks," May 12, 2011.

government and invest in a stronger future because we did not leave our values at the door, because we kept asking ourselves whether the choice before us moved us closer to the kind of community we wanted to be.

In that spirit, we have made a number of changes to enable us better to control costs in our Medicaid program. We are also working on an exciting strategy to reduce medical costs across the system, well beyond the Medicaid program, that will benefit all of our citizens, help our state's economy, and further improve our competitiveness. We have pursued these reforms and savings in the firm belief that health is a public good, and that everyone deserves access to quality care – including the poor and disabled.

Flexibility in the administration of the Medicaid program has made all the difference. So, first, like many of my fellow governors, I strongly support the states having the flexibility to innovate costs down. The current Medicaid program, as administered today, gives states precisely that: a high degree of flexibility to design a program that suits an individual state's needs.

Massachusetts has taken advantage of that and we have several innovative programs deployed right now that show a lot of promise.[7] For example, "dual eligibles" – folks who fall under both Medicaid and Medicare -- account for 40 percent of Medicaid's national spending even though they only make up 15 percent of its members.[8] When you add in Medicare, spending on this group alone accounts nationally for over $300 billion per year.[9] Because of the regulatory maze in which these patients are treated and the complexity of their conditions, dual eligibles are a major cost driver in Massachusetts -- just as in the rest of the country.[10]

In partnership with the Obama administration and the Center for Medicare and Medicaid Innovation, we are creating a demonstration program that integrates the delivery of Medicare and Medicaid for dual eligibles, finding more cost effective pathways to get patients the

[7] *See* Center for Medicare and Medicaid Services, Medicare-Medicaid Coordination Office, http://www.cms.gov/medicare-medicaid-coordination/05_StateDesignContractSummaries.asp.
[8] *See* Kaiser Family Foundation, "Dual Eligibles: Medicaid's Role for Low-Income Medicare Beneficiaries," May 2011, http://www.kff.org/medicaid/upload/4091-08.pdf ; *see also* "Letter from Secretary Sebelius to the nation's governors," February 3, 2011, *available at* http://www.hhs.gov/news/press/2011pres/01/20110203c.html.
[9] See *Dual Eligibles: Understanding This Vulnerable Population and How to Improve Their Care: Hearing before the H. Comm. on Energy and Commerce,* 111th Cong. 6-21 (2011) (Statement of Melanie Bella, Director of the Medicare-Medicaid Coordination Office, Centers for Medicare and Medicaid Services).
[10] Kaiser Family Foundation, "Dual Eligibles: Medicaid's Role for Low-Income Medicare Beneficiaries," May 2011, http://www.cms.gov/medicare-medicaid coordination/05_StateDesignContractSummaries.asp.

care they need. The preliminary analysis suggests this will lead to decreased emergency visits, fewer unnecessary hospitalizations, and better access to and use of appropriate medications. That will translate into real savings for both the state and federal sides of the Medicaid equation. Under this strategy, we estimate at least a 2 percent savings on the $4 billion we expect to spend on "dual eligibles" in the first year of the program.

Other working models for addressing dual eligibles are already in use. New Mexico and Texas, for example, use managed care programs to bring better coordination to services. Enrollment plans like PACE and Special Needs Plans, currently being used in Massachusetts as well as in New York, New Mexico and Wisconsin, are further examples of states using the considerable existing administrative flexibility to achieve savings in the Medicaid program. Wider adoption by the states would help significantly curb Medicaid costs.[11]

[11] *See* Center for Medicare and Medicaid Services, "Program of All Inclusive Care for the Elderly," https://www.cms.gov/PACE/LPPO/list.asp#TopOfPage , and Center for Health Care Strategies, "States with Fully Integrated Care Programs for Dual Eligibles," http://www.chcs.org/usr_doc/ICP_State-by-State_Dashboard.pdf.

Rising costs in the health care system across the Nation are a serious national problem.[12] In fact, Medicaid spending has been growing more slowly than the dramatic health care cost increases in the rest of the economy.[13] For that reason, we have turned our attention there, to the broader question. Everyone has a stake in that solution. And just as Massachusetts is the home of the nation's most successful universal health care law, we are poised to crack the code on cost containment.[14] To get there, we are doing more to encourage integrated, whole person care: paying providers for the quality of health care they deliver, not just the quantity. There are many good models being tried in the market today. We are working on scaling them up and making sure the savings are passed along to businesses, families and government in the form of lower premiums.

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[12] *See* Demos Institute, "Understanding the National Deficit and Debt: A Primer," 2010, (noting that a primary cause of the country's long-term fiscal imbalance is the rapidly rising cost of healthcare. The United States already spends nearly twice as much on healthcare, as share of GDP, as most of its international peers.) http://demos.org/afc/deficit101Final.pdf.

