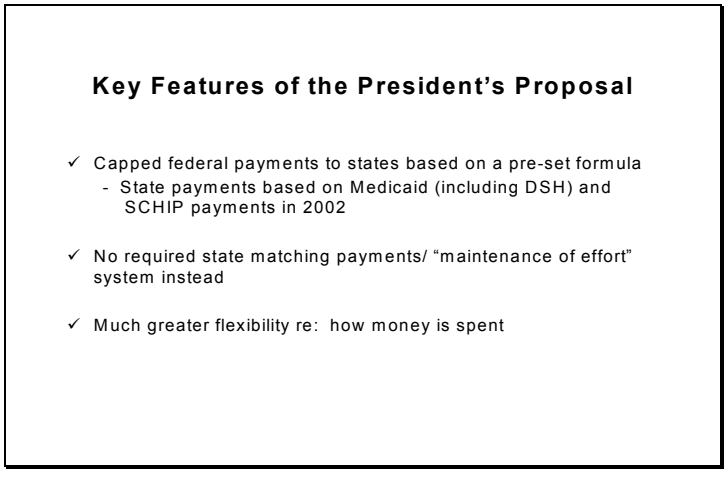
Cindy Mann:

How many people here don't work on health care issues? OK. My block grant is the most important. You may not work on health care issues but you need to understand that this is going to be your block grant problem, too.

Medicaid is enormous. It is the largest single source of health care coverage in the country. It is bigger than Medicare now, both in terms of the numbers of dollars spent and the numbers of people served. It is the largest single source of federal dollars coming into states. Whatever happens in Medicaid will affect the entire fabric of the financing at the state and local levels. So, pay attention.

We heard from Bob that we did have, as of yesterday, a recent victory which is sort of hard to understand and goes back to Bob's point before that the National Governor's Association was hard pressed to vote a resolution supporting fiscal relief for the states. It was a victory to get them to support fiscal relief at the states. Similarly, it seems to have been a victory to get the Democratic governors to agree that a block grant in the Medicaid program was against their interests, and to oppose it. We still haven't gotten the Republican governors to go along, but we did get the victory yesterday of the Democratic governors saying that this was not a good way to go.

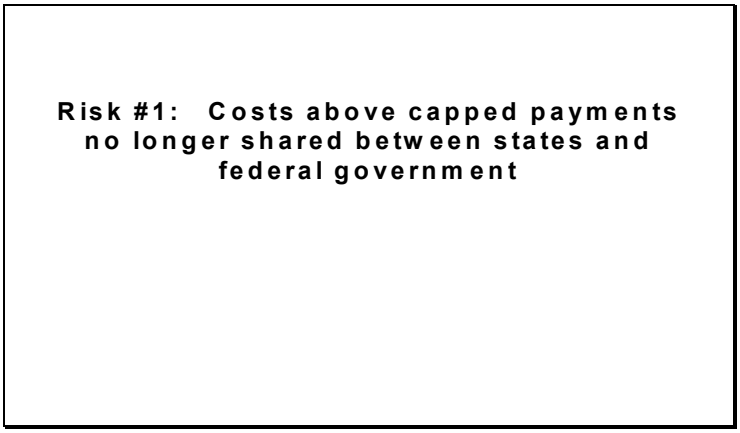
That having been said, and it is enormously important that we've come to this point, because if there had been a bipartisan agreement of the governors to support a block grant, we would've been facing a much tougher fight in Congress. But the fight in Congress is likely still to come. It may be soon and it may be in the fall, but it is going to come. So we need to not let our defenses down, but rather think about ways in which we can make sure that not only do we not lose the program, but also that we can move forward in terms of coverage alternatives for the people who are uninsured.



There are three key components to the Medicaid block grant proposal. I'm not going to have time to go through a lot of the details, but one is a common feature of all block grants, which is that there is a capped amount of money. In Medicaid, that is quite different than in some of the other programs that we've been talking about, because in Medicaid it is an open-ended federal

