

BEYOND DEBATE ACTION FOR HEALTH CARE REFORM

INTRODUCTION

The health of the nation depends on the health of our people. Although the United States leads the world in health care spending, the health of our citizens is not conspicuously superior, by some measures, it is clearly inferior. Lack of a national policy on health care has resulted in human and fiscal duress. Action is required.

Spiraling health care costs have placed some U.S. industries at a competitive disadvantage in the international marketplace, and priced insurance coverage beyond the means of small business and individuals. Precious resources governors want to invest in education, housing, nutrition, and family support are being diverted to meet these runaway costs.

Unless the U.S. changes its health care system to ensure routine preventive and primary care, children will continue to come to school unprepared to learn, adolescents will continue to face serious but preventable health problems, and adults will be prematurely prevented from leading full and productive lives.

This is not a problem which government can solve alone. The private sector must step up to its responsibility as purchasers, providers, and financiers of health care services to promote and implement effective reform." It is also true that changing the way we finance and deliver medical care alone will not solve this problem. Individuals need to learn to make healthy choices. Further, health status is influenced by a host of other critical social and economic factors -- income, housing, nutrition, and the environment -- sometimes beyond individual control.

THE GOVERNORS' GOAL

By the end of this century, the Governors believe the nation needs to have a system that makes health care affordable and available for all Americans. Further, the health care system must have sufficient controls in place to ensure the cost-effective delivery of care.

The system should include a continuum of services that begins with education and prevention, includes cost-effective community-based interventions, focuses on the early and routine provision of primary care, provides appropriate acute care services, and accommodates rehabilitative and long-term institutional care. Entry into this system should occur at the most appropriate level for each individual and the services should effectively and efficiently address his or her needs.

A STRATEGY FOR REFORM

The nation's Governors call for the development of a new federal framework for the health care system. Concurrently, the governors propose that states including commonwealth and territories, initiate comprehensive health care reform which will allow states to resolve the major health problems they face and inform the national debate so broader reform will be possible.

The Governors believe that the states and the federal government must begin to build a federal framework for a health care system that will support both the state-based approaches, and a comprehensive national strategy. States and the federal government should work together to:

- accelerate comprehensive, statewide approaches to containing costs, expanding access, and maximizing preventive public health programs;
- overcome the market failures in the health care system;
- restructure the public programs that support the most vulnerable citizens; and,
- forge a consensus for a national health care system.

STEPS TOWARD A FEDERAL FRAMEWORK

The short-term goal is implementation of comprehensive state reform programs. The long-term goal is a system that makes health care affordable and available to all Americans.

Integral to both the state and national approaches is the assumption that the organization and delivery of services should be closest to those who receive services. Consequently, states are perfect laboratories for initiating comprehensive reform.

Step 1: Provide the Means to Accelerate Statewide, Comprehensive Solutions

Most states have already begun to demonstrate discrete approaches to controlling costs and expanding access to health care. Only Hawaii currently has a statewide system in place. The nation's Governors recommend that the federal government work with states to facilitate and accelerate the development of comprehensive, statewide prototypes to expand access and control costs.

States that choose to reform their health care system in a comprehensive fashion must address cost containment, access to care, improved information, malpractice reform, improved efficiency of services and administration, improvements in quality control, the availability of health professionals for under-served populations and optimization of preventive health programs.

Tools available to governors to control costs include managed competition, all-payer approaches and single payer systems.

Tools available to expand access include building on the current employer based system by instituting a statewide "pay or play" program, implement a public sector single payor system which would include subsidized access for low income people, or expansion of the public health delivery system.

The success of state action will be enhanced with the following federal action:

1. **WAIVERS** - Provide appropriate waivers to allow more flexible use of Medicare, Medicaid, and other federal health funds, within the context of an approved state reform. For example:

- States that choose to test an all-payor system to cost control would need to have the authority to include Medicare funds in their system.
- States that want to create a public program larger than Medicaid need the ability to restructured Medicaid within this effort.
- States need flexibility to shift funds from expensive medical care to cost effective preventive health programs.
- States that choose to emphasize increased access to medical care in rural areas may need to have waivers of staffing pattern requirements and facility regulations in rural hospitals.
- States must be able to seek waivers which allow budget neutrality over an extended time period, recognizing that meaningful reforms will require start up costs.

2. **COORDINATION** - Streamline federal executive and congressional approval of state waiver requests required for state reform efforts.

3. **ERISA** - Provide waivers to override ERISA preemptions - and clarify conditions through other statute - that enable states to increase access to care as part of an approved state approach. For example, states need to be able to ensure that employers who claim ERISA preemption from state law are, in fact offering adequate health care

coverage to their employees. States that want to use an employer-based reinsurance approach to provide access for the uninsurable would need a waiver to ensure the participation of all employers in the state.

4. **FINANCIAL ASSISTANCE** - Provide financial assistance for states to design, implement and operate statewide reforms. Financial assistance to successful reform efforts might include: direct and/or indirect subsidy of small businesses (such as tax incentives), funding data systems and evaluation programs, tax credits for professionals serving in underserved areas, incentives for program planning and design, subsidy of infrastructure development in rural areas for telecommunications systems for isolated facilities and upgrades in emergency medical treatment programs.

Step 2. Overcome Market Failures in the Health Care System

Information - To support a wide array of cost-control strategies, the Governors recommend an enhanced federal effort to develop and disseminate health care information.

