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**From the States: Barbara Edwards, Interim Director of National
Association of State Medicaid Directors
Kaiser Family Foundation Broadcast Studio
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JACKIE JUDD: Barbara Edwards thanks so much for joining us today.

BARBARA EDWARDS: I'm happy to be here.

JACKIE JUDD: You said at a recent event, that in terms of states Medicaid programs, the timing of the economic turn down couldn't be worse for some of those states. How so?

BARBARA EDWARDS: Medicaid is this kind of a cyclical program to start with, so any time you have an economic slow down, the states ability to pay for programs like Medicaid decreases at the very moment that the demand for those supports increases; people lose their jobs, they lose their second jobs, they go to part time, they lose their benefits, they become eligible for Medicaid.

Right now however, we also have a whole series of federal regulatory proposals that are making changes - would propose to make changes to the Medicaid program in ways that would basically pull more federal money out of the states, that is today supporting Medicaid spending.

So for states, they're already in a place of struggling to figure out how they're going to live if these regulations take effect, and they lose \$13 - \$50 billion in federal support over the next five years, just at the time when the state

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revenues are already declining and the demand for the program is growing, so it's a very difficult time for states.

JACKIE JUDD: I want to talk about the potential impact of those regulations in a moment, but let me ask you first, again, based on the current economic down turn, some states are struggling more than others; which states are those, and why?

BARBARA EDWARDS: Well that's an interesting question. I think that the National Association of State Budget Officers has predicted that maybe 18 states are going to see a deficit, a shortfall. The revenues coming in below expectations in 2008 compared to the budget of the spending; but by 2009, the budget officers are predicting that it could be as many as 40 states are going to find themselves falling short in terms of revenue. So, what we really having going on is that some states may be on the leading edge of the down turn, but it does look like the kind of a down turn that's going to affect almost every state in the country.

The states that tend to get into these troubles earlier may be those that have been hardest hit by the mortgage housing crisis, who are perhaps hardest hit by rising fuel costs.

States like Michigan have had perennial problems, they really never got out of the recession that hit us several years ago, and other states from New Jersey to California are projecting some huge fiscal deficits; \$2.7 billion in New

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Jersey, over \$10 billion in California. Those kinds of challenges are enormous, and they have come very quickly on the heels of a period of time just a few years ago where states were in a recession.

So it's been difficult for states to find a recovery. They've not had an opportunity to rebuild their reserves, and in fact, state programs have been very thinly funded for many years because of the prior recession, and to hit another recessionary period so soon afterwards, is a real challenge, so states in the rust belt states that are particularly sensitive to the mortgage crisis, those are states that are probably on the leading edge of that, but the budget offices are predicting that all states are going to be seeing this challenge.

JACKIE JUDD: So if some of these states cut pretty close to the bone during the last recession, and they haven't had an opportunity to build back up, what do they do now? What are the options?

BARBARA EDWARDS: For Medicaid...Medicaid in states is 20-percent to 25-percent of the total states spending, so if your state revenues are not sufficient, and because the economy is down turning, you have more people coming on to programs like Medicaid, so you've got more spending, less revenue. Medicaid becomes a target for cuts.

JACKIE JUDD: It's just too big to ignore.

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BARBARA EDWARDS: It's too big to ignore; particularly again, after many years of holding all state programs flat, or even cutting them because of the last recession. So at some point, you have to go into a program like Medicaid and look for savings as well.

For Medicaid, there are really only three basic options; particularly if it is a short term budget crisis and states have to balance their budget every year, they can't do deficit spending. So when you have to meet the budget this year, in Medicaid the only things that produce immediate savings is to reduce what you pay providers, take people off the program, or drop some benefits. Because those are the only things that give you the immediate budget relief that you're seeking.

JACKIE JUDD: Would the fourth option though be to turn to Washington and ask for extra infusion of cash, which was done last time?

BARBARA EDWARDS: That was something that happened the last time, that's not within the control of states; those first three options are more within the control of states. States have proposed that a part of the fiscal stimulus package from Washington should include an enhancement to the federal matching rate for Medicaid; a temporary recession related enhancement for Medicaid.

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The argument for that is that if states get that kind of immediate infusion of additional federal funding, just at the time that the costs of Medicaid are growing and the revenues at the state level are shrinking that states can maintain their Medicaid benefits, their Medicaid coverage and that in turn better supports the ability of the program to be the safety net that it's intended to be at the time of an economic down turn.

