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Subject: Op-Ed from Gov. Peter Shumlin

Below please find the weekly op-ed from Gov. Peter Shumlin. Let me know if you have any questions.

Thanks,

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Why We Should Fix the Medicaid Cost Shift

By Governor Peter Shumlin

It wouldn't make much sense if you were charged \$1.40 for a cup of coffee only to find the person in line behind you was charged 60 cents for the same order. Yet that's how medical services are paid for in Vermont and around the country. It's not only nonsensical; it's harmful to Vermont's economy and health care system, drives up private insurance premiums paid by Vermonters, and makes it difficult for some Vermonters to access health care. It's a problem we can't afford to ignore any longer.

The problem stems from what is called the Medicaid cost shift, which happens because Medicaid pays doctors and hospitals only 40 to 60 cents for a dollar of cost. In other words, for every dollar in care a doctor provides, the practice only receives between 40 and 60 cents. To make up for those losses, doctors and hospitals have to charge those with private insurance more.

That has some very real world consequences for Vermonters. For those Vermonters who get insurance from their employer or who buy a private plan from Blue Cross or MVP, the cost shift increases premiums by \$150 million every year. And it's not just Vermonters with private insurance that are affected. Since Medicaid pays doctors and hospitals so poorly, Vermonters on Medicaid sometimes have trouble finding a doctor willing to accept their insurance. Most of us take for granted that having insurance will gain us access to health care. For the nearly 130,000 Vermonters on Medicaid, that's not always the case.

This isn't a new problem. It's one that Republicans, Democrats, and those in between have argued we should fix for years. But this time around, there are two big differences that should compel us to act. First, our success in driving down the rate of uninsured Vermonters through Medicaid expansion and Vermont Health Connect has put further pressure on the cost shift because more Vermonters are now on Medicaid. Second, we are making significant progress in Vermont in containing other health care costs and moving our state to health care payments based upon quality rather than quantity. Finally addressing the cost shift with real investment

will help use move our hospitals and other providers to a more rational payment system, saving health care dollars and improving health outcomes for Vermonters. Now is the time to act.

The plan I have put forward will use money that would be spent anyway to draw down hundreds of millions in federal funding to shore up Medicaid rates and lower private insurance costs right away. Under the plan, we will ask businesses to pay a one seventh of one percent payroll tax (0.7%), which will raise \$90 million a year. For the majority of Vermont businesses, this will equal less than \$1,000 per year. And since state Medicaid investments are matched by the federal government, we'll draw down an additional \$100 million in federal money to help our efforts.

Of that \$190 million, we will dedicate a significant portion of it to shore up Medicaid payments and immediately drive down private insurance rates, resulting in a 5 percent reduction in private insurance costs to individuals and businesses. We'll invest the rest of the funds in strengthening the overall health care system to ensure better outcomes at a lower cost, meaning businesses providing insurance will benefit financially from lower health care costs.

I know businesses are skeptical of new revenue and worried that this will not return value. I know they are worried that Montpelier will try to use this revenue source for other purposes down the road. But here is why I think this makes sense. Right now, businesses pay the vast majority of private health care costs and are the ones being overcharged. If we act, businesses will be the ones that will get the greatest relief if we lower private insurance costs by shoring up Medicaid. Simply put, we'll ask businesses to pay in a payroll tax money they would have spent in higher insurance premiums had we not acted to shore up Medicaid.

This is an incredibly complex subject, and that is exactly the reason it hasn't been fixed yet. But I think we can do it here in Vermont because unlike other states, Vermonters listen, debate the facts, and are capable of having a rational conversation about a complex topic. I hope you'll join me in having that conversation these next few months.