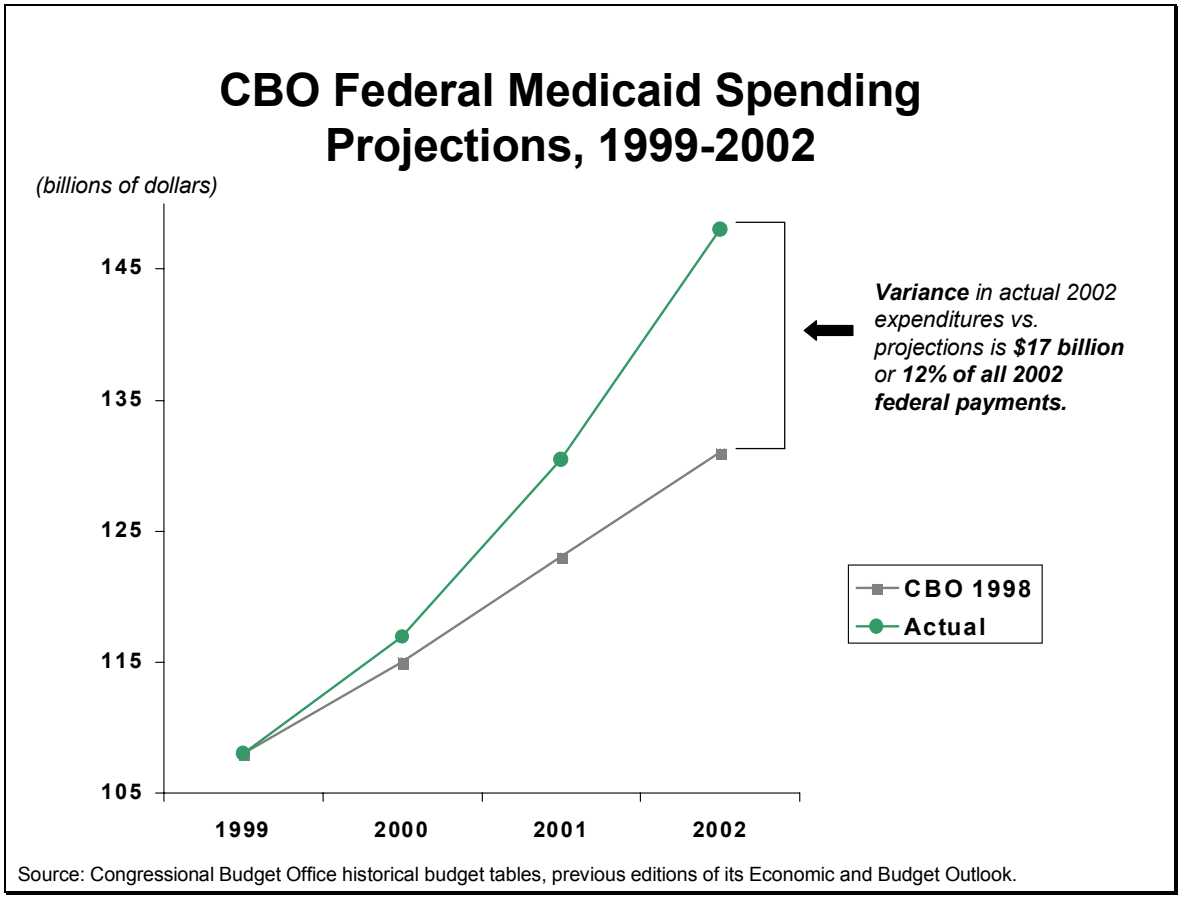
entitlement; meaning the money flows to states based on the actual expenditures for the actual number of people served and it is an entitlement to the individuals. The President's proposal for Medicaid would end the entitlement, would end the open-ended federal financing, and consolidate both Medicaid and the State Children's Health Insurance dollars into annual capped allotments.

Another important change, but one that is often overlooked, is that it would end the state matching requirement. It would replace that with a maintenance of effort requirement instead, meaning that states would spend a certain amount of money, but what they would spend would be less than what they are expected to spend under current law. Their financing stream – the state dollars would be detached from the federal dollars and that has a number of implications that I'm going to talk about in a minute. And of course, the other common feature of block grants which is much greater flexibility to the states in determining who is eligible, to allow enrollment freezes, to change the benefit structure, to increase cost sharing, and to do a number of different things.

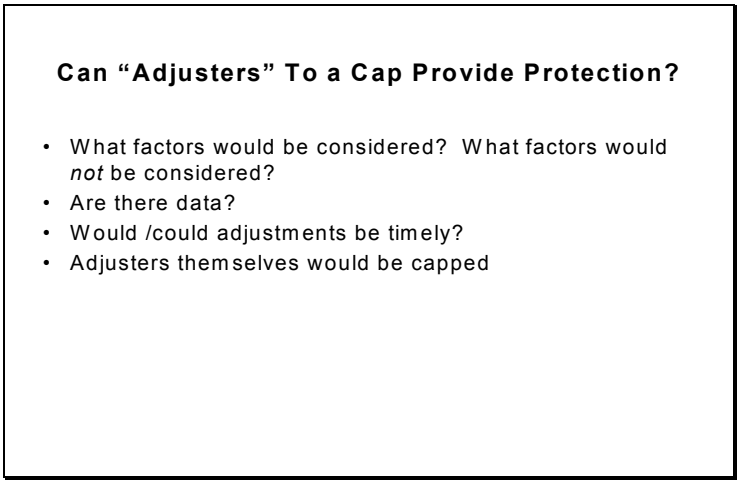


Let's look a little bit at some of the risks that the Medicaid block grant presents.
Bob actually scooped my slide here but it's OK because we've been collaborating on some papers, so it means he's been reading the papers, which of course he always does.