Specifically, the Governors recommend that the federal government:

- Augment the current federal efforts to organize and support biomedical research, technology assessment, the effectiveness of alternative medical strategies, and the relationship between medical procedures and health outcomes. This kind of information could be used to establish acceptable medical practice guidelines that may reduce both defensive medicine and medical tort liability.
- Begin to develop national benefit guidelines, based on the results of effectiveness and outcomes research and state experience. Benefit guide-lines would inform decisions about the range of effective medical services that should be available to all people, and assist in the development of different kinds of cost-effective benefit packages.
- Develop a systematic way to report state specific health care expenditures.

Medical Tort Reform - Reform of the medical tort system should be undertaken with a view toward achieving high quality and appropriate care. Ideally, the medical tort reform will reduce the cost of defensive medicine and provide appropriate levels of compensation for patients injured by medical negligence.

Reorient the Medical Education System: The medical education system is not preparing the providers that are needed for a restructured health care system. There is a need to prepare more primary care providers and family physicians for an effective health care system as well as for rural and underserved areas.

The Governors recommend that the federal government:

- Encourage students in rural and underserved areas to consider careers in primary care professions.
- Greatly expand the National Health Service Corps.
- Reorient existing subsidies through the Public Health Service Act (Title VII) and the Social Security Act (Medicare direct medical education adjustment) to give priority to graduate medical education in family practice.

The governors also recommend that states:

- Elevate the priority of primary care in their laws supporting Health Professions Education.
- Target existing residency funding toward rural and primary care.
- Develop programs that orient and allow rural experience for medical school faculty and provide peer interaction for rural providers.

Reform the Insurance Market - A number of insurance industry practices impede the ability of small businesses and individuals to find affordable insurance coverage. Most of these practices allow the industry to compete by avoiding risk rather than reducing costs. These practices include the redlining of certain businesses, experience rating, medical underwriting, which makes many people with existing medical conditions uninsurable; and enrollment, disenrollment, and re-enrollment procedures called "churning," which price small businesses out of the market.

Therefore, the governors recommend that the federal government:

- Establish minimum national standards to remedy these practices. This could be done by limiting the number of factors that could be used in setting rates. States should be given the authority to exceed or waive these minimum standards in the context of an approved, comprehensive statewide approach to health care reform.

Step 3: Restructuring the Public Role

The public sector has the necessary role of financing and delivering health services for low income people. Medicaid has been the prime program for carrying out this function for the past twenty five years. But, Medicaid is broken. It has grown into a rigid and complex system. It has an institutional bias that prevents states from providing

preventive and primary care in settings that are more appropriate to recipients. Eligibility is dominated by arcane rules that penalizes clients, providers and administrators. It is difficult to administer, confusing to most people and structured so that it is impossible to integrate into a broader health care system.

As states begin to reform their health care system so that costs can be controlled and the safety net tightened up, it is obvious that the current Medicaid system is becoming a barrier.

The Governors recommend that the Medicaid system be dismantled and a new system created in its place. In the long term, this new program should be structured so that:

- All health programs for people over 65 should become a federal funding responsibility. The elderly need a uniform program that is actuarially-funded and provides a continuum of services, including long term care, that meet their needs.
- Low income people under the age of 65 should be included in a restructured public program. It is the belief of the governors that services can be provided more effectively and efficiently than they are now. This program should:
 - Not disrupt service to those currently eligible for service."
 - Be de-linked from the welfare income assistance program.
 - Be dependent on income level only for expansion of eligibility. As this program evolves, the income level should be determined by a state sensitive poverty level indicator.
 - Be freed from administrative constraints so that states may creatively structure the financing, and delivery system to be responsive to state needs and so that this program can integrate into a reformed health care system.

In the short run the Governors recommend that:

- Both the over 65 program and the new public programs be part of any comprehensive state reforms.
- Congress and the administration join with the Governors to initiate the best method of financing both the elderly program and the new public program.
- States must be allowed to maintain their complete authority to raise funds to match federal Medicaid dollars without restriction from the federal government.

- Changes to the health care system be done in the context of broader state reform efforts and not through additional Medicaid mandates. Medicaid mandates are the results of a health care system that is fragmentary and incomplete. Mandates do not effectively fill the gaps in the health care system yet they exacerbate the fiscal problems.
- Commonwealths and territories, whose Medicaid funds and FMAP are currently capped, should be included in these strategies to the extent their fiscal condition allows them to participate in the new public programs.

Step 4: Evaluation and Accountability

The governors realize that there is a need to develop more information on the effect of the comprehensive reforms they undertake. They also realize that those states that initiate comprehensive reforms will need considerable flexibility of existing programs balanced by mutually agreeable accountability. The governors believe that the evaluation and information dissemination necessary for these should be a joint federal/state activity.

Catastrophic Coverage - Millions of Americans, many of whom have health insurance, still face excessive catastrophic health costs because of high deductibles, exclusion of certain services, length of coverage limits, and other such practices. The existing system, a mix of public and private insurance does not adequately protect citizens from these incalculable and unexpected costs. A rational program for protecting citizens against catastrophic loss may lower insurance premiums and public subsidy.

Therefore, the Governors recommend further study on the efficacy of establishing a national catastrophic program.

A Call for State-Federal Partnership

Building a humane and affordable health care system will require a strong federal/state partnership. The Governors are committed to meeting the challenge of reforming the health care system. States are uniquely positioned to demonstrate the ways in which this goal can be achieved.

Several states intend to demonstrate and evaluate creative, comprehensive approaches to health care reform in both the public and private sectors. The results of these initiatives will inform the debate on a national strategy.

The nation's leaders must act now. The health of a nation and its people is at stake.