The other challenge that states face when they're forced into cutting Medicaid, is that because Medicaid is a source of Federal Revenue, for ever dollar a state spends, the federal government reimburses the state some percentage - the average across the country is about 60-percent Federal reimbursement.

In order to get a dollar saved in state tax revenue, the state has to actually make \$2.40 of cuts in health care spending; because when they don't spend the state dollar, they lose the Federal match. That means that the cuts in Medicaid to fill state revenue hold, have to be much larger than the revenue hold that you're trying to fill. That in turn means more money is coming out of local economies.

And so these in turn can make the economic slow down a bigger program for states.

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JACKIE JUDD: Given the scenario that you've just described, what has been the tenor of the conversations that you've had of late with state Medicaid Directors? What are you hearing?

BARBARA EDWARDS: Well state directors are very busy right now in their budget processes trying to provide part of the solution for their governors and their legislatures as they're looking at this challenge. They are concerned, particularly given a series of two to six years in states where they were already deeply engaged with doing cost containment strategies.

So they're worried that as they go back to that well, that it's beginning to run dry in terms of the things that they can do without causing real harm to the program. One of the challenges for some states is they already run a pretty basic program, that they don't cover a lot of optional people, so that if you look at who can we - where can I back off coverage, they may not have a lot of choices.

They may be mostly insuring a mandatory enrollment population under Federal Law. States often find that if you try to cut benefits, if you try to take back some of the optional benefits that are in the program, that in fact, it's not even cost effective, because if you reduce an optional benefit, you may find yourself spending more under a mandatory

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benefit, because it's the only way the consumers' going to be able to get the services that they need.

So again, it's not always cost-effective to make the cuts that you're able to make. And if you continue to go back to the issue of provider rates, and cut rates or freeze rates, at some point you begin to have an access problem--

JACKIE JUDD: And that already exists.

BARBARA EDWARDS: In some states that's already a challenge around certain services, and the underlying safety net, the catch all, in the healthcare system is of course the emergency room. So if people can't get care in the most efficient, effective setting because the providers are not willing to accept the cards - not willing to accept the reimbursement, at some point the state is paying even more for healthcare, because the hospital services -- mandatory service, the hospital can't turn people away in an emergency, and the costs that just grow in terms of the whole system.

So one of the real challenges for Medicaid is that the short-term options you have to hit a budget crisis are often not very cost effective in the long term. Many states have been making real serious attempts to do bigger reform that would try to bring down the trend of Medicaid growth over time. Investments in managed care, in disease management, in reforming the long-term care delivery system to become more

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reliant on community based options, which consumers prefer, and which can be less expensive on a per-person basis in institutional care.

But many of those strategies, health information technology, finding more efficiencies in the system, taking up front investments, and the return on the investment may not come within the same fiscal year, in which you have to make those investments. Those investments are increasingly different to make when you're in the middle of a fiscal crisis. So some of the strategies that the states are pursuing, actually get delayed or put off because of the fiscal crisis that you're dealing with.

JACKIE JUDD: You mentioned earlier the changes in some of the federal rules that the Busch Administration is proposing, and the administration says that these are to promote fiscal integrity in the Medicaid program. Recently, last night, and as we speak today, a committee on the house side voted a moratorium. There was concern in the states that it will draw down, even more on the federal share. What is your view of the potential impact of these regulations or rule changes?

BARBARA EDWARDS: States have said to the house energy committee and a request because they ask states to give them a sense of what the impact of those regulations - accumulative

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sense of the impact of those regulations would be, and states predicted that the impact could be as high as \$50 billion in lost federal funding for states over five years. The administration has officially projected in the neighborhood of \$13 to \$15 billion; states are saying it might be as much as 50 billion.

The reality is that states don't have 13 billion or 50 billion to put into Medicaid at the state level to make up for those lost federal funds. And so for states, the loss of that federal revenue, if these regulations go forward, will result in loss of services at the state level, and will require, in some cases, where states do step in and say "that service is so critical we can't let it go away. It's going to put a heavier burden on states to come up with state dollars to fill the gaps that are left by the federal money that has been withdrawn.

So the impact on states will vary. If it's a state that has a particular dependence, has a strong presence of public hospitals in their system, for example, the regulations that are going to restrict what can be paid to public hospitals with federal financial participation, is going to be extremely damaging in those states.