Medicaid health care costs are notoriously difficult to project. The block grant would be based on a projection made this year over what Medicaid would cost over the next 10 years; a 10 -year block grant, in which 10 -year projections would be frozen . So you wouldn't get level funding like TANF. The grants would rise each year but they rise each year based on today's projection over the next 10 years of what Medicaid spending would be. What this slide shows is that in 1998 CBO made a projection of what federal Medicaid spending would be in just 2002 and it turned out they were 12 percent off, which accounts for $17 billion in federal dollars, being off in just that short period of time.



So just imagine the extent of the potential gap over 10 years and then the added problem is that you have to divvy up the dollars by state. It is not just the problem of, overall, is there going to be enough money? But which state is going to get that money and what is the rate of spending growth for any particular state?



There has been talk, and the governors were talking about making adjustments to the cap, and you'll hear this a lot, 'Well, let's build in this adjustment and that adjustment.' Medicaid, for all

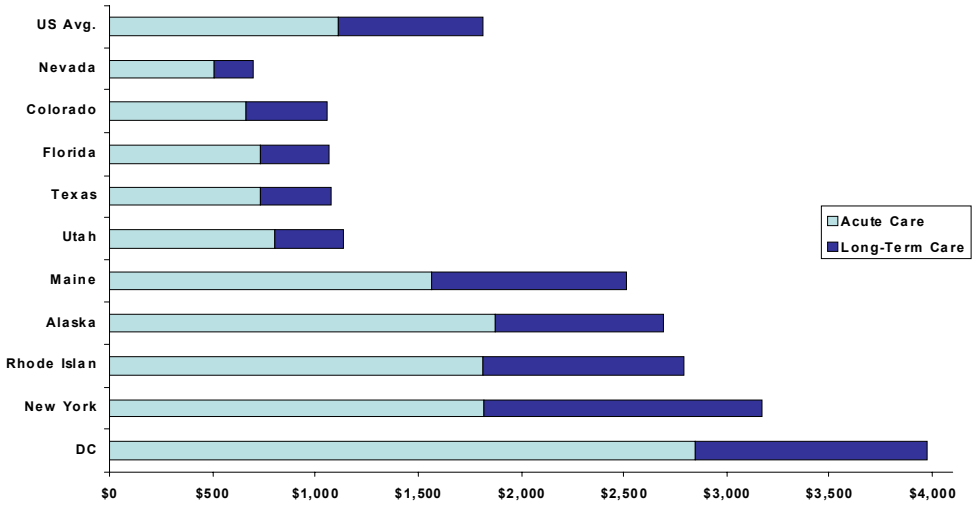
its flaws, actually has the perfect adjustor, which is that the federal government pays dollars for actual expenditures. That's the perfect adjustor. We've done an analysis – it's actually on the Center on Budget and Policy Priorities' website that looks at some of the ways in which adjustors simply can't work. You can't think of all the factors. There aren't data for all the factors. There is a time lag. And at the end of the day, any adjustor is itself capped because it is all within the context of capped federal funding. So adjustors don't solve the problem.

Because you are not just talking about a capped federal fund – you're also talking about the funds that go to different states – you will inevitably have a lot of variations between and among states, and an ensuing formula fight. New York looks relatively good in this context in the sense that New York spends a lot of money relative to other states in its block grant. That's going to cause other states to say, in a capped federal world, we want to get New York. We want to lower its rate of growth. It's being overpaid. Of course, we know that when a state (like New York) looks good in terms of its spending per low-income individual, it is largely because it has a much higher than average cost per beneficiary, particularly for long-term care services for people who are elderly and people who are disabled. Those costs are not likely to go away. It's not really free money. It's money New York is now spending on care for its elderly and disabled people.

There are other factors, of course, that would make it even more difficult for New York than for many other states, although it is hard to imagine any state that would fare well under this. The one thing that I want to point out is that while New York has a high per beneficiary spending, it has actually had a low rate of growth in its Medicaid expenditures. The President proposes that each state's block grant would increase over the 10-year period of time. It would be capped but it would grow a little bit, and it would grow looking at the historical rate of growth in that state. Well, New York in the last few years is 48 out of 51 states (including DC) in terms of slow expenditure growth. So if New York's block grant is based on historical spending, which is what the President has proposed, then over time the squeeze for New York will be particularly acute. And we can also see, looking at historical spending, that it is not necessarily an indicator of what future spending needs will be.