[13] According to the Center for Medicare and Medicaid Services, between 2000 and 2008, Medicaid per capita spending for covered families increased by an average of only 5.2% per year, compared to 7.2% in the private sector. http://www.kff.org/pullingittogether/021610_altman.cfm. The same is true in Massachusetts, where private insurance spending per member year increased 5.7% from 2007-2008, while comparable Medicaid spending increased only 2.8% over the same period for MassHealth, Massachusetts' Medicaid program. "Massachusetts Health Care Cost Trends," Division of Health Care Finance and Policy. June 2011. http://www.mass.gov/?pageID=eohhs2subtopic&L=6&L0=Home&L1=Researcher&L2=Physical+Health+and+Treatment&L3=Health+Care+Delivery+System&L4=Health+Care+Cost+Trends&L5=2011+Health+Care+Cost+Trends&sid=Eeohhs2.

[14] *See* Boston Globe Editorial, "To contain health costs, state should try a new way of paying," January 2, 2011, http://articles.boston.com/2011-01-02/bostonglobe/29346007_1_current-fee-for-service-system-health-care-health-insurance.

Medicaid currently allows us this flexibility. We need the Congress to encourage more states to take advantage of that flexibility, and embrace our role as policy laboratories -- not just around entitlements, but in health care spending generally. That is the larger policy challenge we face as a Nation. Fix that, and not only do the Medicaid and Medicare programs become fiscally sustainable, but the prospects for a strong, sustained economic recovery improve dramatically.

Second, let's stick with what works. The Affordable Care Act works. We know from experience with our own health care reform measure that getting people insured and having them receive their care in primary care settings as opposed to emergency rooms is cost effective[15] and will reduce illness and death.[16] According to the Congressional Budget Office, the Affordable Care Act will reduce the deficit by $124 billion through 2019 and by more than $1 trillion in the

[15] *See* Massachusetts Taxpayers Foundation, "Massachusetts Health Reform: The Myth of Uncontrollable Costs," May 2009, (noting that Massachusetts broke new ground with its approach to health care reform, and thus far the underlying financial model of shared participation is working well, with major strides in reducing the size of the uninsured population and only a marginal impact on state spending.) http://www.masstaxpayers.org/publications/health_care/20090501/massachusetts_health_reform_the_myth_uncontrollable_costs.

[16] *See* http://www.urban.org/publications/411588.html (reporting that 137,000 people died from 2000 through 2006 because they lacked health insurance, including 22,000 people in 2006).

subsequent decade.[17] Indeed, the ACA provides for even more Medicaid and Medicare flexibility than under current law. Efforts to repeal it take us in exactly the opposite direction from fiscal responsibility.

Third, put revenues on the table. Our federal government has been running two wars and a costly prescription drug benefit for nearly a decade with borrowed money.[18] Meanwhile, thousands of industries and special constituencies -- from oil to agriculture -- find favorable treatment and loopholes in our tax code.[19] I know small "mom and pop" stores and college students who pay more taxes than global companies with billions in revenue. Some of these loopholes ought to be closed. If we believe that even the poor and disabled -- the people Medicaid serves -- should get adequate health care, it is only fair to ask everyone to help close a gap other policy choices

[17] Congressional Budget Office, "CBO's Analysis of the Major Health Care Legislation Enacted in March 2010," May 30, 2011, http://www.cbo.gov/ftpdocs/121xx/doc12119/03-30-HealthCareLegislation.pdf.

[18] Kathy Ruffing & James R. Horney, *Economic Downturn and Bush Policies Continue to Drive Large Projected Deficits*, CBPP, May 10, 2011, http://www.cbpp.org/cms/index.cfm?fa=view&id=3490; Marc Labonte & Andrew Hanna, Cong. Research Serv., R41134, The Impacts of Major Legislation on Budget Deficits: 2001 to 2009 (2010), http://www.fas.org/sgp/crs/misc/R41134.pdf.

[19] *See, e.g., Analysis: 12 Corporations Pay Effective Tax Rate of Negative 1.5% on $171 Billion in Profits; Reap $62.4 Billion in Tax Subsidies*, CTJ, June 1, 2011, http://www.ctj.org/pdf/12corps060111.pdf.

have created. We cannot and should not get out of the deficit hole with spending cuts alone.

Finally, I wish to respectfully object to the budget proposal that has come out of the House. That proposal represents a radically different set of values. It embraces a voucher program that effectively ends Medicare, and replaces it with minimal coverage security for seniors and the disabled. It would put Medicaid on a path to denying coverage to millions of the poor.[20] It would repeal the Affordable Care Act, denying coverage to millions of working American families. Yet it includes $1.1 trillion in tax benefits for the wealthy, benefits they have not asked for and which recent history shows have not been effective in spurring economic growth.[21]

[20] *See* "Ryan Medicaid Block Grant Would Cause Severe Reductions in Health Care and Long-Term Care for Seniors, People with Disabilities, and Children," Center on Budget and Policy Priorities, May 3, 2011, http://www.cbpp.org/cms/index.cfm?fa=view&id=3483.

