



January 26, 2011

Mr. Jason Helgerson
 Executive Director, Medicaid Redesign Team
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Dear Mr. Helgerson:

I am writing to share with you and the members of the Medicaid Redesign Team the recommendations of the Citizens Budget Commission for achieving substantial savings in the New York State Medicaid program. The Team is seeking recommendations for the fiscal year 2011-12 budget and for longer-term redesign of the program; our ideas relate to both time frames.

The Commission has been concerned with the high and rapidly growing cost of New York's Medicaid program for several years. Our analytic work on this issue, available at the website www.cbcny.org, includes these reports:

- *Confronting the Tradeoffs in Medicaid Cost Containment*, issued in 2004, was updated and enhanced in 2006 as *Medicaid in New York: Why is New York's Program the Most Expensive in the Nation and What to Do About It*. These reports identified more than \$5.8 billion in potential annual savings.
- *Paying More, But Not Getting Better Care: The Case for a New Payment System for Nursing Homes in New York's Medicaid Program*, issued in 2008, recommended annual savings of about \$1.2 billion by eliminating inefficiencies and inequities in the current payment system.
- *No Easy Solution: Effective Medicaid Cost Control Must Focus on the Elderly and Disabled* was released in November 2010, based on an analysis prepared by the Lewin Group. It focuses on the need to better manage the long-term care services required by the elderly and disabled, who account for nearly three-quarters of all Medicaid spending.

The common themes in the Commission's analyses are that savings can be achieved without denying needed care to low income New Yorkers through three strategies: (1) reducing non-competitive rates paid to institutional providers, notably hospitals and nursing homes; (2) rationalizing utilization of services, notably reducing unnecessary hospitalizations through managed care and reducing the unusually high average hours of personal care provided to

many enrollees; (3) tightening eligibility rules and practices to curb the misuse of Medicaid by middle and higher income families for long-term care.

In recent years some progress has been made in implementing these strategies. The increase in hospital and nursing home rates has been slowed by lowering the trend factors used to adjust these rates annually, and a new regional payment system has been authorized, but not yet implemented, for nursing homes. Mandatory managed care has been extended to some groups of Medicaid beneficiaries, and managed care enrollment statewide has increased to 66 percent. Legislation authorizing statewide administration of eligibility and other functions was passed, and a plan is being developed for state assumption of long-term care eligibility determination.

The Redesign Team should seek to accelerate and expand efforts to pursue these strategies. The most immediate step is to adjust nursing home payments to bring them more in line with national norms. In 2008 New York's nursing home rates were 21 percent higher than the national average, even after adjusting for higher costs of living in the New York area. A new regional pricing method to redistribute, but not reduce the level of, nursing home payments will take effect on July 1. This effort should be paired with a significant rate reduction, with some of the savings used to increase nursing staff levels to meet federal guidelines and to fund the quality outcomes bonus pool.

The State should move more quickly to takeover Medicaid administration from counties and New York City. A priority should be creating more uniform and tougher rules and practices for determining long-term care eligibility, particularly with respect to "spousal refusal" and transfer of assets.

New York can reduce the number of personal care hours provided to enrollees by reforming authorization procedures. In 2008 personal care expenditures were more than \$2.3 billion, and a report from the United Hospital Fund estimates that 83 percent of all personal care expenditures occur in New York City. The high spending in the city is driven by a higher average number of approved hours of care, not by higher rates for personal care attendants, which are competitive with rates in the rest of the state. According to the Fund, more than half of the recipients in the city received 49 or more hours of personal care per week. State actions can and should promptly improve administrative practices with respect to the authorization of home care hours.

Finally, the New York State Department of Health should immediately begin coordinating with the federal government to create a mandatory managed care option for "dual eligibles" (those eligible for Medicare and Medicaid) that would cover acute and long term care. Federal rules have been an obstacle to implementing a more cost-effective, managed care regime for this high-cost population. The national health care reform passed in 2010 allows states greater flexibility to move towards a comprehensive managed care option, and the sooner New York pursues this opportunity the sooner we can achieve meaningful savings.



Thank you for considering our recommendations. I and other members of the staff would be pleased to meet with you to discuss these and other ideas for cutting costs in the Medicaid program.

Sincerely,

Carol Kellermann
President