Variations in Base Payments

(Medicaid Expenditures Per Low-income Individual FY 2002)

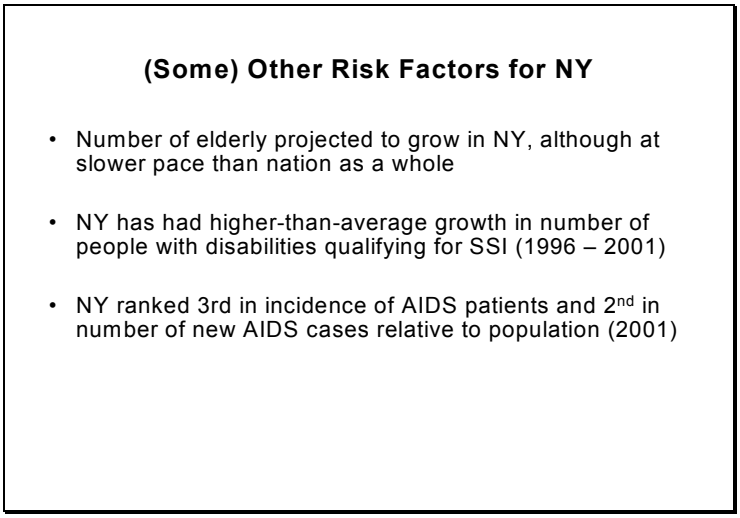


Sources: Urban Institute estimates based on data from CMS (Form 64). Population counts from the March Current Population Surveys, 2001, 2002; Holahan J, Weil A. "Block Grants Are the Wrong Prescription for Medicaid." Urban Institute, May 2003. "Low-income" includes all persons with incomes below 200% of the federal poverty line.

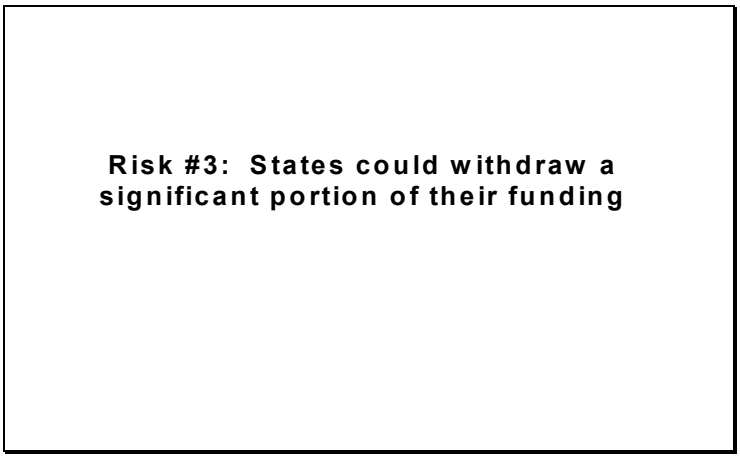
Variations in Historical Growth Rate

- Capped payments to states apparently would grow based on state historical growth rates (negotiated within capped federal funding)
- NY has had relatively *low* expenditure growth rates
  - 40 out of 51 states in Medicaid expenditure growth between 1991 – 2001
  - 48 out of 51 between 1998-2001
- But historical growth is not always a good indicator of future needs

So there are some other risk factors. I think everybody here in the audience can identify others that would make it difficult for New York to live under cap funding.



Let me talk a bit about the issue of states being able to pull out their own state dollars. Right now, the Medicaid program is financed in New York 50/50. It is 50 percent state and local and 50 percent federal. Under the block grant proposal, states would be able to pull out their dollars without necessarily losing any federal dollars, as long as they were meeting their maintenance of effort requirement.



So let's just do some simple math. Right now, under current law, the state decides it needs to come up with $125 million in state spending reductions, it has to calculate that if it pulls out $125 million it is going to lose $125 in federal dollars. That doesn't stop the state from doing a spending cut in Medicaid, but it certainly puts the brakes on. It certainly makes policymakers think twice about whether to do a Medicaid cut. Whether to cut back optional coverage, optional services. They say it is optional now; it is optional under block grant. What's the beef? The beef is the fiscal incentives change dramatically. Under a block grant, you pull out $125 million in state dollars, you don't lose a penny of federal dollars, assuming your maintenance of effort requirement is met, so that incentives change dramatically. It suddenly becomes much cheaper for the state to pull out its state dollars. The proposal has been highly advertised, particularly by Secretary Thompson, as offering states that opportunity.