Some states are less dependant on a public hospital system, and may not see as much of an impact from that set of regulations, but that's an issue, the effect is going to be

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tremendous and states are not sure that they had any ability at the state level to recover from that loss of federal funds.

JACKIE JUDD: And yet as you know, the Busch administration argues that this is going done to get rid of "some kind of funny bookkeeping oh the parts of the state, in order to get more dollars from the federal government.

JACKIE JUDD: What states have successfully urged the house committee, and I think successfully given the vote, which was the unanimous support of a moratorium to give more time to look at these regulations, is that while everybody is supportive of the importance fiscal integrity in the program, and in the relationship between states and the federal government around Medicaid. That's not what these regulations, for the most part, are about.

States feel very strongly that many of the problem areas that have been identified by the OIG, and by Health and Human Services over the last several yeas have already been addressed by the administration, and by states, that the real problems of over billing the Federal Government, reaching too broadly for a federal match. For the most part, CMS has already found strategies for dealing with those problems.

In some cases, congress has already acted to deal with those problems, that when you look at the content of these regulations, what you see instead is CMS beginning to

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fundamentally change, a long standing federal policy to reshape Medicaid and where federal funding is going to be participating.

So I think states have argue that while no one is arguing against good fiscal integrity, in many cases, these regulations go well beyond that issue, and that this really is about reshaping the program.

JACKIE JUDD: Have you thought through though what kind of potential compromise there could be on this issue?

BARBARA EDWARDS: Well, there are so many regulations. I want to sort of remind everyone that we're talking about seven different regulations that are being particularly debated at his point, with states, and that's out a universe of at least 15 or more regulations that have been issued over the last two years, so this has been a period of heavy regulatory activity by the federal government. States are really concerned about seven or eight of those sets of regulations.

These regulations cover so. These regulations cover such a broad array of Medicaid service, that there's not a single set of solutions around the problems. These are complicated sets of regulations. They effect the rehabilitation option that's used to provide services, particularly in the mental health community; it affects school

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funded services, administrative supports in schools as well as school transportation.

That yet effects case management, which is used in many places throughout the Medicaid Program, including in the home and community based waver program, which gives people home based options to long-term care institutions. Those are all going to have to get re-drawn because of the new regulations. It affects public hospitals, it affects health states pay outpatient hospitals public and private, and it effects graduate medical education, which is something Medicaid has been paying for decades.

So again, this is such a complicated set of series of regulations that states are arguing each of these deserved careful attention and a great deal of more public input than has been allowed.

JACKIE JUDD: But you have a sense—

BARBARA EDWARDS: So there is some activity around what the options might be, and the sense of priorities. Again, priorities vary from state to state depending on where they are and with regard to the changes that would be mandated. But there is certainly a sense of - if nothing else, looking at where the fixed dollars are connected, in terms of loss of dollars.

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But I think that - we think every state in the country is going to have to re-file because of the case management rules; they're going to have to change your Medicaid programs. Fifty states, and the territories, this is not a little fiscal integrity issue; this is a fundamental reshaping of Medicaid's program definition.

So I think that these really deserve considerable more attention, and they deserve individualized attention, because the issues in each of these regulations are different.

JACKIE JUDD: One quick last question, and that is, what is your projection about where we will be in this discussion and debate, one year from today?

BARBARA EDWARDS: That is a challenging question. In some cases, where we will be is working very closely with S - with states and as states to actually implement some of these regulations. Because I would predict that a year from today, some of these regulations will be in effect; some of them already are. The case management regulations went into effect march 3, 2008. So, states are already working at how do I come into compliance with regulations that I don't even fully understand, and that I'm not getting full guidance from CMS on how to respond to.

Others I think we may find are still in some sort of moratorium situation, because the issues will have been so

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complex that finding compromise won't yet have worked its way through the system.

We will have a new administration, and some of these are issues that a new administration is going to want to take another look at and decide if the policy direction reflected in these proposed regulations is the direction that they want to move, or whether or not they want to go back to the drawing board and say "wait a minute, let's start over again." So I think we're going to be at different places on different regulations.

JACKIE JUDD: Okay. We'll talk the same time next year.

BARBARA EDWARDS: Yes.

JACKIE JUDD: Thank you very much Barbara Edwards.

BARBARA EDWARDS: Thank you for having me.

[END RECORDING]