[21] *See e.g.* William G. Gale & Benjamin H. Harris, *Reforming Taxes and Raising Revenue: Part of the Fiscal Solution*, Tax Policy Center, May, 2011, http://www.taxpolicycenter.org/uploadedpdf/1001539-Reforming-Taxes-Raising-Revenue.pdf; Michael Linden & Michael Ettlinger, *Three Good Reasons to Let the High-End Bush Tax Cuts Disappear This Year*, Center for American Progress, July 29, 2010, http://www.americanprogress.org/issues/2010/07/let_cuts_expire.html; *Tax Cuts: Myths and Realities*, CBPP, May, 9, 2008, http://www.cbpp.org/files/9-27-06tax.pdf; Jason Furman, *Treasury Dynamic Scoring Analysis Refutes Claims by Supporters of the Tax Cuts*, CBPP, Aug. 24, 2006, http://www.cbpp.org/files/7-27-06tax.pdf.

Ultimately that is a vision for the future of our country that retreats from our values as Americans. It is about abstract policy or politics. But our job as leaders is to be about people.

Dispersing federal Medicaid funding in the form of block grants, as some have proposed, won't reform the system. It will starve it. By failing to account for changes over time in a state's economic needs or demographics, or innovations in how health care is delivered, the proposed block grants lock states into a fiscal bind that forces us to deny coverage or make other changes to services. It passes a burden from the federal government to the state level, knowing that states cannot carry the load. Block granting Medicaid would constitute nothing more than an accounting device for the federal budget, while dealing a crushing fiscal blow to states that are already struggling.

This latter point cannot be overstated. Right now 33 states are projecting a cumulative budget gap of $75.1 billion or more in Fiscal

Year 2012.[22] The Kaiser Family Foundation estimated that Massachusetts would lose more than $23 billion over ten years if Medicaid moves to a block grant formula.[23] By 2021, this could mean denying close to 540,000 residents of the Commonwealth of their health care coverage.[24] And the payment model that compensates hospitals for care would be gutted by more than 30% in the same period.[25] In a state where 98% of our residents currently have access to health care, well ahead of other states, this would be a public health catastrophe and an utter failure of leadership.[26] There is no way the Commonwealth would be able to absorb such a shift without seriously curtailing critical programs and services, including the most successful experiment in America in universal health care. And it would cost tens of thousands of jobs. Asking states to pick up more of the tab in a time of unprecedented fiscal challenges is unrealistic as well as unwise.

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[22] National Governors Association, "Fiscal Survey of States," Spring 2011, http://www.nga.org/Files/pdf/FSS1106.PDF.
[23] Kaiser Family Foundation, "House Republican Budget Plan: State-by-State Impact of Changes in Medicaid Financing," May 2011, http://www.kff.org/medicaid/upload/8185.pdf.
[24] *Id.*
[25] *Id.*
[26] *See* Office of the Governor, Commonwealth of Massachusetts, December 13, 2010, http://www.mass.gov/?pageID=gov3pressrelease&L=1&L0=Home&sid=Agov3&b=pressrelease&f=101213_health_care_report&csid=Agov3.

Some states advocate for block granting in the name of "flexibility" or repealing the Affordable Care Act as "the first step for a successful Medicaid transformation," as 29 Republican governors propose in a recent letter to Congressional leaders.[27] But the data suggest that doing either is really a formula for limiting coverage, not sustaining the program. For states to sustain current eligibility for the Medicaid program, under these governors' proposal, would require states to spend approximately $241 billion, or 71% more than current levels over the next ten years.[28] No state is fiscally prepared to deal with that. Tactics like these will reduce the federal deficit on paper -- on the backs of the working families and small businesses who are making our economic recovery possible.

Medicare and Medicaid have helped generations of Americans help themselves. They are commitments that the federal government has made to the American people and they have contributed mightily to the economic prosperity and success that our Nation has enjoyed.

[27] "Republican Medicaid Reform Principles," Republican Governors' Association, June 13, 2011, http://www.rga.org/homepage/gop-govs-unveil-medicaid-reform-principles/.
[28] Kaiser Family Foundation, "House Republican Budget Plan: State-by-State Impact of Changes in Medicaid Financing," May 2011, http://www.kff.org/medicaid/upload/8185-S.pdf.

Our challenge today is to modernize and refine these commitments, not to squeeze them out of existence with accounting tricks and political rhetoric. The strategies being proposed from some corners will not lead to better Medicare or Medicaid, but will simply mean less Medicare and Medicaid.

Working together we can meet our obligations to our most vulnerable citizens, put America on a fiscally sustainable path and build a better, stronger Nation for the next generation. That is the responsibility with which our constituents have entrusted each of us and I look forward to working with you and your colleagues to fulfill that obligation.

Thank you again for inviting me here today and I look forward to taking your questions.