Matching System Creates Incentives to Maintain Investment in Optional Coverage

Current Law

Federal dollars lost if NY reduces Medicaid spending by $125 million

Match Rate	State Funds Saved (millions)	Federal Dollars Lost (millions)
50%	$125	$125

Proposal

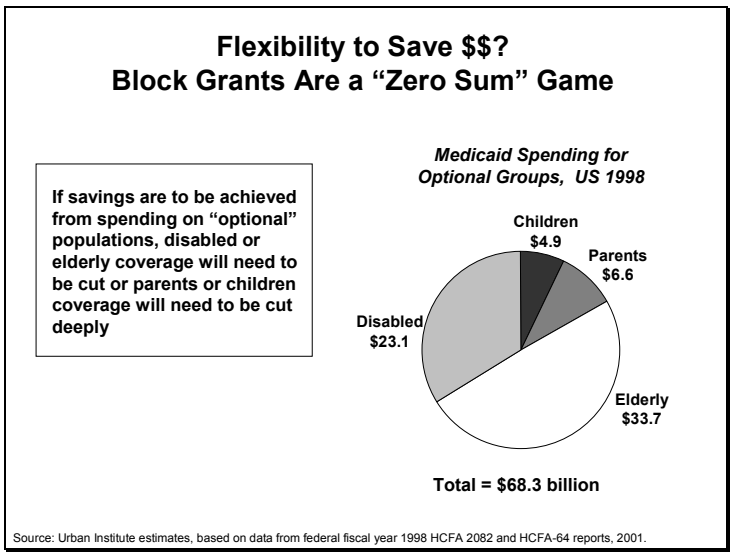
Federal dollars lost if NY reduces Medicaid spending by $125 million (assuming state meets "MOE")

State Funds Saved (millions)	Federal Dollars Lost (millions)
$125	$0

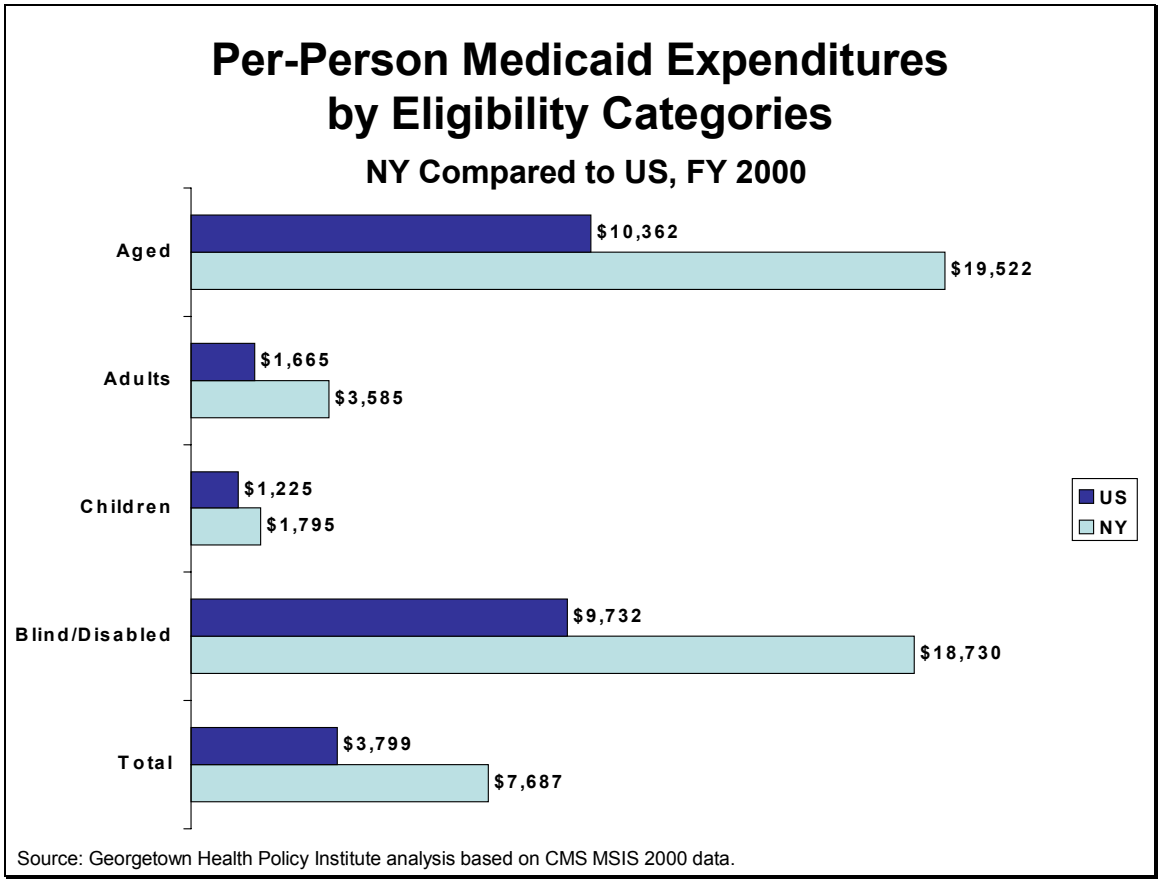
So what is the impact on beneficiaries with this broad new flexibility in the context of the financing? A lot of people pose the debate around block grants as, 'You don't trust states.' Let's put aside whether we trust states or not. It's a discussion that we can have as to whether they are closer to the people, farther from the people, or less. I think the discussion to be had, of course, has to happen in context of the fiscal incentives and what the block grant would provide in terms of adequate funding, or less than adequate funding.

Fundamentally what a block grant does, whether it is Medicaid or whether its housing vouchers or whether it is TANF, is it provides a zero sum game. There is a set amount of federal dollars and it is going to be divvied up. It is going to be divvied up among eligible populations, among different providers having different interests. In the Medicaid program, for the so-called optional spending, which is what would be under the block grant, the vast majority of the spending is for the elderly and disabled (this is national data). They are the folks who have the highest medical needs and costliest care, so that makes sense. You're going to have a tug of war – even more than what you have now. Either you're going to cut services for the most vulnerable populations or you're going to have to cut services to children and low-income parents really deeply because the funding per beneficiary for that group of people is much, much smaller.

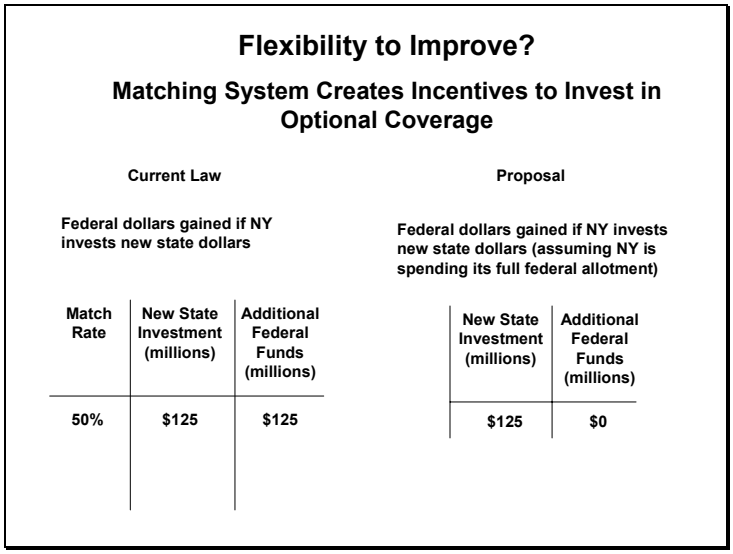
Risk #4: With less funding, what will be the impact of new flexibility?



This gives you a sense of New York and how New York compares to the average in terms of spending per beneficiary. Overall, considerably higher for Medicaid costs than the nation as a whole but you'll see the big differential is again in the services to people with disabilities and elderly people.

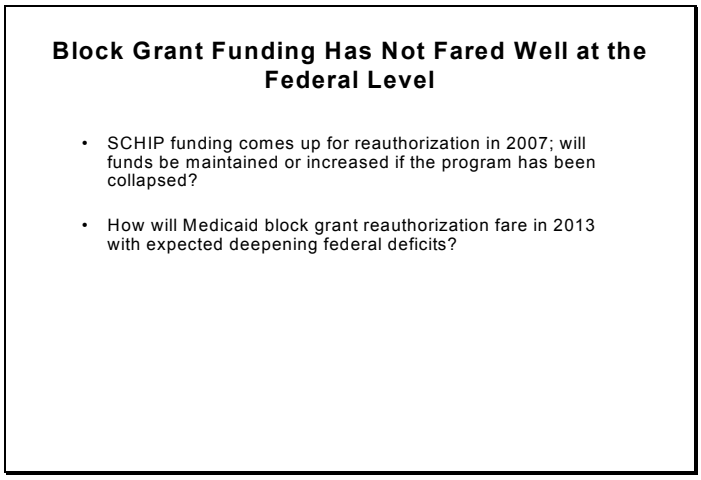


What about the opportunity to improve? New York does have a history of using its Medicaid program to expand coverage. And you've recently done that in terms of the Family Health Plus program, you've covered some childless adults, and same fiscal dynamic goes on. A state decides to commit $125 million for improving coverage whether it's increasing rates to providers or expanding eligibility or picking up a benefit that's optional. It can be assured that it's going to get another $125 million to share that cost with the Feds. Under a block grant, if a state is spending its full allotment under the block grant and it decides it wants to make an improvement, restore a cut that's been made or expand to a new population, it puts in the $125 million. It doesn't get a penny from the Feds. What's the incentive? What's the ability for the state to be able to expand or improve its program under the block grant?

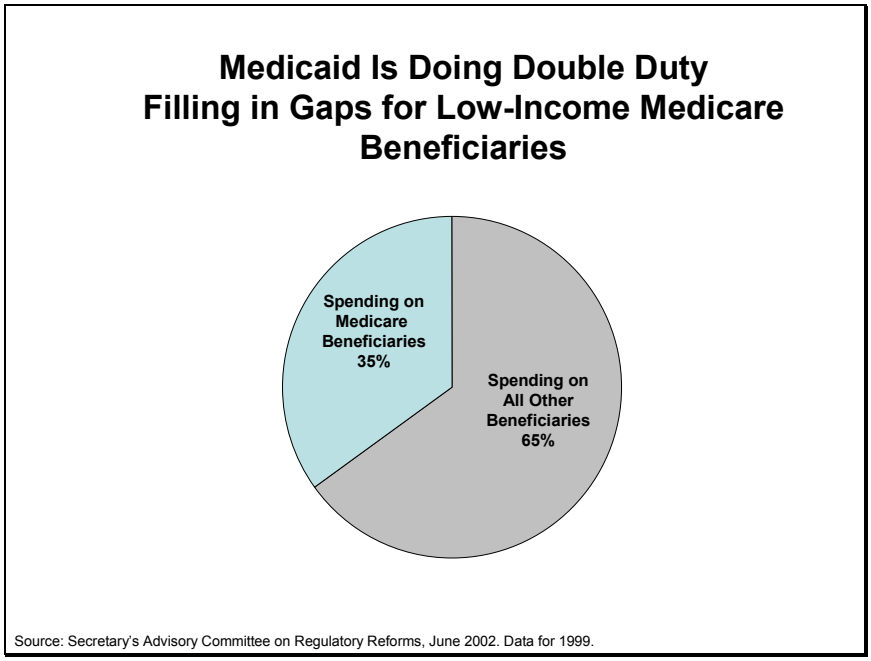


There are long-term implications, too. Both Bob and Will have talked about this, so I'm not going to go through it, but we need to think about that. This consolidates the CHIP funding. CHIP comes up for reauthorization in 2007. When the block grant is set, the stream for children's coverage is ended by merging it with this Medicaid block grant. How likely will it be that the Congress will be willing to reauthorize it at a robust and healthy level? And then Medicaid itself, the mother of all block grants, would come up for reauthorization in 2013 when we had very deep deficits at the federal level, so how likely is that that it is going to work out?

The question that gets raised a lot is what is the veneer for these proposals? Well, Medicaid must be broken. Medicaid is out of control. I think it is very important for people to analyze what are the problems, what are some of the solutions. The problem actually isn't that the spending is out of control. Medicaid does its job. It is covering people and if you look at the growth rate per beneficiary, it is lower, even for people with disabilities and the elderly – the more expensive group – it is a lower growth rate than in the private sector even though it is serving a more needy population. That may be because its rates aren't adequate; there may be lots of bad reasons why that is true. But the point is we don't really have a spending problem to the extent that Medicaid expenditures have been growing. It is largely because Medicaid has been covering more people.

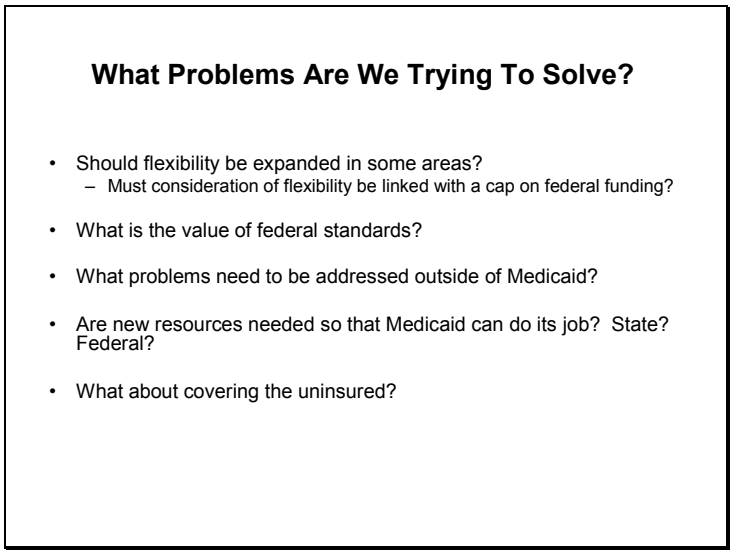


One big problem that Medicaid has is that it is doing double duty. It's not only providing coverage for those people who are Medicaid eligible, but it is filling in the gaps for the Medicare program that doesn't provide drug coverage, that doesn't provide long-term care, so nationally 35 percent of Medicaid spending is actually on Medicare beneficiaries who also qualify for Medicaid.



Sort out what some of the problems are. We've talked about this a little bit already. If there are areas of flexibility that are reasonable, that make sense, does Medicaid need to be reformed? What could be addressed without necessarily putting the program through capped funding?

We've really had no discussion on this but I think it is also really important, sometimes I think there is some value to having some federal standards and I think everyone in this room can understand that. But we need to be clear about that. We need to not be afraid to articulate that.

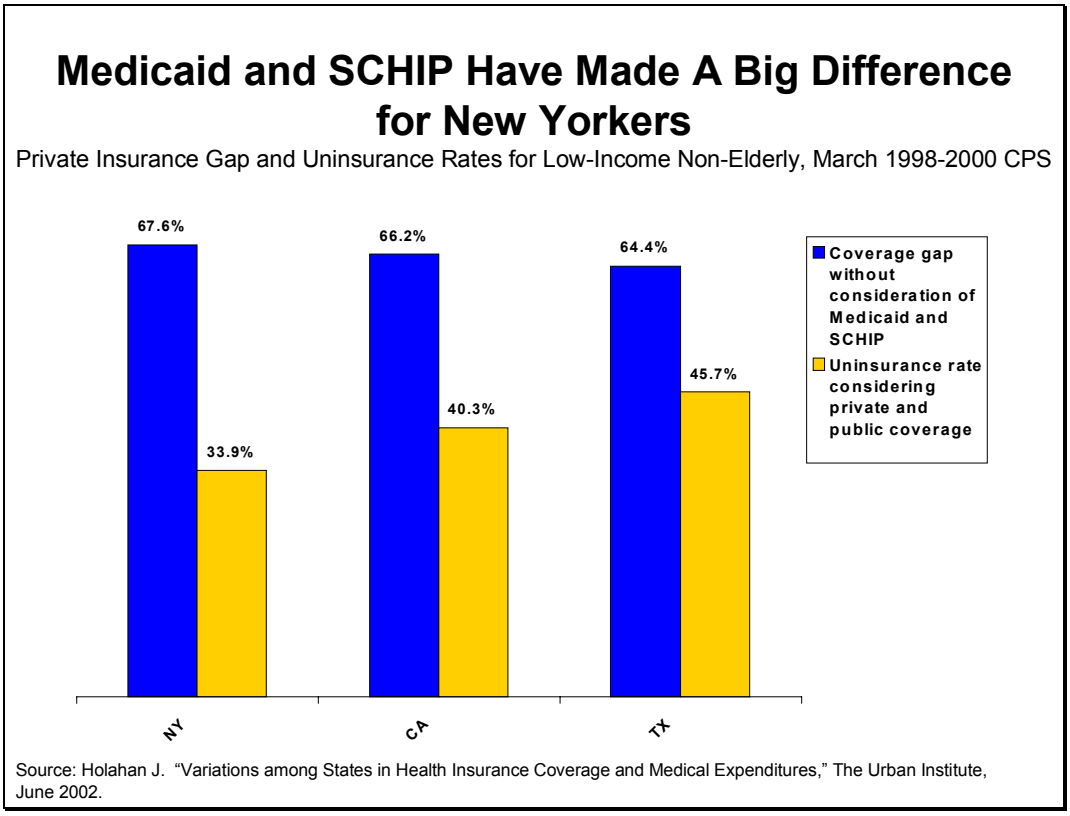


What problems have to be addressed outside of Medicaid? Like the Medicare problem? Like controlling prescription drug spending costs overall? What about resources? I think we've had had a lot of discussion this morning which I think is right, that in many respects we need to think

about the resource side. Are there adequate revenues available at the state level? At the federal level to cover the challenges that have facing us?

Then, of course, what's the impact of covering the uninsured? We have this disconnect of this Medicaid block grant when we're having a big debate in the Democratic primary anyway about universal coverage. We have 41 million uninsured people – at least at last count and that is growing – if you look at what is going on in public programs, they make a difference.

This looks at New York. The blue bar shows three states that have comparable levels of penetration of employer sponsored coverage. Not all states come to this story with the same amount of level of private coverage through employers, but here are three states that have pretty comparable degree of employer sponsored coverage among low-income, non-elderly people. New York, California, and Texas. They are three states that have made very different choices in terms of how broad their public coverage programs are going to be. What you see is that the yellow bar shows the uninsured rate among low-income, non-elderly people. The uninsured rate is high; over 1/3 in New York for low-income, non-elderly people, but it is a lot lower than it would've been if New York hadn't invested in public programs. The Medicaid program, the CHIP program – and this doesn't even look at long-term care expenditures. This is really looking at the uninsured for the low-income, non-elderly people. So putting aside the contribution that Medicaid makes to providing long-term care services, it makes an enormous difference in terms of providing coverage. We need to do more, not less in this area.



So I suggest three things we need to focus on. We are advocates and we often spend almost all of our time trying to makes programs better. We need to at some point, stand back and say they make difference in people's lives, they are important, they've done a good job. We need to sell how valuable they are and have been. Two, we need to be clear about the linkage between services and revenues. We need to all be engaged in the tax and revenue discussions. Third, we need to do more about facilitating the ability of the people who are directly affected by these services to participate in the debate and help them unleash their power.

Thank you.